Using the Balanced Scorecard in the Public Sector

Dr. Robert S. Kaplan
Baker Foundation Professor
Harvard Business School
Public Sector Agencies: The Mission-Support-Capacity Framework

Mission: Social Value Created
Support: Adequate Resources Provided
Capacity: Ability to Execute
The Mission-Support-Capacity Framework

Region A: Mission, Support and Capacity Aligned
- US Space Program: 1960s
- SARS Epidemic, Global Response

Region B: Mission and Support; Inadequate Capacity
- War on Cancer
- Anti-Ballistic Missile Defense (Star Wars)
- Public Housing

Region C: Support and Capacity; Weak Link to Mission
- Public-financed Sports Stadiums
- Unneeded weapon systems and defense bases
- Bridge and highway-to-nowhere programs

Region D: Mission and Capacity; Little Support
- Airport and Mobile Phone Capacity
- Funding for Tax Collection Authority
The Balanced Scorecard Model of Value Creation

**Private Sector Organizations**

- **Financial Perspective**
  "If we succeed, how will we look to our shareholders?"

- **Customer Perspective**
  "To achieve our vision, how must we look to our customers?"

- **Internal Perspective**
  "To satisfy our customers and shareholders, at which processes must we excel?"

- **Learning & Growth**
  "How do we align our intangible assets to improve critical processes?"

**Public Sector Organizations**

- **Mission (Customer) Perspective**
  "How do we have a social impact with our citizens/constituents?"

- **Support Perspective**
  "How do we attract resources and authorization for our mission?"

- **Internal (Operational Capacity)**
  "To have a social impact and to attract resources and support, at which processes must we excel?"

- **Learning & Growth**
  "How do we align our intangible assets to improve critical processes?"

- **Financial**
  "How should we manage and allocate our resources for maximum social impact?"
Strategy-Focused Organization Best Practices Framework

I. MOBILIZE CHANGE THROUGH EXECUTIVE LEADERSHIP

II. TRANSLATE STRATEGY TO OPERATIONAL TERMS

III. ALIGN THE ORGANIZATION TO THE STRATEGY

IV. MOTIVATE TO MAKE STRATEGY EVERYONE’S JOB
   4.1 Strategic awareness created
   4.2 Personal goals aligned
   4.3 Personal incentives aligned
   4.4 Competency development aligned

V. GOVERN TO MAKE STRATEGY A CONTINUAL PROCESS
Motivate To Make Strategy Everyone’s Everyday Job

Performance Management Processes Are Essential for Moving Strategy From the Top to the Bottom

The Strategy Focused Workforce

- EDUCATION
- PERSONAL GOAL ALIGNMENT
- ALIGNED COMPENSATION
- STRATEGIC COMPETENCIES

Top-Down “Bridging Process” To Share the Strategy & Align the Workforce

Bottom-Up Process to Internalize & Execute the Strategy
As Part of the Communication Plan Development, EDA needs to consider what the appropriate media are for each audience.

<table>
<thead>
<tr>
<th>Strategic Dialogue</th>
<th>Detailed Monthly Report</th>
<th>Review Meetings</th>
<th>Leadership Roadshow/Town meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small group dialogue to negotiate strategic issue</td>
<td>Regular reports on all BSC measures &amp; progress against targets</td>
<td>Periodic meetings involving Leadership Team to discuss recent performance and strategic issues</td>
<td>Leadership Team announcing initial launch of BSC to entire division and/or annual update</td>
</tr>
<tr>
<td>Typical Audience:</td>
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</tr>
<tr>
<td>• Corporate Board</td>
<td>• Corporate Leadership Team</td>
<td>• Corporate Leadership Team</td>
<td>• Corporate staff</td>
</tr>
<tr>
<td></td>
<td>• BU management, site &amp; functions</td>
<td>• Line/functional organization</td>
<td>• Remote locations (Sites)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Video</th>
<th>Periodic Update Brochure/Newsletter</th>
<th>Dashboard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic communication of BSC and its role in the organization. Typically used to communicate consistent message throughout the organization</td>
<td>Periodic reports describing division’s performance against BSC targets to reinforce organizational commitment to BSC</td>
<td>Bulletin board or other large display in central location against key measure</td>
</tr>
<tr>
<td>Typical Audience:</td>
<td>Typical Audience:</td>
<td>Typical Audience:</td>
</tr>
<tr>
<td>• Entire corporation</td>
<td>• Entire corporation</td>
<td>• Corporate leadership team</td>
</tr>
<tr>
<td>• Remote locations (Sites)</td>
<td></td>
<td>• Corporate staff</td>
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<tr>
<td></td>
<td></td>
<td>• BU Management</td>
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</tbody>
</table>
BSCol Best Practice Case Study

