

A Balanced Approach to Implementing the Balanced Scorecard

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Robert S. Kaplan and David P. Norton introduced the balanced scorecard to the private sector in 1992 as a methodology for measuring an organization's performance beyond profit margins and dividend yields.¹ They realized that executives rely on more than financial indicators when making decisions, and they concluded that a wider range of performance measures was needed to capture the financial and operational performance of an organization. They also observed that performance measurement systems often are designed to measure specific employee tasks with workload indicators, which

Hillsborough seeks to preserve its unique heritage and small-town character.

can create an environment of behavior control rather than creative thinking. The balanced scorecard, which measures four dimensions of an organization—financial, internal business, innovation and learning, and customer—is designed to promote a culture that emphasizes strategy development for maximizing the efficiency and the effectiveness of service delivery.

Although originally designed for the private sector, the balanced scorecard soon found its way into local government. By 1998 at least twenty-three municipal governments had adopted the balanced scorecard because performance in the public sector always has been a multidimensional concept.² However, organizational barriers to this manage-

ment tool have tended to make it an option only for large local governments. These barriers include inadequate management sponsorship, organizational resistance to change, lack of employee skills, and difficulty in measuring service effectiveness.³

In response, this article presents a case study of how a smaller local government in North Carolina adopted the balanced scorecard. The town of Hillsborough, with a population of 6,240,

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had advanced its performance measurement system for some time, but needed an approach that linked departmental performance and organizational goals. After describing how Charlotte, North Carolina, modified the balance scorecard to make this connection, the article discusses the process that Hillsborough used in adopting the management tool. It then presents Hillsborough's balanced scorecard, including how the town's vision, mission, and strategic priorities (goals) are supported with town objectives from a balanced scorecard perspective, and how specific departmental balanced scorecards are designed to support these objectives with performance measures. The article concludes with examples of how Hillsborough has used the balanced scorecard to support funding decisions and with a discussion on understanding "balanced" in the context of implementing the balanced scorecard.

Overview of the Balanced Scorecard

In 1996, when Charlotte became the first municipality in the United States to adopt the balanced scorecard, city officials realized that they had to modify the management tool in order to make it fit the public sector.⁴ An overall modification was to align the balanced scorecard with the city's vision and strategic themes (see Figure 1), ensuring that objectives and measures selected for each of the four dimensions would provide feedback on the overall direction of the organization.

The city also had to modify the four dimensions of the balanced scorecard.⁵ To address the customer dimension, the private sector can rely primarily on proxy measures that are calculated from sales data. Although proxy or administrative measures often are used in the public sector, some local governments use citizen surveys to assess service quality directly.⁶ Charlotte changed this dimension to "Serve the customer," reflecting the city government's proactive organizational culture. It identified a blend of administrative and customer-satisfaction indicators to measure six objectives in this dimension: "Reduce crime," "Increase the perception of public safety," "Strengthen neighborhoods," "Provide

transportation choices," "Safeguard the environment," and "Promote economic opportunity." An example of an administrative indicator is average on-time performance for the transit system, which supports the objective of providing transportation choices. An example of a customer-satisfaction indicator is the percentage of citizens who report feeling safe in neighborhoods, which supports the objective of increasing the perception of public safety.

The internal business dimension did not require major modification. Kaplan and Norton envisioned that organizations would turn to their performance measurement systems to select or develop measures for this dimension, which focuses on the efficiency and the effectiveness of processes and procedures. Charlotte merely renamed this dimension "Run the business." It relies primarily on effectiveness measures to support three objectives: "Develop collaborative solutions," "Enhance customer service," and "Improve technology efficiencies." For example, the measure of percentage of 911 calls answered within thirty seconds was selected as part of the objective of enhancing customer service.

Kaplan and Norton proposed measures like sales growth, operating income, and market share for measuring the financial dimension of the organization. Because organizations in the public sector are not profit driven, Charlotte broadened this perspective to "Manage resources" and identified four objectives: "Maintain its AAA bond rating," "Deliver competitive services," "Expand its tax base and revenues," and "Invest in infrastructure." It then selected performance measures to track progress toward achieving each objective. For example, the city's street-resurfacing cycle as calculated by annual funding is used to measure the objective of investing in infrastructure.

Finally, Charlotte needed to make substantial modifications in the innovation-and-learning dimension. Kaplan and Norton designed this dimension primarily to capture product development. The public sector is more involved in

providing labor-intensive services than in developing products, and this requires a different philosophical approach to measuring innovation and learning.

