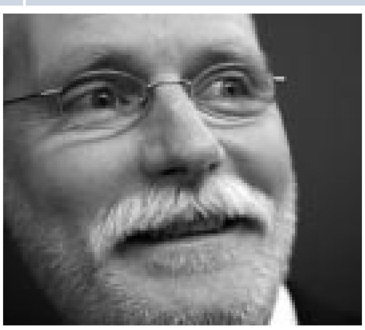
SCORECARDING FOR THE PUBLIC SECTOR



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SCORECARDING FOR THE PUBLIC SECTOR

Rising expectations for public sector performance have driven many public organizations to use scorecarding to monitor and manage their way to improved performance—with well-documented successes. Scorecarding provides the means to capture and clearly articulate the organization's strategy, align all stakeholders and employees toward those goals, and help measure and manage the organization's progress towards those objectives.

There are a number of unique issues and approaches to scorecarding in the public sector. In this white paper, Brett Knowles, one of North America's leading authorities on the Balanced Scorecard, discusses some of the unique public sector issues and proven solutions.

Brett has extensive experience developing scorecards for public sector organizations around the world. Brett has helped develop more than 100 public sector scorecards for organizations as diverse as regional governments, national government departments, and not-for-profit organizations such as hospitals and charities. His clients have been profiled in Forbes, Fortune, Harvard Business Review, and Drs. Kaplan and Norton's most recent book, The Strategy - Focused Organization.

Based on this extensive experience, Brett has developed a 5-Day Rapid-Scorecard process for building public sector scorecards.

INTRODUCTION

The private sector has always had a strong focus on performance improvement. This focus has given birth to many of the recent management trends—Total Quality Management (TQM), re-engineering, Six-Sigma, and Activity-Based Accounting, to name a few. Scorecarding is one of these tools, and the Balanced Scorecard is a specific instance of scorecarding. The Balanced Scorecard has been slowly gaining support over the last 15 years due to its impressive track-record of well-documented performance improvements.

Over the past five years, momentum has been building in the public sector for scorecarding, in particular the Balanced Scorecard. Scorecarding's growing use in the public sector has sprung from legislative requirements, initiatives such as the President's Management Agenda in the United States, and private sector events such as failures at Enron and WorldCom.

Application of the Balanced Scorecard in the public sector is similar to its application in the private sector, with some notable exceptions. These exceptions are based on a combination of the types of things public sector organizations do, the structure of public sector organizations, and the culture within those organizations.

A notable difference relates to the ordering of the four typical Balanced Scorecard perspectives: Learning & Growth, Internal, External (Customer), and Financial. In the public sector, focus is on meeting the needs of the customer within the available funding so the Customer perspective is the top perspective. In the private sector, Financial perspective (i.e. shareholder value, revenue, profitability) is at the top (Diagram 1) as the focus is on meeting financial expectations.

Diagram 1: Public sector Balanced Scorecard Strategy Map

ABOUT PERFORMANCE IN THE PUBLIC SECTOR

The core mission of government is to serve its citizens—protecting them, delivering services to them, and assuring their continued welfare. In recent years we have seen significant shifts in what we expect our public sector organizations to deliver as well as the cost, quality, and time aspects of the work that they do.

Managing performance effectively, whether in a working group or across an organization, requires that everyone is working together to the same set of goals. They must *collaborate* and share a consistent view of what constitutes organizational success. There are three elements to this:

- **Consistency in data:** everyone must be working from the same page, with the same information, and accept that information as fact;
- **Consistency in focus:** everyone must agree on the high-level strategy and the desired result. The outcomes must reflect the organization's goals. Measurement must drive results. Everyone must be aligned to achieving these goals;
- **Consistency in accountability:** everyone is accountable for his or her area of responsibility. They understand that their success maps directly to the success of the organization.

Measuring and managing the performance of government and non-profit organizations is difficult, perhaps more so than for commercial organizations. Private sector organizations tend to be driven by top-line growth and bottom-line efficiency. Government tends to be service-oriented with outcomes that are measured over longer periods. Determining actual program outcomes is hard to capture, measure, and track. The impact of many programs may not be visible for several years.