Organization: Royal Canadian Mounted Police

Practice: 4.1 Strategic Awareness Created

Using Strategy Maps to Create Awareness

Royal Canadian Mounted Police V Division – Iqaluit (Baffin Island)
Use extrinsic motivation to reinforce desired behavior and increase intensity of employee awareness.

- Align Personal Objectives: all employees learn how they fit into the overall game plan

- Align Incentive Compensation: link reward systems to achievement of individual and organizational objectives
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A. RESOURCE MANAGEMENT
   5.1 Budget is driven by strategy
   5.2 Planning for HR/IT linked to strategy
   5.3 Portfolio of strategic initiatives aligned to themes

B. KEY PROCESS MANAGEMENT
   5.4 Process improvement aligned to strategy
   5.5 Best practice sharing in place

C. LEARNING & CONTROL
   5.6 Strategic performance information guides decision making
   5.7 Strategy reviewed on regular basis
The new management meeting focuses on operational issues relating to the strategy.

“I’d rather be dead than RED”

“Only thing worse than Bad News is Bad News Late”

Operational Questions
- Why did we miss the target?
- What correcting actions should we consider?
- Are initiatives on schedule?
- Do you need more resources?
- Would a multi-functional task force help?
The Six Questions that Leaders Should Learn to Ask at Management Meetings

- Did you execute the plan? Administrative
- What happened? Descriptive
- Why do you think that happened? Diagnostic
- What alternatives are there? Creative
- What do you think will happen? Predictive
- Which is the best choice? Evaluative
The New Management Meeting: Strategic Learning Replaces Control

The Shift In Focus (At City of Charlotte)

**Control**
- Is the project...
  - on-time?
  - on-budget?

**Learning**
- What is the impact of the project on our strategic priorities?
  - neighborhoods
  - jobs
  - transportation
  - safety
City of Charlotte: City Manager’s Four Key Questions

• How are you doing running your business?
• How are you building the community and contributing to the city’s strategic themes?
• How are you building your people?
• How are you contributing to looking to the future?

“The balanced scorecard has become the common theme that unites discussions across all these questions.”

Pamela Syfert,
Charlotte City Manager
City of Charlotte: Neighborhood Cabinet

**Goal Statements:**
- Charlotte will be the safest large City in America.
- Creating great neighborhoods in which to live, work and play.
Members of Economic Development Cabinet

Goal Statement:
- Charlotte will be the most prosperous and livable city for all citizens through quality economic development.
Periodically, Management Meetings Should Focus on Strategic (Double Loop) Learning

**Strategic Learning Loop**

- **Balanced Scorecard**
  - **Financial Perspective**
    - Strategic Objectives: Financially Strong
    - Strategic Measures: Return of Capital Employed
  - **Customer Perspective**
    - Strategic Objectives: Delight the Consumer
    - Strategic Measures: Mystery Shopper Rating
  - **Internal Perspective**
    - Strategic Objectives: Safe & Reliable
    - Strategic Measures: Days Away from Work Rate
  - **Learning Perspective**
    - Strategic Objectives: Competitive Supplier
    - Strategic Measures: Competitive Ratable Supply

**Operational Control Loop**

- **Performance**
  - Initiatives & Programs
- **Input**
- **Output**

**Strategic Feedback to Encourage Learning**

- Are the data consistent with our strategic hypotheses?
- Has the environment changed in a fundamental way?
- Have new strategic options emerged?
Strategy-Focused Organization Best Practices Framework

