

# Balanced Scorecards for the Public Sector

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# Chapter 1: Introduction

## **The aftermath of the credit crunch – The impact on the public sector**

From the United Kingdom (UK) to New Zealand and from the United States (US) to Singapore, public sector organisations across the globe are being placed under unprecedented pressure to significantly improve performance while simultaneously reducing spending. To contend with the so-called ‘credit crunch’ and the resulting and severe economic downturn, national governments spent trillions of dollars on massive economic rescue packages. As just one illustration, consider the US\$787bn price tag for the American Recovery and Reinvestment Act of 2009: this was in addition to the large spending to shore up the failing US banking sector. Many other governments followed suit in digging deep into the national purse.

Although still work-in-progress, the evidence strongly suggests that these interventions have been hugely successful. The major economies of the world appear to have avoided the horrors of depression that many economic experts had predicted and many others had feared. Although laudable, there is a sizeable price to pay for side-stepping depression and setting nations back on the road to recovery. A large chunk of that bill will be presented to the public sector in the form of reduced budgets. As a double funding whammy, tax receipts will be substantially lower for some time as nations emerge from recession, further reducing available cash for public services.

Consider the UK, for instance. With government borrowing at a record – and recognised as unsustainably high – level, there is no doubt that public sector spending cuts over the coming years will be considerable and cause much discomfort in public sector boardrooms. Although the actual numbers are as yet unknown, there are some who predict that the actual percentage cut might be as high as 20 per cent per year (thus equalling a level of cuts not seen since just after World War II).

Whatever the level of cuts might be, what we do know for certain is that the shape of the UK public sector (and this holds true to various degrees throughout the world) is about to go through a large-scale and far-reaching restructuring, especially as research has shown that the British electorate has little appetite for financing the national budget shortfalls through higher taxes.

## **Reducing costs without lowering service levels**

But to cope with significantly reduced budgets, the leaders of public sector organisations cannot simply cut headcount or departments (as would be the case in a commercial setting, as the recession has painfully shown). Although some level of downsizing will occur (and rightly so in many instances where unnecessary and expensive bureaucracies have developed), organisations are being asked to deliver sizeable efficiency gains without any degradation of service. The fact is that the

general public (the consumers of public sector services and products) will continue to demand the very highest service levels – on a par with what they would expect from commercial suppliers. If services deteriorate the general public will vent their anger on elected officials, who will in turn direct it back to public sector leaders. However unfair it might seem to beleaguered public sector leaders, the general public will not stand for poorer performance from public sector bodies and therefore neither will their elected officials.

As national governments and other stakeholder groups take a heightened interest in how public sector bodies spend allocated funds, they will increasingly demand that sector leaders become more accountable for their performance and that there is greater transparency in the workings of the organisation and how money is being spent.

### **A history of public sector performance improvement**

Although it is fair to say that public sector leaders are presently under unprecedented pressure to improve and be accountable for performance, this is not to say these demands are purely a result of the credit crunch – and therefore will pass in time. The upgrading of public sector performance management has been under the spotlight for some time.

For instance, in the US, successive Presidents have made strategic performance management part of their presidential agendas. Back in 1993 the US passed the Government Performance and Results Act which forced the head of each government agency to submit to the Office of Management and Congress a plan detailing strategic aims and accompanying performance indicators. Today, the key

performance results are aggregated into an executive branch management scorecard which is published for everybody to see. On signing the act, President William J. Clinton said that government bodies should “chart a course for every endeavor that we take the people’s money for, see how well we are progressing, tell the public how we are doing, stop the things that don’t work, and never stop improving the things that we think are worth investing in.”

Note the more recent comment from President Barack Obama: “We can no longer afford to sustain the old ways when we know there are new and more efficient ways of getting the job done,” he said. “Even in good times, Washington can’t afford to continue these bad practices. In bad times, it’s absolutely imperative that Washington stop them and restore confidence that our government is on the side of taxpayers and everyday Americans.”<sup>1</sup>

The UK government upped the ante in public sector performance management when it introduced a set of 90 so-called Best Value Performance Indicators. Through these indicators, the UK Audit Commission assesses the performance of each local authority annually, with the aim of helping them improve the services for their communities. This system is presently being replaced by a Comprehensive Area Assessment with 198 National Indicators at its core.