How do you know whether a program to lower teen smoking is effective? Is it because educational materials were delivered to 73% of high schools? Is it because spot checks of convenience stores by enforcement officials found more than 97% appear to enforce laws prohibiting sales to minors? Alternatively, is it because, two years after a program was initiated, the incidence of 13 and 14 year olds smoking for the first time dropped by 5 percent?

Sometimes, finding the answers to questions that seem very simple leads only to more questions, or worse, to dead ends. Often, answers can lie beneath conflicting or contradictory data, or lack clarity and focus due to differences of opinion. One version of the organization's truth is at the core of scorecarding—and this leads to a single, central, interconnected, and shared system of metrics that enables everyone to link actions with strategy.

The obvious first step in meeting these changing goals is to set clear strategic goals and then measure and manage our way towards them. There are a number of challenges to successfully measuring and managing performance in the public sector. These can be characterized as personal, organizational, political, and environmental factors:

PERSONAL FACTORS

UNCLEAR PERSONAL ACCOUNTABILITIES

Inside most organizations—and public sector is no different—individual accountability is unclear or poorly defined. We tend to hire and manage as if qualifications and activities are enough—not the actual delivery of outcomes. It is generally unclear who is accountable for what outcomes.

UNCLEAR RELATIONSHIP BETWEEN PERFORMANCE AND CONSEQUENCES

Many public sector organizations argue that because they cannot offer incentive-based compensation they are at a performance disadvantage. In fact, monetary compensation is only part of the mix. The root cause might be a culture that does not support performance-related acknowledgement. It is often unclear how poor performance leads to unfavorable consequences.

THE BALANCED SCORECARD

Over the last 20 years, there have been a large number of management efficiency approaches in vogue. You can apply scorecarding to many management methodologies. The Balanced Scorecard is a specific instance of scorecarding.

The Balanced Scorecard is not a new idea. It was initially developed and introduced by Kaplan and Norton in the Harvard Business Review in 1992, and has been refined since then.

In essence, there exists a balance between outcome measures (financial, customer / citizen) and performance drivers (value proposition, internal business processes, and learning & growth—the ability of an organization to move forward).

Conceptually, as you move up, each measure along the way is part of a chain of cause and effect linkages, and all measures eventually link to organizational outcomes, and, ultimately to mission success.

CULTURE OF CONSENSUS

Most public sector organizations have business practices and culture that encourages team-based decision-making—a culture of consensus. To be truly effective, consensus requires alignment around goals, priorities, and the information available.

ORGANIZATIONS MUST WORK TOGETHER

For many program outcomes in the public sector, a number of departments and organizations must work together. Not only does this require alignment across an even broader stakeholder population, but it also requires activity, budget, and outcome alignment.

MULTIPLE STAKEHOLDERS WITH DIVERSE EXPECTATIONS

Public sector organizations face the scrutiny of elected officials, legislative bodies, interest groups, employees, customers, the media, and related businesses. These groups do not coordinate with each other; they have their own agendas; they expect—and deserve—their own hearing and response; and, most importantly, may expect completely different things from the same public sector organization.

Most public sector organizations have a complex stakeholder environment. Regional governments (cities, counties, municipal services) need to satisfy the citizens, external customers, legislators, state/provincial governments, the business community, regulatory authorities, and others. Each of these constituencies has different expectations for outcomes and performance levels from the regional government.

Roads are an example. Legislative bodies mandate safety requirements, such as barricades and shoulders; customers (drivers) want clear signage, good lighting and ample services; taxpayers want low development and maintenance costs; and businesses want adequate roads and lanes to bring their trucks, employees, and customers right to their door.

This stakeholder complexity means public sector organizations must manage expectations through business planning and budgeting, communicate performance, and manage performance improvement activities.

This leads to requirements for multiple views of the "same" data, depending on the constituent group. It also means data security issues, as you must determine what information and level of detail goes to whom, and in what format. Public sector organizations must find compromise positions among many worthwhile objectives, while living within their budget constraints.

POLITICAL FACTORS

TRANSPARENCY

The performance goals and achievements of public sector organizations are a matter of public record. Performance below target is a high risk in political environments. Public sector organizations tend to be less committal about performance objectives, goals, or actual performance levels.

STAKEHOLDER / POLITICAL INTERVENTION

Public sector organizations are not only at the mercy of external stakeholders for their budgets. Even their mandate, objectives, and accountabilities can shift throughout the year, or at least from one election period to the next. Politicians and other public-facing bodies have the power to change an organization's orientation with very little forethought or restraining forces.