Charlotte renamed the dimension "Develop employees" and selected three objectives: "Achieve a positive employee climate," "Recruit and retain a skilled, diverse workforce," and "Promote learning and growth." A key performance measure for tracking recruitment and retention is the rate of voluntary turnover.

Charlotte's successful experience with modifying, adopting, and implementing the balanced scorecard suggests that certain management tools designed for the private sector can be used in the public sector. But as with any management tool, local governments must be prepared to make further modifications to the balanced scorecard during the adoption process in order to align it with their individual needs. Also, local governments with experience in performance measurement are better candidates for the balanced scorecard, because they are more experienced at responding to the complexity of tracking performance within four dimensions that are not mutually exclusive. In other words, understanding what the different types of measures are, what service aspects they capture, and how they can be used to make decisions helps officials place the measures in the appropriate dimension.

Organizations need a champion of the balanced scorecard to enhance the likelihood of success. The city manager of Charlotte embraced that role, believing that the management tool would aid in meeting the city's needs for better performance and greater accountability.⁷ However, Charlotte did not adopt the new management tool simply as another way to measure and report performance. It embraced the tool within the larger framework of new public management, which was partially being driven by the reinventing government movement of the early 1990s. The mayor and the council strongly supported this change in organizational philosophy, which included cost reduction, innovation, and reduction of hierarchy.

The balanced scorecard calls for strategies to make service delivery as efficient and effective as possible.

Figure 1. **Charlotte's Balanced Scorecard Template**

Vision							Community of Choice for Living, Working, and Leisure						
Strategic Themes							<u>City Council Focus Issues</u>						
Community Safety		Communities within a City		Environment		Transportation		Economic Development					
Strategic Principle							Comprehensive Citizen Service						
							<u>Corporate Scorecard</u>						
Serve the Customer		Reduce crime	Increase perception of public safety		Strengthen neighborhoods		Provide transportation choices		Safeguard environment		Promote economic opportunity		
Run the Business		Develop collaborative solutions			Enhance customer service			Improve technology efficiencies					
Manage Resources		Maintain AAA bond rating			Deliver competitive services		Expand tax base and revenues		Invest in infrastructure				
Develop Employees		Achieve positive employee climate			Recruit and retain skilled, diverse workforce			Promote learning and growth					

Source: For more information, see City of Charlotte, Budget and Evaluation Office, *Strategic Planning Handbook: Charlotte's Model for Integrating Budget and Performance Management*, FY 2009 (6th ed., Charlotte, NC: October 2007), www.charmeck.org. Click on "Budget" (in the City Manager/Budget/Clerk" line), then "Publications."

Hillsborough's Adoption Process

Hillsborough made significant progress in performance and financial management between 1998 and 2004. Departments were encouraged to develop performance measures and to use them in decision making. Budget development was changed from a line-item, incremental process to a planning process that includes program budgeting, plus two years of financial forecasting to anticipate future problems and needs.⁸ These changes were fundamental in setting the stage for a management tool like the balanced scorecard. The organizational environment was moving in the direction of accepting change rather than resisting it, and employees were developing the skills necessary for performance measurement.

The manager suggested to the board in a September 2005 memorandum that it consider creating a mission statement and strategic priorities, including having departments conduct annual operational reviews to identify efficiency gains, as the next steps in an overall theme of making Hillsborough a high-performing organization.⁹ The manager wanted to build on the momentum developed between 1998 and 2004 and to avoid organizational complacency. The strategic

priorities and the operational reviews would become the drivers of the annual board retreat for establishing budgetary goals and objectives. The memorandum also introduced the board to the balanced scorecard, based on the model developed by Charlotte.

The board was interested in the annual operating reviews by departments because efficiency was a value shared by a majority of board members. However, the board was not interested in identifying a mission statement and strategic priorities at that time because its decision-making processes were focused on the immediate needs of resource allocation and service delivery. The manager responded by implementing the annual operating reviews at the departmental level. These consisted of (1) having departments review their operations and identify opportunities for improvement; (2) providing better information to the manager on service performance, strategies for change, and resource allocation; (3) communicating funding needs to the board in the context of performance; and (4) creating an evaluation process to identify and respond to strengths, weaknesses, opportunities, and threats.

