The Balanced Scorecard for Public-Sector Organizations

By Robert S. Kaplan
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The Balanced Scorecard for Public-Sector Organizations

by Robert S. Kaplan, Marvin Bower Professor of Leadership Development, Harvard Business School

Many public-sector organizations have found it difficult to develop appropriate measures for the financial perspective within their scorecards. Robert Kaplan describes how one municipal government uses a well-articulated and focused strategy to address this issue.

Although the Balanced Scorecard has initially been applied to the for-profit (private) sector, its potential to improve the management of public-sector organizations (PSOs) is even greater. The financial perspective provides a clear long-run objective for profit-seeking corporations; however, it serves as a constraint, not an objective, for PSOs. Certainly, these organizations must monitor their spending and comply with financial budgets. But their success cannot be measured by how closely they match spending to budgeted amounts or even by how they restrain spending so that actual expenses fall well below budgeted amounts. For example, knowing that actual expenses for an agency came within 1% of budgeted amounts says nothing about whether the agency operated either effectively or efficiently during the period. Similarly, reducing expenses by 10% of budget is not a success story if the mission and constituencies of the agency have been severely compromised. PSOs should measure their success by how effectively and efficiently they meet the needs of their constituencies. They must define tangible objectives for their mission, customers, and constituencies. Financial considerations can play an enabling or constraining role but should rarely be the primary objective.

Strategic Focus

The start of any performance-management exercise must be to reaffirm or focus the organization’s strategy: to define what it is uniquely qualified to do and to reject possibilities that will not deliver on the organization’s mission and purpose. Consider the experience in Charlotte, North Carolina, when an assistant city manager asked the mayor and the city council, at one of their annual retreats, to choose a few themes that would guide resource allocation and departmental programs for the next decade. In effect, she asked them to determine what themes, if done at an exceptional level, would make the City of Charlotte the best city in which to live and work. The staff presented the city council with 15 possible focus areas. At the end of an active debate, the city council selected:

- Community safety
- City within a city (preserving and improving older urban neighborhoods)
- Restructuring government
- Transportation
- Economic development

These five themes eventually became the basis for Charlotte’s BSC (see Figure 1), and now serve as the focus for the objectives and programs in every government department. The creation of a well-articulated, focused strategy made the translation to a

The City of Charlotte has identified five strategic themes that shape the strategy map for its BSC. Public-sector organizations should measure their success by how effectively and efficiently they meet the needs of their constituencies.
Balanced Scorecard quite straightforward.

**Mission, Customer, and Financial Objectives**

For a private-sector company, financial measures provide the accountability measure between it and its owners, the shareholders. For a government agency, the financial measures are not the relevant indicators of whether the agency is delivering on the rationale for its existence.

PSOs should start by identifying an overarching objective for their mission at the top of their scorecard. Examples include reduction in poverty, illiteracy, malnutrition, homelessness, disease, pollution, or discrimination or an improvement in environment, health, or safety. The objectives in the remaining perspectives of the scorecard can then be oriented toward reaching this high-level objective. Since the mission objective may show only intermittent progress, the measures in the four main perspectives of the BSC must provide the short- to intermediate-term targets and feedback.

The financial and customer objectives, however, may need to be rethought for government organizations. Take the case of a regulatory or enforcement agency. As it does its job — detecting transgressions and fining or arresting those who violate the laws and regulations — can it look to its “immediate customers” for satisfaction and loyalty measures? Clearly not; the “customers” for such organizations are the citizens at large, who benefit from effective but fair enforcement of laws and regulations. Figure 2 shows how the financial and customer dimensions of the BSC can be combined to provide a framework in which a government agency has three high-level themes:

1. **Cost Incurred:** This perspective emphasizes the importance of operational efficiency. The measured cost should include both the expenses of the agency and the social cost it imposes on citizens and other organizations through its operations. The agency should be attempting to minimize the direct and social costs required to deliver the benefits in its mission.

