# THE BALANCED SCORECARD

## Building a Balanced Scorecard Framework that Drives Results for Your Government

By Christine Heflin-Ewing | 2009

www.activestrategy.com 484.690.0700

Building a Balanced Scorecard Framework that Drives Results for Your Government

## The Divide Between Strategy Formulation & Strategy Execution

According to congressional testimony by staff of the Federal Government Accountability Office, most federal agencies fail to fully execute what they claim to be their most important strategic objectives. It's not for lack of planning – most spend large amounts of time developing new strategies, tweaking mission statements, and crafting top-level goals. The challenges emerge when these organizations attempt to enact the strategies, particularly when a strategy must be executed across functional areas. Local government managers report the same failure to execute. Strategies and key performance indicators are developed and documented in the budget, but often not referenced again until next year's budget document is being prepared.

## Balanced Scorecards Can Address the Divide

With the development and implementation of a comprehensive Balanced Scorecard framework, strategic plans actually drive staff activity toward measurable results.

| | Name | Actual | Target |
|---|---|---|---|
| **1.0 Efficient Government** | | | |
| 1.1 | Improve Delivery of Key Services for Constituents | | |
| | Quarterly County Survey Results | 82 | 85 |
| | Services Timeliness Index | 80 | 90 |
| **2.0 Community Health and Safety** | | | |
| 2.1 | Implement a Long-Term Waste Management Plan | | |
| | Landfill Density | 1,180 lbs/yard | 1,200 lbs/yard |
| | Tons of Incoming Waste Diverted or Reused at South Coast Station | 85,578 tons | 80,000 tons |
| **3.0 Organizational Effectiveness** | | | |
| 3.1 | Continue Construction Support and Records Automation | | |
| | Computers Upgraded or Replaced | 52 | 60 |
| | Survey, Tract Maps, Voluntary Mergers, and Lot Line Adjustments Records Processed | 197 | 220 |
| **4.0 Quality of Life** | | | |
| 4.1 | Preserve the Transportation Infrastructure | | |
| | Average Pavement Condition Index | 82 % | 90 % |
| | Design Service Costs | 15.2 | 15.0 |
| | Gallons of Paint used per Day | 24 gallons | 25 gallons |
| | Pavement Re-evaluations | 34 | 35 |
| 4.2 | Minimize Potential Flood Damage | | |
| | Number of Completed Flood Projects | 60 projects | 60 projects |
| | Flood Basins Maintained Identified as Needing Maintenance | 68.0 | 95.0 |
| 4.3 | Comply with Water Quality Requirements | | |
| | Miles of Clean Creek and River Channels | 46 miles | 50 miles |
| | Educational Outreach Workshops/Training Events Sponsored | 7 events | 5 events |
| | Minimize Use of Glyphosate | 224 gallons | 200 gallons |
| **5.0 Citizen Involvement** | | | |
| 5.1 | Increase Constituent Satisfaction with County Services | | |
| | Quarterly Survey Results | 75 % | 85 % |

Need proof? Recent research suggests that world-class private sector companies are 159% more likely to have Balanced Scorecards in place. And many top role model organizations within the public sector, such as Charlotte, North Carolina, Coral Springs, Florida, and NATO praise the framework as contributing toward their success.

So what exactly is a Balanced Scorecard? It's a framework that helps organizations first clarify their strategy and then make the strategy actionable to create measurable results. Balanced Scorecards can be implemented across organizations of any size and type, whether they are Fortune 100 companies, cities, counties, federal agencies, health systems, or small non-profits.

Though early papers and books about the framework were focused on applying the tool within for-profit organizations, a few modifications make Balanced Scorecards especially helpful for organizations such as local governments that have very complex sets of "customers," who must deliver a very diverse set of services, and whose ultimate outcomes are much more difficult to measure than dollars.