The board's reaction to the September memorandum was not unusual, given the constant pressure on elected officials to address immediate problems and needs facing their communities. In addition, board members often campaign on how they can immediately affect the community by transforming government rather than how they can guide the community toward its long-term vision. Citizens want results. On the other hand, governing is a shared responsibility, and having board consensus on mission and priorities can substantially strengthen the decision-making processes at all organizational levels.

The board experienced turnover in late 2005, including the election of a new mayor who immediately embraced long-term planning. One of the first priorities of the new board was to create strategic priorities for Hillsborough, which continued the process of building the framework for the balanced scorecard. The strategic priorities addressed quality of life, growth management, economic development, superior services, and community safety.

However, the town faced the same problem that other local governments often do after they adopt long-term goals:

how did they connect these broad goals to departmental services, and how did they measure progress? The manager, in his role as champion of the balanced scorecard, reintroduced the management tool to the board in November 2006 as a methodology for making these connections. The board gave the manager a green light on this initiative in December 2006.

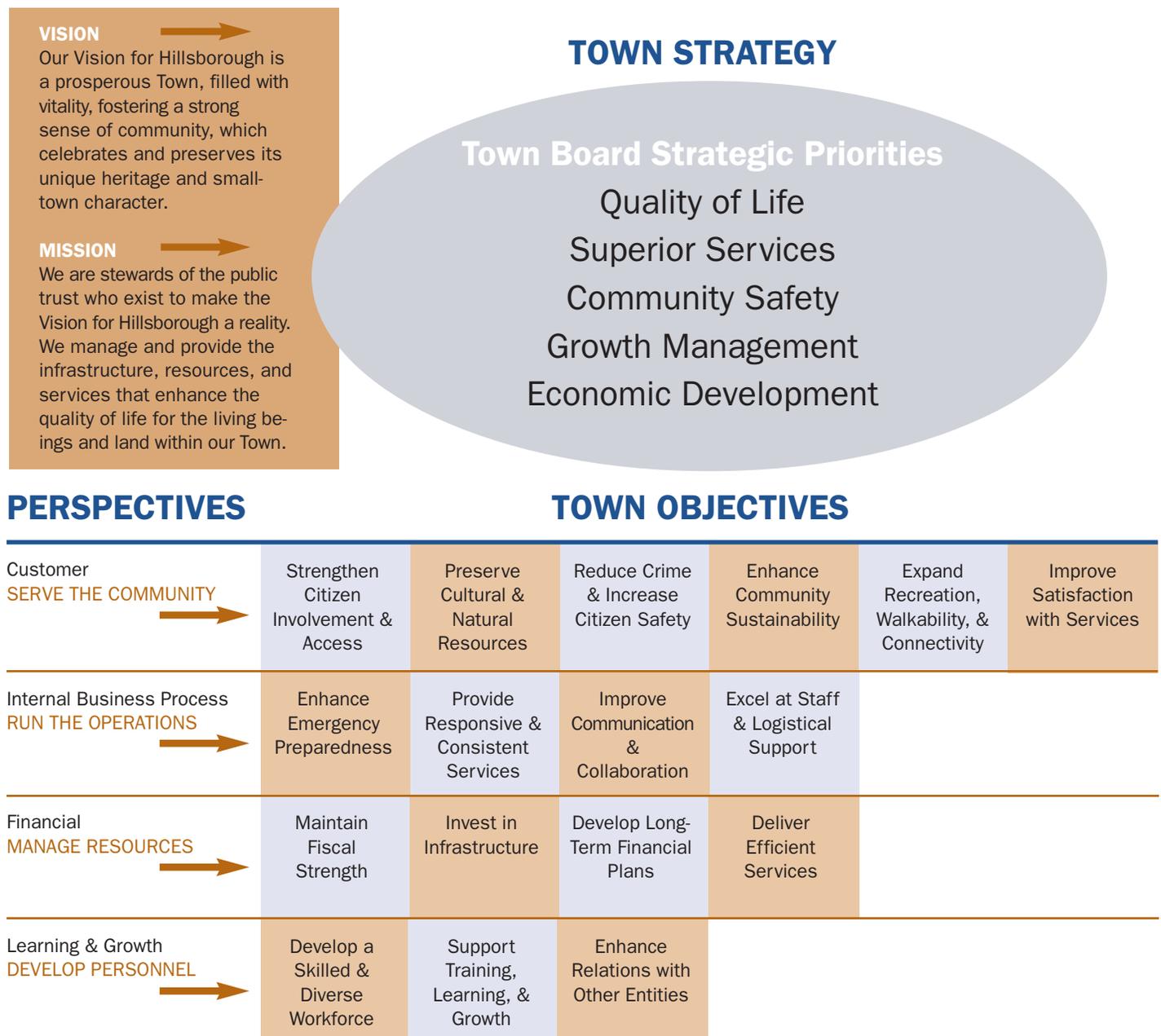
The board held a retreat in February 2007 to create a balanced scorecard for Hillsborough. In preparation for the re-