BUDGET UNCERTAINTY

Most public sector organizations are at the mercy of external budget forces. Their future is not necessarily based on good performance or the actual financial needs of what they are expected to deliver. Budgets are ultimately determined by politicians or boards.

SCORECARDING VALUE PROPOSITION

Aligns employees around organizational strategy and execution

Employees understand what they are responsible for and how their performance contributes to the overall performance of the organization

Makes targeted, prioritized information easily accessible

Scorecards provide the means for people at all levels of the organization manage their own performance. It is always on, always current, and always factual.

As the organization gains a better understanding of the scorecard, and what individual impact has on local performance and organizational performance, confidence increases in its ability to track and manage performance.

As individuals see a scorecard as a way for them to identify issues, and validate them with senior management, they are able to justify changes in budgets, headcounts, and other matters.

Brings clarity and transparency

Organizations have visibility into the business processes and activities that are important to its mission and program goals. They are able to exploit information to monitor issues, get early warnings when things are not tracking to plan, and can manage performance against expected outcomes

Communicates critical success factors

Everyone has access to relevant information. This ensures employees understand critical success factors and their role in organizational success. This is communicated throughout the organization at the same time from the same system.

Enables rapid response to shifts in strategy

Strategies continually shift. Management tools need to accommodate change. A scorecard is not static. With greater insights into the drivers of organizational success, you can adapt the scorecard to reflect this and changing priorities.

ENVIRONMENTAL FACTORS

PROVEN SUCCESS TAKES A LONG TIME

Seeing the outcomes from public sector programs such as healthcare or poverty relief can take years, if not decades. In many cases, it is not clear how daily, weekly, or monthly activities are taking the organization closer to their goals in these areas.

"FUZZINESS" OF OUTCOMES

Even when public sector organizations have a clear mandate, their actual outcomes may still be fuzzy. Improving literacy appears to be a clear mandate, but *what is* literacy? What level of reading ability is good enough? How do you know when it is achieved?

Through scorecarding, everyone in the organization—at all levels and across all departments—has a clear understanding of how their decisions affect overall performance, because it makes performance everyone's responsibility. It is a means to align everyone around an agreed-upon strategy, establish measurable goals, and communicate the tactics used to achieve them.

Automating scorecards—through the process of collecting data, rendering it in sensible, easy to understand scorecards, and providing analytic and reporting tools to get to the root of problems or understand and syndicate success—is absolutely essential to drive improvements in performance throughout and organization. Diagram 2 shows an automated scorecard for a central government department.

Let's consider how an Automated Scorecard can help address the public sector issues outlined above.

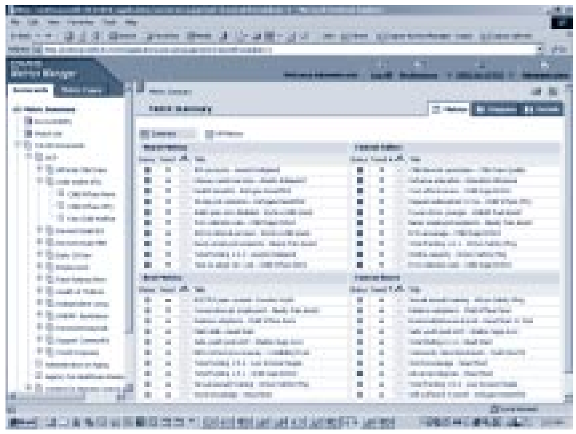

Diagram 2: Automated Scorecard for a central government department

AUTOMATIC SCORECARDS

Driven from real, known systems.
You get a consistently accurate picture of performance across the organization. Massaging or "brightening" data to mask poor performance is almost eliminated.

Delivers up-to-date information
Existing operational systems can be sources of scorecard metrics and, as they are updated, scorecards report the actual results against predefined targets related to the strategy. As such, the scorecards come close to representing the state of the organization at the present, along with trending information that shows which direction the metrics are heading against objectives.

Tied to analytic and reporting tools
Link scorecards to analytic and reporting tools to uncover the root of problems.

Available to everyone at the same time
Scorecarding represents the democratization of organizational information.