2. **Value Created:** This theme identifies how the agency benefits citizens, a perspective that will be the most problematic and difficult to measure. It is usually hard to quantify the financial benefits from improved education, reduced pollution, better health, less congestion, and safer neighborhoods. But the BSC still enables organizations to identify the outputs, if not the outcomes, from its activities and to measure these outputs. The citizens and their representatives — elected officials and legislators — will eventually make the judgments about the benefits from these outputs versus their costs.

3. **Legitimizing Support:** An important “customer” for any government agency will be its “donor,” the organization — typically the legislature — that provides the funding for the agency. To ensure continued funding for its activities, the agency must strive to meet the objectives of its funding source — the legislature and, ultimately, citizens and taxpayers.

Thus, a public-sector organization has three high-level objectives it must satisfy if it is to accomplish its mission: create value, at minimal cost, and develop ongoing support and commitment from its funding authority. From these three, the agency proceeds to identify its objectives for internal processes and learning and growth that will enable the objectives in its three high-level perspectives to be achieved.

**Alignment and Linkage: The Scorecard for the Virtual Organization**

Once the top-level scorecard has been created, the organization, just like private-sector organizations, deploys the process down to its individual departments. The depart-
mental scorecards must reflect the themes and objectives established in the top-level scorecard. The local scorecards describe how each department does its job to contribute to the top-level organizational objectives.

In Charlotte, after the city-level scorecard had been produced, each operating unit (e.g., police, fire, sanitation, planning, community development, transportation) developed its own BSC that reflected both the operating performance of the unit as well as objectives and measures that were linked to one or more of the city’s five strategic themes.

But Pam Syfert, Charlotte’s city manager, was not comfortable with these linkages alone. She wanted the city to achieve even higher performance along its five strategic themes. Syfert established cabinets for each theme. Each cabinet met monthly to discuss progress in improving performance for the theme’s strategic objectives. A cabinet consisted of the department heads whose departments could affect or influence the strategic theme. The cabinet provided a mechanism to get key operating people together with a common interest in a strategic theme.

For example, the chief of police was an obvious member of, and in fact chaired, the Community Safety cabinet. Initially, he had avoided membership in the four other cabinets, not wishing to have yet another set of meetings to attend. The chief soon noticed, however, that more people were being injured and killed in traffic accidents than in homicides and aggravated assaults. Furthermore, many of the calls to the department were complaints about unsafe drivers. In recognition of the interdependence across the five themes, the chief of police decided to join two other cabinets as well.

Each cabinet developed its own BSC for its strategic theme. No manager “owned” this scorecard or was evaluated against it. Rather, the cabinet BSC provided the framework that brought department heads together once a month to assess progress and make plans for future initiatives to strengthen neighborhoods.

### Aligning Individuals to the Strategy

The final linkage occurs when the BSC is communicated down to every person in the organization. A nonprofit organization, United Way of Southeastern New England (UWSENE), provides a poignant example. The chief financial officer went to talk to the building’s custodian. The custodian told him that strategy was something that people at the top floor did, not him. His job was to plow snow, sweep floors, and remove trash. These activities didn’t have anything to do with strategy or mission. The CFO explained to him that his efforts were very important to UWSENE.

“The tenants in the building generate considerable rental income for us. If we maintain the property well, tenants and United Way employees will be pleased to work in the facility. That will help us generate more rental income and help fulfill our 100% guarantee to donors, and attract, retain, and motivate our employees. In addition, donors and volunteers who visit our building will value a clean building, attractive landscaping, and streets from which the snow has been removed. I could see the light of recognition cross his face.” The custodian said, “You’re right; I can see now how what I do is important.” The BSC lets every employee see how he or she fits into the organization.

Communicating the top-level and departmental scorecards throughout the organization allows each individual to align his or her day-to-day actions with the organization’s strategic objectives. This is the power of the scorecard — analogous to the organizing effect of a laser — that focuses the entire organization on the strategy to produce brilliant results.