treat, board members received information on key definitions and components of the management tool. A common problem in local government is the lack of generally accepted definitions of the multiple and overlapping terms used for performance measurement. For example, “effectiveness measures” often is used interchangeably with “outcome and quality indicators.” Board members also received additional information on Charlotte’s balanced scorecard as a general roadmap for the retreat.

Hillsborough’s Balanced Scorecard

At the retreat, the board and the staff developed a balanced scorecard (see Figure 2). The board started by developing a vision for the town, a mission for the organization, and a set of core values (see the sidebar on page 35) to complement the strategic priorities that already were in place.¹⁰ The board then focused on identifying the objectives that the town would use to make progress

Figure 2. **A Balanced Scorecard for Hillsborough**



Source: Town of Hillsborough, *FY 08 Annual Budget and FY 08–10 Financial Plan*, adopted June 11, 2007, www.ci.hillsborough.nc.us/documents/MasterBudgetDocument-FY08.pdf.



Public Works staff in Hillsborough plant trees at a site that is to become a park.

on the strategic priorities. An important part of this process was that the board used the strategic priorities, not the four dimensions of the scorecard, to guide development of objectives. In other

words, the board focused on identifying the most important objectives for the town rather than constraining themselves to an equal number of objectives for each dimension. After the retreat, staff placed the objectives in the dimensions, and through several iterations, the board reached a consensus on them.

Harry Hatry, a nationally recognized expert in performance measurement, has expressed concern that the word “balanced” may equate to placing equal value on the four dimensions, which could hinder the profession’s work on performance measurement and its push for measuring service effectiveness.¹¹ The goal during Hillsborough’s adoption process was not to develop a truly balanced scorecard, but to ensure that the four dimensions—“Serve the community,” “Run the operations,” “Manage resources,” and “Develop personnel”—were addressed. Although Hatry’s concern about not losing sight of service effectiveness is reasonable, the reality is that implementing strategies for service improvement can affect multiple dimensions of the organization. It can alter an organization’s financial condition, change the way in which it provides services to customers, and require employees to acquire new skill sets.

The next step was to align the balanced scorecard with departmental performance. Charlotte approached this step by having departments identify and

support the objectives over which they had the most influence. Hillsborough modified this step by having each department develop a set of performance measures for each of the four dimensions, including targets for the next fiscal year.

The manager used this approach for two reasons. First, he wanted the departments to develop a robust set of performance measures, moving them beyond workload indicators.¹² Second, he wanted each department to understand how its services ultimately affected the strategic priorities, mission, and vision of the organization.

The town also implemented an annual survey of citizens to help develop measures for the dimension of “Serve the community.” The first survey was conducted in summer 2007 to start the process of monitoring and benchmarking key issues related to public safety, communication, town management, governing, and customer service.¹³

An internal service function like fleet maintenance, which provides services to other town departments, has the ability to influence town objectives in each of the four dimensions. An abbreviated balanced scorecard for Hillsborough’s motor pool illustrates this point (see Table 1). Two of the more interesting measures are amount of used motor oil and antifreeze recycled and percentage of parts and supplies purchased locally. These measures show how the motor pool supports the town objectives of preserving cultural and natural resources and enhancing community sustainability, respectively.

The motor pool is currently below its performance target for percentage of services performed on schedule. This performance measure is important to the motor pool (and to other departments that rely on rolling stock units for service delivery—for example, the police department, which aims to maintain an active presence in the community, and the public works department, which aims to complete routes on schedule). The motor pool now is responsible for identifying and selecting strategies for

Core Values

- Maintain small-town nature and strong sense of community.
- Serve as a catalyst for change.
- Build on Hillsborough’s unique “sense of place” including its history, architecture, citizens, river, and mountains.
- Recognize the community’s diversity.
- Promote a sense of unity among neighborhoods—Hillsborough is for everyone.
- Foster a sense of vibrancy—“Happening Hillsborough” is an alive community where things are growing, happening, with lots of positive energy.
- Recognize those citizens who are not able to pay by looking at ways to keep services affordable.
- Provide high-quality customer service by supplying basic services.