## Perspectives Promote Balance

As the name suggests, the Balanced Scorecard provides a more holistic view of performance by helping organizations develop and review strategic objectives within a *balanced* set of key focus areas. These focus areas are called **perspectives**. The "textbook" perspectives of a Balanced Scorecard are: Financial, Customers, Internal Processes, and Learning and Growth, but these perspectives should be adjusted to present a balanced view of *your* organization's key stakeholders.

For instance, governments often reorder these four perspectives so that the "Customers" perspective is shown at the top of the Scorecard (rather than the typical layout that puts Financial on top). This simple change indicates that outcomes related to citizens are most important overall. Similarly, the Financial perspective is often moved to the bottom of the Scorecard to show that financial health supports other areas, but profitability is not, in itself, a key outcome toward which the organization is driving. Other governments find that adding perspectives such as "Economic Development" or "Environment" help them better encompass their unique strategic plans and key stakeholders. Still others create all new perspectives based on organizational pillars or other existing plan, which is fine, as long as the perspectives are balanced and representative of the entire set of stakeholders.

In contrast to the broad view provided by the Balanced Scorecard with its range of perspectives, organizations that rely on more traditional reports to manage performance tend to focus too heavily on budget compliance and efficiency indicators like FTEs per resident or the number of transactions per FTE. This can cause a lack of focus on the most important outcomes, and can obscure the less obvious drivers of those outcomes. For example, if an agency reduces the cost of determining program eligibility, but eligible persons receive poor service that is of little value to them, management has failed. A broader view that focuses on balanced perspectives helps avoid these types of oversights.

Another benefit of the framework is that it encourages organizations to link and review the causes and the effects across the board. This can help all employees see how their work impacts strategy and ultimately aligns the activities of different departments and support areas in pursuit of the most critical goals.

### Focus on What's Critical

Another benefit of a well-crafted Balanced Scorecard is focus. Government agencies tend to move from issue to issue or complaint to complaint, reacting to the most recent inquiries from elected officials. Good case work is important, but scorecards with no more than 9-12 **objectives** drive programmatic results. Objectives are brief, verb-noun statements, such as "improve customer satisfaction." They should be pulled directly from the strategic plan and grouped under the appropriate Balanced Scorecard perspective. An objective to improve customer satisfaction motivates the workforce to develop good customer service policies and processes, rather than just correct problems as they arise.

### Before You Build, Think About These Principles

With the above fundamental principles understood, government managers wonder how to move from strategy to a deployed Balanced Scorecard. But before such action can take place, organizations must understand what Balanced Scorecards are not.

Too often, a Balanced Scorecard is seen as just another static report, produced because it's required. Used as intended, it is a powerful ongoing management framework, capable of both aligning everyone in the organization to the top-level strategy and providing the ideal review mechanism needed to execute the strategy. At minimum, results should be reviewed quarterly with the "owners" of objectives. At review meetings, attendees should collaborate on designing initiatives needed to correct performance gaps, but assign clear due dates and individual accountability for action. These scorecard-based business reviews must be done routinely and reliably.

Balanced Scorecards are also not generic tools. One size does not fit all. Balanced Scorecards should be unique to each organization, its current strategy, and its constituents. Many governments use resident or user surveys to help identify the unique requirements of their customers that should be reflected in their strategy and scorecards. Though their strategy and objectives should be fairly unique, when it comes to measures local governments should try to use measures commonly used by other governments of their size and ilk. This aids in benchmarking results and identifying best practices.

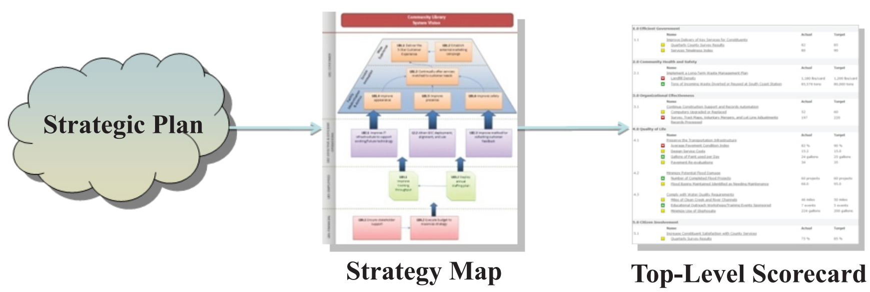
Balanced Scorecards *within* a government should also be quite different; they should be "cascaded" or translated, so that the specific objectives and measurements or metrics are appropriate for each organizational area. A city might have the objective of increasing the percentage of residents who feel safe. Their police department might have the objective or reducing the crime rate and the detective bureau would have the objective of increasing the clearance rate. Measures would be similarly cascaded to ensure linkage and relevance at each level.