Scorecarding allows individuals to understand their role and link to the successful execution of the organization's strategy. By linking the organization's accountability structure to each organizational objective (e.g. Owner, Apprentice, Team Member, Approval, etc.), people throughout the organization can buy into organizational success. The 'underlaps' and 'overlaps' become clear to everyone. Once in the open, you can deal with them.

The foundation for all balanced scorecards is the strategy map. Strategy maps show the key performance indicators of an organization overlaid on the key perspectives and associated objectives.

Diagram 3: Strategy Map

DELIVERING CONSENSUS AND ALIGNMENT

Public sector organizations must continuously build consensus and navigate to acceptable compromise positions between all stakeholders.

An example of this is a salmon recovery scorecard in the state of Washington, USA (Kaplan and the BSC, 2003). In that case, the goal was to "restore salmon, steelhead, and trout populations to healthy and harvestable levels and to improve the habitats on which fish rely." Achieving this goal was hampered by an exceptionally fractured governance of the fish stock, involving 6 states, another country (Canada), 27 Indian tribes, 8 U.S. agencies, 12 state agencies, 39 counties, 277 cities, 300 water and sewer districts and 170 local water supplies. By building out and delivering a scorecard that articulated the goals, performance metrics, and targets, each stakeholder clearly understood their role and what the agreed to measures of success are.

Scorecards communicate where things are and where they are going. They offer a relatively public understanding of what is important to the organization and where its focus is.

Internally, they ensure "grants-of-authority" are respected. For example, if the senior team is to set overall direction, they can do so without concern that the next level down may set their own interpretation of the desired direction. When the senior team grants the next level down authority to use allocated resources to achieve a set of agreed upon goals, the next level down will understand the priorities and be able to use their own judgment and decision-making to achieve the organization's goals.

This is no less important in the external environment across organizations. As relationships between organizations change, and they share goals and objectives, the scorecard can be adjusted to reflect the new priorities, allowing individuals, teams, departments, and others to contribute their knowledge and skills to the attainment of the shared goals.

In building a scorecard, strategic intent needs to be documented to ensure that stakeholder needs are met. The Strategy Map reflects the view that was agreed to and represents a common understanding of expected and actual performance. Although this is the one true picture of the organization, specific stakeholders may be only involved in some aspects of the organization's activities, and distracted by other activities (or objectives) outside their area of accountability.

Strategy maps can be used to communicate key information to meet the needs of different stakeholders. This can be done in three ways:

1. Help all stakeholders see and agree to one common view. The difficulty here is getting all the stakeholders to reach an agreement on what the overall organization is supposed to deliver, to whom and at what quality, cost, and time. The scorecard provides a tool to formally draw all stakeholders into a common conversation, view, and agreement on the objectives and priorities.

2. Provide a unique view of the same organization, designed for each of the key stakeholders (see Diagram 4).

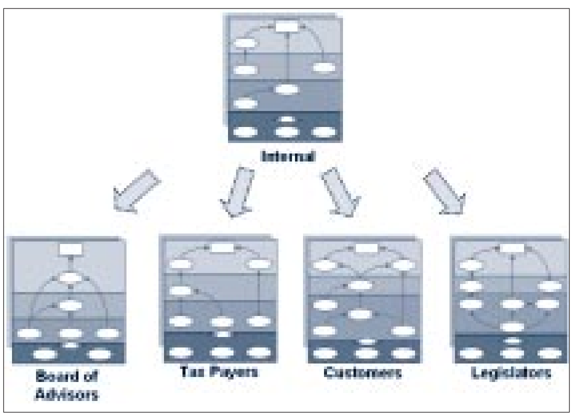

Diagram 4: Stakeholders get unique view of organization

These views allow stakeholders to see the organization as best suits their understanding and expectations, and make it easier for the organization to communicate back to those stakeholders.

3. Provide stakeholders with indicators that reflect their unique interests, but show them through the common strategy map that all the other stakeholders use.