Table 1. **Abbreviated Version of Balanced Scorecard for Motor Pool, FY 2007–2008**

Perspective	Townwide Objective	Motor Pool Initiatives “What will the department do?”	Measures	Performance Data	
			“How will the department know when the desired results are being achieved?”	Prior-Year Actual	Target
Serve Community	Preserve cultural and natural resources	Prevent contamination of stormwater by capturing and recycling used oil and antifreeze	Amount of used motor oil and antifreeze recycled	501 gallons	500 gallons
	Enhance community sustainability	Buy parts and supplies locally when cost-effective, thereby supporting local businesses	Percentage of parts and supplies purchased locally	59%	60%
Run Operations	Excel at staff and logistical support	Manage efficient and effective preventative maintenance program	Percentage of services performed on schedule	88%	90%
Manage Resources	Deliver efficient services	Provide efficient services by preparing monthly report listing repair and service cost per vehicle	Average maintenance cost per vehicle	\$855	\$850
Develop Employees	Develop skilled and diverse workforce	Emphasize completion of Automotive Service Excellence (ASE) certification program	ASE certifications obtained	11	24

exceeding its target of 90 percent of services performed on schedule.

Support of Budget Decisions

The balanced scorecard is a critical part of Hillsborough’s budget process. In preparation for the town’s annual retreat to begin the budget process, board members receive information on midyear performance results and the annual operational reviews. They use this information to reevaluate the scorecard and to help prioritize funding initiatives for the coming fiscal year, which the manager incorporates into the proposed budget.

An example is how the board used the town objectives to fund an energy audit of all its main facilities, which resulted in an additional funding request to implement energy efficiency improvements. This decision responded to the objective of preserving cultural and natural resources, from the serving-the-

community dimension, and the objective of delivering efficient services, from the managing-resources dimension. The performance indicator used by the administration department to measure preserving cultural and natural resources was tons of carbon dioxide emitted from town buildings.

Another example of using the balanced scorecard to make funding decisions comes from the utilities department. The department decided to install generators at several sewer pump stations that lacked emergency stand-by power. This decision has directly affected two of the four dimensions of the balanced scorecard. The new generators should lower the number of sewer overflows, which links to the serving-the-community dimension through the objective of preserving cultural and natural resources. Also, the generators will improve the staff’s ability to respond more effectively to emergencies when a crisis arises in the

community, which links to the running-the-operations dimension through the objective of providing responsive and consistent services.

Achievement of Balance in the Balanced Scorecard

Although there are numerous overarching benefits to using the balanced scorecard, the primary factor that motivated Hillsborough’s town manager to pursue its implementation was the possibility of developing a management-and-budgeting system that would help the town focus on accomplishing its most important strategic priorities and objectives. With so many competing demands coming from citizens and community groups, local governments can easily get distracted and inadvertently redirect attention from top priorities.

The town manager was concerned that Hillsborough, as an organization,

was spending a disproportionate amount of time addressing low-priority problems, including responding to the problem of the day. Ideally the scorecard helps to balance the competition between short-term demands and long-term priorities by reminding administrators and elected officials how resources should be allocated if the organization is to be successful in fulfilling its mission. The town's finance director may have said it best when he commented that the scorecard serves as an "alarm clock" during busy times, reminding him of the most important issues that he and his department must accomplish.

The scorecard also adds balance to the complementary roles of administrators, elected officials, and citizens. Once a scorecard is adopted, elected officials know that their strategic priorities and objectives have been clearly communicated to internal and external stakeholders (administrators and citizens, respectively). There is less pressure on administrators because departmental action plans have been established via these strategic priorities and objectives, with initiatives, performance measures, and targets. Micromanagement from above should be less of a concern for departments because they have clarity on the desired results. With greater understanding from all perspectives, departments have additional freedom to operate, experiment, and encourage creativity in finding ways to implement their initiatives to hit the targets identified in their scorecards. Also, citizens can more readily understand what problems their local governments are addressing and where their local governments are allocating resources. Having this understanding makes it easier for them to be more informed and provide feedback during budgetary preparation and enactment.