As with many other tools, Balanced Scorecards should not be viewed as end-all, be-all solutions. Rather, they are just a part of systems designed for Enterprise Strategy Execution. These systems should also include strategy mapping, structured business reviews, aligned performance improvement, process management, and employee involvement. Tackling all of these areas simultaneously, however, is a recipe for failure. Starting with a solid strategic plan and a well-developed Balanced Scorecard is the ideal foundation upon which to build a more comprehensive performance management and Strategy Execution approach.

## Ready to Start? First, Ensure Alignment to Strategy

So how should an organization begin building a strategically-aligned Balanced Scorecard foundation? First, conduct a thorough SWOT Analysis, which helps identify key Strengths, Weaknesses, Opportunities and Threats. The high-level organizational **SWOT Analysis** should incorporate departmental, unit, and functional area SWOT Analyses. Representatives of stakeholders (e.g., members of Advisory Committees) and customer segments (i.e., residents and businesses) should be included in the SWOT input.

Your strategy should also build upon other inputs, such as demographic trends, resident need and service gap analyses, resident and business surveys, and data on performance gaps compared to goals, as well as performance compared to benchmarked levels of other similar governments. You'll also need to review trends in your own key performance indicators. If you're slipping on a key indicator, you will want to take preemptive action. Reviewing all this important information will help identify the objectives for your top-level **Strategy Map** – a simple, visual depiction of the key components of your strategic plan, which places a high emphasis on the cause and effect relationships of objectives.




To build your Strategy Map, place your organization's perspective names down the left side of a page, with the most important outcome area at the top. Then below it, place the perspective representing the most important driver or contributing area for the top-level outcome, and so on down to the last perspective.

Next, within the perspectives, place the most critical strategic objectives derived from the SWOT Analysis. These objectives will most likely come from the Weaknesses, Opportunities, and Threats. You'll need to narrow them down to the critical strategic few (9-12 objectives is ideal) to ensure focus. In addition to grouping objectives within the appropriate perspectives, it is helpful to draw arrows between the objectives to further emphasize the causal relationships and show how each contributes toward the strategic outcomes at the top. For instance, a Financial objective to "reduce taxes" would drive the Employee Learning and Growth objective to "deploy process improvement skills," which would drive the Internal Process objective to "eliminate non-value added steps in core processes," which would ultimately drive the Customer objective to "increase residents' rating of value of city services."

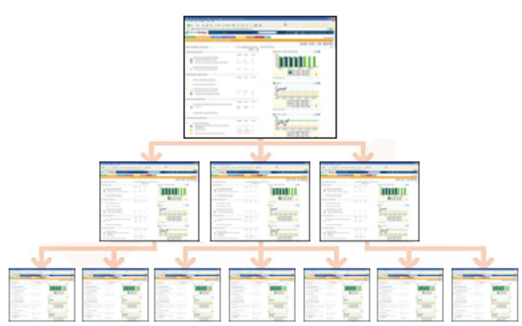
## Next, Build Your Top-Level Balanced Scorecard

Once created, the Strategy Map becomes the foundational piece for building a top-level Balanced Scorecard. Begin building your Scorecard by copying the perspectives and objectives from the Strategy Map. From here, your organization should identify measures (also known as Key Performance Indicators/KPIs, or metrics) to determine if you are on track to achieve each objective. No more than three measures should be developed as indicators of achievement for each Scorecard objective. Targets or goals for each measure should also be determined and placed on the Scorecard to gauge performance of each measure. Targets should not be arbitrary; they should be based on data that demonstrates that they are achievable either by increasing resources or achieving process improvements. Most scorecards also include a red, yellow, or green "stoplight indicator" next to each measure or objective. The color coding provides an at-a-glance view of performance compared to target.