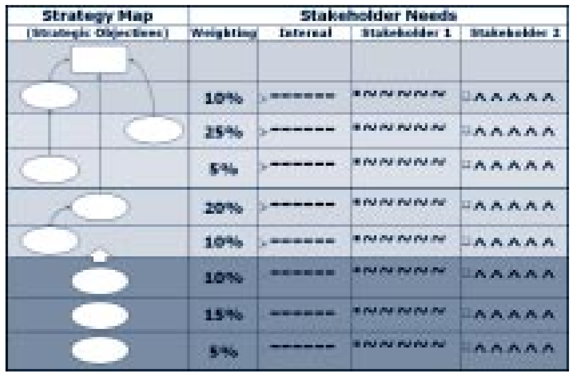

Diagram 5: Different stakeholders may like to see different indicators

This approach allows the organization to maintain just one strategy map, minimizing maintenance and making communication easier. It enables each stakeholder to see what the entire organization does, but allows them to understand and relate to each stakeholder as it relates to their needs and expectations, making communication with those stakeholder groups easier.

A well-designed scorecard services each of the constituent groups, establishing a consistent information framework and providing a forum for interaction and dialogue. It facilitates communication across multiple constituencies, effectively communicating strategy, and rapidly disseminating performance information as an early warning of lagging performance to management. As priorities change, the scorecard quickly reflects and communicates those changes and their impact across the stakeholder groups.

Security underlies each of these scenarios. Some information should not go to some stakeholder groups, for reasons of confidentiality, lack of understanding, or relevancy.

The many stakeholders and the public-at-large are actively interested in understanding what the organization plans on doing, has done, and what they plan to do to move ahead. A strategy of full, selective, or partial disclosure can help to answer the appropriate level and type of questions.

Scorecarding provides early and wide communication of plans, allowing new and old stakeholders to be educated on what the organization has been charted to do, and to be informed of all the aspects of the organization's activities, not just those of which they are aware.

This allows the organization to be very clear in its communication when changes are made to their charter. All stakeholders are immediately aware, since it is reflected in their scorecard view. The same format above also becomes the format for communication of actual performance (Diagram 6).

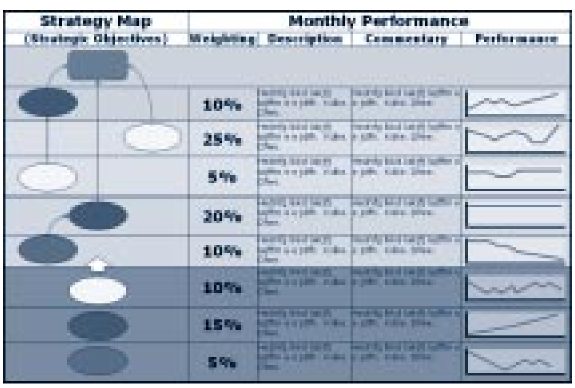

Diagram 6: Communicating actual performance

This report links the plan with the strategy and priorities along with informative commentary and trend analysis. The format reduces the time spent communicating with stakeholders about performance.

For example, if an organizational objective is to "provide faster service", and the organization has improved 5%, there may be several commentaries:

- To Internal People, "It appears that our various process improvement projects are paying off. We may be ready to launch process improvement Phase 2 after we maintain this performance level for another 3 months."
- To the Board of Advisors, "Our service levels are now in line with our target for this year. Phase 1 has been a huge success and is on track for a six-month payback. We are moving into a monitoring phase for the next quarter."
- To Outside Stakeholder #,1 "The feedback and support that we have received from our customers has allowed us to improve our delivery speed to meet their expectations. We are looking forward to continued feedback over the next few months to ensure we are able to maintain this improved service level."

The wide-based communication of the strategy becomes a "resisting-force", causing those wishing to shift the priorities to carefully think through any changes that they might request.

A scorecard also provides an effective means for linking strategy and priorities to budgets. The scorecard documents agreed-to priorities, changes to those agreements, and communicates those changes to the entire organization and stakeholder community.

Documented linkages allow budgets to adapt as priorities are adjusted, making strategy a continuous process. Affected individuals, teams, and departments can calculate, understand, and take ownership of the value-for-money equation.