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 which deal with the public are required to develop customer service charters. Moreover, in New Zealand all local authorities are mandated to set

community outcomes and supporting performance metrics that must be identified and agreed through an extensive, heavily participative and legally mandated consultation programme with local residents and other groups.

In addition, there are similar initiatives taking place in many other countries across the world including China, Sweden and the Netherlands. What most of these initiatives have in common is that they provide frameworks for managing and measuring performance. Many prescribe predefined performance indicators with targets; several make the measurement data publicly available in, for example, league tables (heavily used in the UK for assessing and comparing the performance of schools or National Health Service (NHS) trusts, for example) or performance scorecards.

The stated aims of these performance-managing initiatives tend to be improved performance with an emphasis on increased efficiency and effectiveness of service delivery and improved accountability to the public. While these goals are sensible and justified and the performance management approaches are generally well-intended, many organisations in the public sector seem to approach performance management with an emphasis on collecting and reporting data that produces little in the way of insights, learning or improvement. Often this leads to the institutionalising of dysfunctional behaviour that leads to negative – and sometimes disastrous – consequences.

As one chilling example, the 2010 report into appalling failings in patient care at the UK's Stafford Hospital (where between 400 and 1,200 more people died between 2005-08 than would have been expected) found that amongst the reasons why patients were routinely neglected was that the management team had become preoccupied

with cost-cutting and hitting predefined targets. This is perhaps an extreme example of how external targets, that are supposed to improve performance, can have the diametrically opposite effect to that intended. It nonetheless provides a chilling warning of what might happen in public sector organisations as the upcoming cost-cutting agenda takes hold – unless sector leaders find a way to better manage performance.

Although external target setting will continue (and mostly will continue to deliver some benefits), the challenge for public sector leaders is how to introduce a performance management regime where the emphasis is on collecting and reporting data that does indeed lead to insights, learning and improvement. Under this regime, the organisation will focus on what actually matters the most and use its resources as effectively and efficiently as possible to deliver at least the same level of service with reduced budgets – and in many cases actually improve performance.

### **Introducing the balanced scorecard**

Continued research over several decades by the Advanced Performance Institute and others has shown that the most effective way of introducing such a regime is through the implementation of a strategic performance management framework called a balanced scorecard – which is the focus of this report. Moreover, a properly architected and implemented scorecard also delivers on the accountability and transparency requirements signalled at the start of this chapter.

The original balanced scorecard (as described by Harvard Business School Professor Robert Kaplan and consultant David Norton) was designed for deployment within commercial organisations. Yet, balanced scorecards have perhaps become even more popular and enduring in public

sector organisations. A key reason for this popularity is that a balanced scorecard enables public sector leaders to successfully contend with a challenge that is normally far tougher for them than their private sector counterparts – and that will be of heightened importance in the coming years: prioritising where to spend money.

Simply put, whereas commercial organisations can boil everything down to some form of shareholder value focus, for public sector bodies there is a requirement to deliver equal value to a range of stakeholders: funders, consumers and partners, as examples. This can confuse the public sector leaders as to where they should prioritise attention and resources. The danger is that public sector organisations have so many things that they are seeking to deliver that they end up not knowing what they are supposed to do.

A balanced scorecard (which is described in full in the next chapter) is an ideal tool for those public sector leaders who want to properly understand what they should be doing and where to prioritise their spending. Usefully, given that public sector organisations are not subject to the commercial sensitivities that exist in the private sector, they have been much more willing over the years to share the content of their balanced scorecards with other organisations. As a consequence, a substantial body of best practices and learning has emerged and been made freely available, which has been much less evident in the commercial sector. These best practices are highlighted within case examples that we use to illustrate each of the steps in Part One of the report. Part Two comprises a number of full case studies.

#### Reference

1. Remarks of President-Elect Barack Obama as reported in Rochelson, D., “New and

more efficient ways of getting the job done”, change.gov newsroom article, 7 January 2009.