Further, Hillsborough's annual performance report creates an opportunity for balance in adjusting strategies and measures and in providing feedback on which efforts have been successful and which ones need to be reassessed. It is a time to consider adjusting measures that do not accurately reflect what the organization is trying to accomplish, eliminating measures that generate more work than benefit, and adjusting targets that

may have been overly optimistic or not sufficiently challenging. The ultimate goal of using the scorecard is not to create a surgically precise management instrument, but to encourage practical discussions that help everyone make well-informed decisions.

Summary

This article describes how a smaller local government has used the balanced scorecard as an effective management tool. Using Charlotte's experience with the balanced scorecard as a model for implementation, Hillsborough has successfully adopted the management tool and used it to identify areas that need improvement and to allocate resources among competing demands.

Hillsborough's experience provides additional support to the previous finding that the success of the balanced scorecard, like any management tool, is correlated with having strong management sponsorship. The managers in Charlotte and Hillsborough embraced this role. Arguably, the most important aspect of successfully implementing the balanced scorecard is supportive elected officials. A visionary elected body that is mission driven, as was the case in Charlotte and Hillsborough, is most likely to see the scorecard as a balanced way to accomplish its community's top strategic priorities.¹⁴

Notes

1. Robert S. Kaplan and David P. Norton, "The Balanced Scorecard—Measures That Drive Performance," *Harvard Business Review* 70, no. 1 (1992): 71–79.

2. Shih-Jen Kathy Ho and Linda Achey Kidwell, "A Survey of Management Techniques," *Government Accountants Journal* 49, no. 1 (2000): 46–51.

3. Shih-Jen Kathy Ho and Yee-Ching Lilian Chan, "Performance Measurement and the Implementation of Balanced Scorecards in Municipal Governments," *Journal of Government Financial Management* 51, no. 4 (2002): 9–16. There is no agreed-on definition of a large local government. However, researchers often use the population range of 25,000 and above when seeking survey data from larger organizations.

4. Paul R. Niven, *Balanced Scorecard: Step-by-Step for Government and Nonprofit Agencies* (Hoboken, NJ: John Wiley & Sons, 2003).

5. The information presented in this article on Charlotte's balanced scorecard measures was obtained from *City of Charlotte Corporate Performance Report FY 2007 Year End*. For the most current report, visit www.charmeck.org and click on "Budget" (in the "City Manager/Budget/Clerk" line), then "Performance Reports."

6. Janet M. Kelly, "The Dilemma of the Unsatisfied Customer in a Market Model of Public Administration," *Public Administration Review* 65, no. 1 (2005): 76–84.

7. For a comprehensive overview of Charlotte's administrative reform efforts in the context of new public management, see Pamela A. Syfert and Kim S. Eagle, "The Context and Implications of Administrative Reform," in *Performance Management and Budgeting*, edited by F. Stevens Redburn et al. (Armonk, NY: M. E. Sharpe, 2008), 149–169.

8. Program budgeting organizes governmental activities into programs and emphasizes the total resources consumed by a program to accomplish its goals and objectives. For more information, see Robert L. Bland, *A Budgeting Guide for Local Government* (2d ed., Washington, DC: International City/County Management Association, 2007).

9. Part of the reinventing government movement of the 1990s involves the use of strategies to become a high-performing organization. For more information, see David Osborne and Ted Gaebler, *Reinventing Government* (New York, NY: Penguin Group, 1992).

10. The town objectives shown within the four dimensions represent the balanced scorecard for the town of Hillsborough. The complete figure is referred to as the strategy map. For more information on this subject, see Robert S. Kaplan and David P. Norton, *Strategy Maps* (Boston, MA: Harvard Business School Publishing Corporation, 2004).

11. Jonathan Walters, "The Buzz over Balance," *Governing* 13, no. 8 (2000): 56–62.

12. Research has shown that local officials are more likely to use performance data when they move beyond workload measures and focus on the higher-order measures of efficiency and effectiveness. See David N. Ammons and William C. Rivenbark, "Factors Influencing the Use of Performance Data to Improve Municipal Services: Evidence from the North Carolina Benchmarking Project," *Public Administration Review* 68 (2008): 304–318.

13. For a copy of the survey, contact the town of Hillsborough.

14. For more information on how the balanced scorecard supports the mission of an organization, see Dee Ann Ellingson and Jacob R. Wambsganss, "Modifying the Approach to Planning and Evaluation in Governmental Entities: A 'Balanced' Scorecard Approach," *Journal of Public Budgeting, Accounting & Financial Management* 13, no. 1 (2001): 103–120.