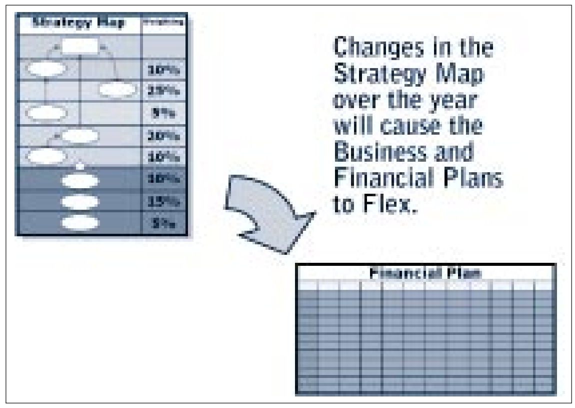

Diagram 7: Strategy Map is the blueprint for the business plan

HELPING TAKE THE LONG VIEW

A scorecard helps show how programs executing today will lead to longer-term desired outcomes. The strategy map shows the cause and effect hypothesis. Weightings can communicate the expected shift in priorities over time—and allow stakeholders to understand that what they want may take some time, but they can see how the organization is developing itself to achieve those goals (Diagram 8).

Diagram 8: Weightings will change over time

The Strategy Map captures the linkages between Strategic Objectives and outcomes, both tangible (e.g. more services delivered) and intangible (e.g. relationship development) (see Diagram 9).

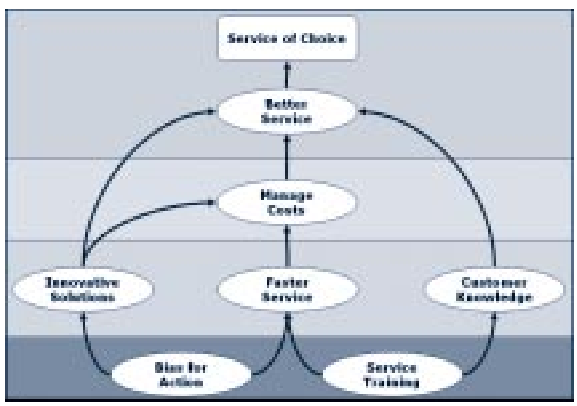

Diagram 9: Strategy Map articulates intangible and tangible outcomes

SPREADSHEETS ARE NOT AUTOMATED SCORECARDS

Until recently, available technology has delivered far less than what is required to monitor better performance across the organization.

The scorecard, at first glance, appears to be ideally suited for spreadsheets or slides. However, these technologies fall far short for a number of reasons:

- It is difficult to link spreadsheets across users in an organization.
- It is difficult to know who owns which metrics in a spreadsheet.
- There is no way to see how metrics align with strategy.
- There are issues with versioning control and security of spreadsheet everywhere.
- It is difficult to validate data in a spreadsheet. There is no way of knowing that it is from a consistent source, if it is an aggregate or calculated number, or how it was calculated.
- Data input into a spreadsheet by hand is prone to data entry errors.
- Presentation software is just the means to render data visually. It does not provide any links among indicators or underlying reports.
- In all of the above cases, the rendering of the scorecard is manual and represents a static point in time.

STAND-ALONE SCORECARDING SOLUTIONS

There are many scorecarding products on the market. However, many of these fall short because they aren't always integrated with the existing business intelligence or reporting infrastructure. They may not be driven off live data, and simply represent a snapshot of the organization at a point in time. Effective performance management requires that you refresh data on a regular basis to reflect the changing state of any of the relevant metrics and that it be available from a single, secure database that represents one source of the truth for the organization.

Some of these products do not provide the analytical, cause and effect or collaboration capability to understand the underling details or drivers, and what needs to be done to correct and manage them.

COGNOS IS THE SCORECARDING MARKET LEADER

Cognos provides organizations with a complete performance management solution that enables them to improve gain visibility into and across their agencies, tie program success to budget allocation, and increase responsiveness and organization effectiveness.

Cognos Metrics Manager is a next generation scorecarding solution that enables organizations to monitor key metrics across the multiple departments and geographic locations. Cognos Metrics Manager provides an intuitive user interface, a unique centralized pool of metrics and robust information management through linkages to deep reporting and analysis.

Cognos scorecarding solutions are certified by the Balanced Scorecard Collaborative and provide the monitoring component of a performance management system.

corporate performance management depends on three interlinked capabilities: enterprise planning to drive your performance; enterprise scorecarding to monitor the performance of this plan; and enterprise business intelligence to report and analyze issues for maximum effectiveness. Cognos is the leading supplier of corporate performance management (CPM) solutions for commercial and public sector organizations.

More than 600 organizations worldwide use Cognos Metrics Manager. Cognos continues to be a thought-leader in the scorecarding marketplace. A recent world-wide seminar series with Dr. Robert Kaplan attracted 7,200 people worldwide.