Finally, you should begin to identify specific improvement initiatives, which are time-bound projects that will address critical areas where performance is falling short of target. These initiatives should be aligned to the underperforming scorecard measure and reviewed to ensure that progress is indeed improving the measure. A city or county might have the objective of increasing safety, with one important measure being "number of accidents at major intersections" for which they might set a target of a 20% reduction. The objective, measure, and target could be based on citizen input and benchmarked achievements in neighboring communities. Improvement initiatives should be designed only after analyzing data and identifying the most prevalent root causes and might ultimately include: improving signalization or design of intersections; increasing patrol and enforcement at the intersections; public information campaigns; and/or installing red-light camera equipment. Whatever initiatives are employed, results should be monitored regularly (as part of the Balanced Scorecard review process) to see if the aligned measure is improving.

## Now, On to Cascading

Aligning improvement initiatives is the final step in building a top-level Balanced Scorecard. But this single scorecard is really just the first piece of an actionable management framework. To make the tool really drive the results you desire and help you execute your strategy, you need to cascade the objectives and metrics down and across the organization, creating linked, aligned, and related – but not identical – Scorecards for each strategically-important area. This leverages the cause and effect nature of the Balanced Scorecard tool by tying the lower-level and cross-functional drivers of performance to the top-level outcomes that ultimately determine your success. By reviewing and improving these lower-level measures, which will now have a "line of sight" view of their relationship to top-level measures, you drive real, predictable results that can be sustained for long-term Strategy Execution.



To continue the previous example, the police/sheriff's department scorecard would include the government's top-level objective of reducing accidents at major intersections. The patrol division scorecard would have an objective of increasing enforcement at major intersections and might track a key performance measure of "number of hours major intersections monitored."

There are tools and guidelines to help you get through the cascading process, which can seem at times like a bit of an art and a bit of a science. Though it can be time-consuming, cascading scorecards is absolutely essential for driving change within an organization.

Whew! Now take a deep breath. As you can see, building Balanced Scorecards requires hard-work, patience, and often some consultative help to get you moving in the right direction.

### Five Tips for Scorecarding Success:

1. Don't expect to build a complete framework overnight.
2. Instead, focus on building a solid, but not perfect, top-level Scorecard. Try to get it about 75% of the way to what you think is ideal and start cascading. You'll improve Scorecards as you work with them.
3. Cascade Scorecards to one or two strategically-critical organizational areas first, focusing on building the cause and effect relationships between the high-level objectives and their key drivers.
4. Begin reviewing these Scorecards right away! When an organization actively reviews Balanced Scorecards, focuses on areas with performance gaps (measures with red or yellow stoplight indicators), and follows up on the aligned improvement initiatives, performance DOES improve. This gives you a clear "win" that will give you some energy to move to the next area.
5. Once you have about 3-5 Scorecards, it's time to think about Balanced Scorecard Software. These applications greatly improve visibility into the causal relationships of the scorecards, help drive timely action, ensure that everyone is reviewing the same information (by providing a "single version of the truth" that spreadsheets and paper reports simply can't), and facilitate better Scorecard business reviews.

### *About the Author*

*Chris Heflin-Ewing is a Malcolm Baldrige Examiner who leads ActiveStrategy's Public Sector Practice Group, which helps governments, the military, and federal agencies drive better transparency, accountability, and results through strategy execution. She is an experienced performance excellence practitioner with over thirty years of leadership in government innovation and improvement. Immediately prior to joining ActiveStrategy, she was an Internal Consultant on performance improvement at The City of Coral Springs, the 2007 Baldrige Recipient.*