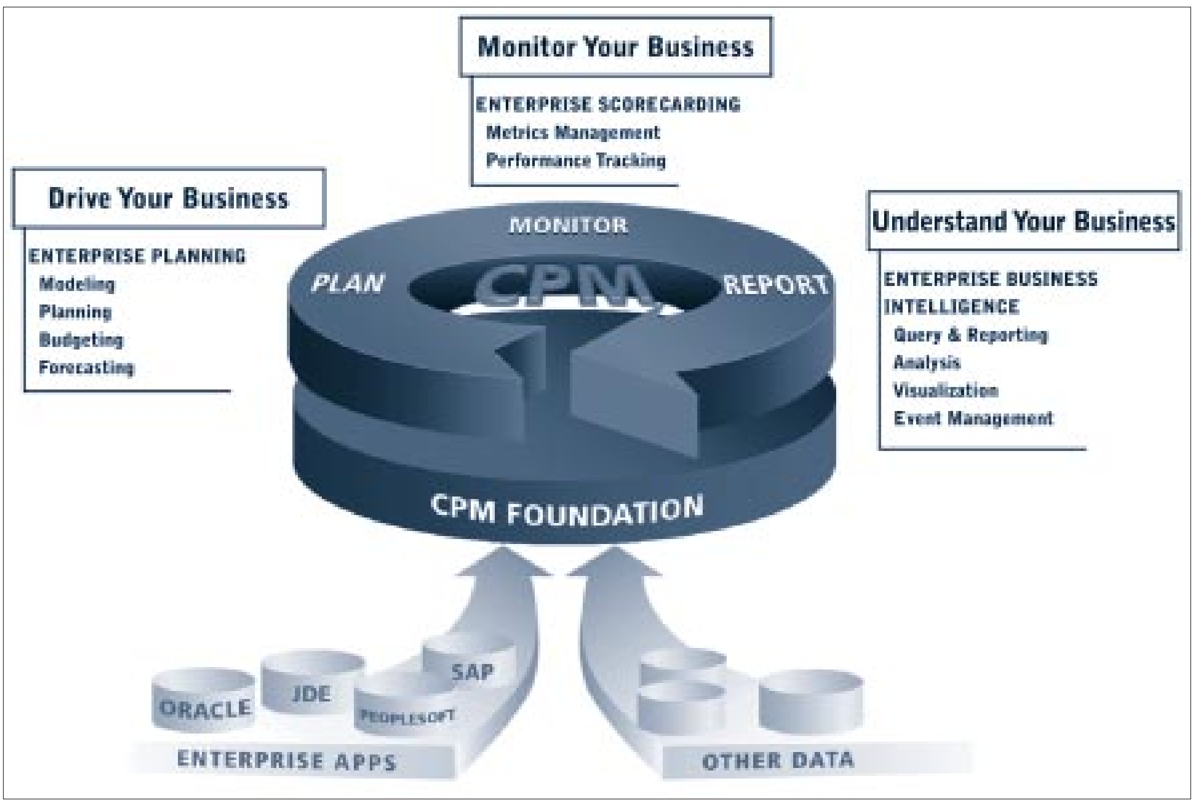

Diagram 10: Cognos corporate performance management system

ABOUT COGNOS

Cognos delivers a complete range of integrated, scalable software for corporate performance management. Cognos products let organizations drive performance with enterprise planning and budgeting, monitor it with scorecarding, and understand it with business intelligence reporting and analysis. Founded in 1969, Cognos now serves more than 22,000 customers in over 135 countries.

Government programs have inputs, activities, outputs, and outcomes. The Government Performance Logic Model, developed by the Performance Institute (Arlington, VA), is a framework for planning, managing, measuring and evaluating government programs. Programs have:

Inputs=>Activities=>Outputs=>Intermediate outcomes=>Final outcomes

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Using a goal-measure approach, it illustrates the cause-effect linkages between program activities and outcome results. Clearly, "the outcome" is the ultimate program objective. However, in many cases, actual measurement of success stops with the outputs—for example, how many people the program trained, how many people applied for their entitlement, and others.

Diagram 11 shows an Impact Analysis chart of the ripple effect of programs and initiatives.

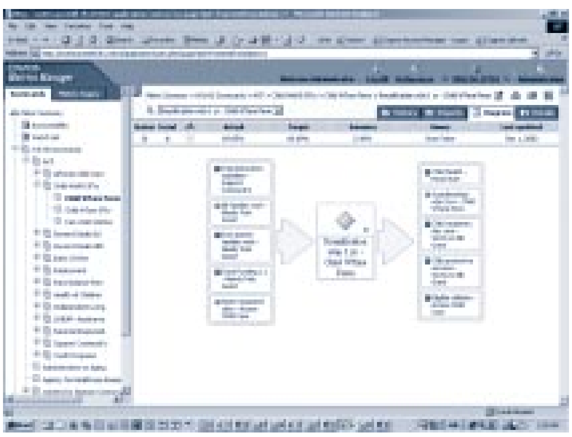

Diagram 11: Inputs drive outcomes

In this example, we see what programs affect a reunification program, and what, in turn, is the effect of that program on other. Here we see programs that get "family breadwinners" working will have a positive impact on reunification of foster children with their biological parents. This in turn will have an impact on the demand for childcare services.

Diagram 12 shows how a Strategy Map for such a program may look.

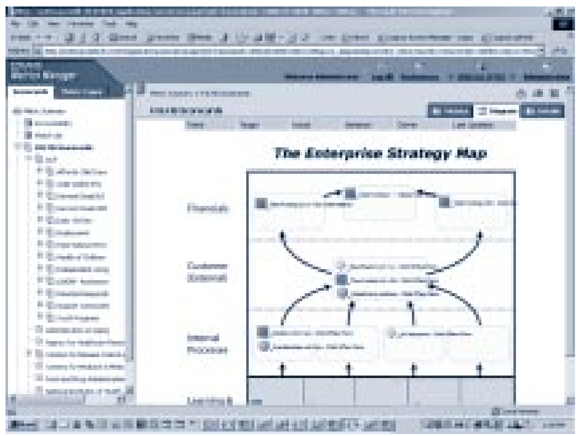

Diagram 12: Strategy Map for reunification example

As for performance measurements, consider the following diagram (Diagram 13). With a program objective of increasing affordable childcare, you can see what the program elements are (initiatives), how we determine success or failure (measurements), and what the expected rate of improvement is (targets). These roll up into the Objective.

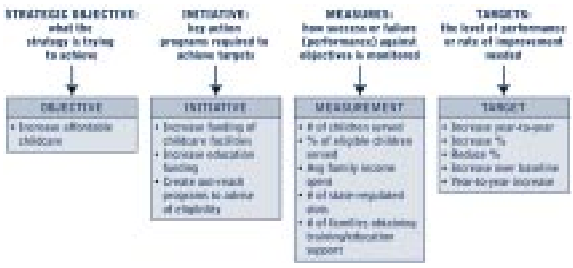

Diagram 13: Measuring the success of an affordable child-care program

Each of the initiatives likely have their own measurements and targets. They may influence each other. For the overall success of the affordable childcare program, each of the initiatives may be weighted differently. As such, when the initiatives roll up, the success of the program, and how that success is rendered in a scorecard (e.g. green—yellow—red lights) would account for their relative importance. Diagram 14 shows the automated scorecard for the Access to Affordable Childcare program.

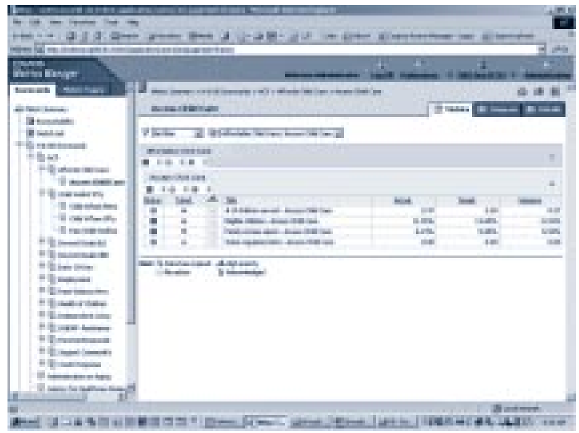

Diagram 14: Automated Scorecard for Affordable Childcare program, grouped by the Access to Childcare initiative

By grouping information in the scorecard, users can obtain the view of the organization that is important to them.

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