I. MOBILIZE CHANGE THROUGH EXECUTIVE LEADERSHIP
   1.1 Leaders drive strategy execution
   1.2 Executives make case for change
   1.3 Leaders reinforce strategic priorities
   1.4 Well articulated strategy exists
   1.5 Office of Strategy Management established

II. TRANSLATE STRATEGY TO OPERATIONAL TERMS
   1.1 Leaders drive strategy execution
   1.2 Executives make case for change
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III. ALIGN THE ORGANIZATION TO THE STRATEGY

IV. MOTIVATE TO MAKE STRATEGY EVERYONE’S JOB

V. GOVERN TO MAKE STRATEGY A CONTINUAL PROCESS
Strategy Management: An Emerging Professional Group

Managing Strategy

Executive Team

Held together by a shared view of the strategy

Managing Money

- Accountants (CPAs)
- Controllers

Managing Technology

- Engineers
- Scientists

Managing People

- Aligning and Developing Human Capital

Managing Quality

- Black Belts
- ISO Certified

Managing Customers

- Market Research
- Brand Management

Managing Money

CFO

CIO

CHCO

CEO

CSMO

OPS

MKTG
Rationale for the Chief Strategy Management Officer

Managing Strategy Is Different Than Managing Functions

- Traditional competencies are based on functional niches which create silos.

- Strategic management requires cross-functional processes.

- There is no logical home for cross-functional processes.

- This is the role of the OFFICE of STRATEGY MANAGEMENT.
The Office of Strategy Management Facilitates Nine Strategy Management Processes Throughout the Year

<table>
<thead>
<tr>
<th>Strategy Management Processes</th>
<th>Annual Cycle</th>
<th>Accountable Executives</th>
<th>Coordinated By</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>Review and Update Strategy • Clarify Vision • Define Corporate Strategy</td>
<td>CEO/Executive Team</td>
<td>Office</td>
</tr>
<tr>
<td>Q2</td>
<td>Develop the Corporate Scorecard / Strategy Map</td>
<td>BSC Project Team</td>
<td>Office</td>
</tr>
<tr>
<td>Q3</td>
<td>Align the Organization • Corporate and business units aligned • Business and support units aligned • Board of Directors aligned</td>
<td>LOB Leaders</td>
<td>Office</td>
</tr>
<tr>
<td>Q4</td>
<td>Develop Business and Support Unit Scorecards</td>
<td>Support Unit Leaders</td>
<td>Office</td>
</tr>
<tr>
<td></td>
<td>Planning / Budgeting • Budgets • Plans • Initiatives • Finance • IT • HR</td>
<td>BSC Project Team</td>
<td>Strategy</td>
</tr>
<tr>
<td></td>
<td>Employee Alignment • Personal goals • Employee incentives • Personal development</td>
<td>Chief Financial Officer</td>
<td>Management</td>
</tr>
<tr>
<td></td>
<td>→ Reviewing Strategy</td>
<td>Human Resources Officer</td>
<td>Management</td>
</tr>
<tr>
<td></td>
<td>→ Managing Strategic Initiatives</td>
<td>Chief Information Officer</td>
<td>Management</td>
</tr>
<tr>
<td></td>
<td>→ Sharing Best Practices</td>
<td>Chief Operating Officer</td>
<td>Management</td>
</tr>
<tr>
<td></td>
<td>→ Communicating Strategy</td>
<td>Human Resources Officer</td>
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- CEO/Executive Team
- BSC Project Team
- LOB Leaders
- Support Unit Leaders
- BSC Project Team
- Chief Financial Officer
- Human Resources Officer
- Chief Information Officer
- Chief Operating Officer
- Human Resources Officer
- CEO/Executive Team
- Program Office
- Chief Knowledge Officer
- Corporate Communications

Coordinated by:
- Office
- Office
- Strategy
- Management
### The Office of Strategy Management – Roles & Responsibilities

#### STRATEGY MANAGEMENT PROCESS

<table>
<thead>
<tr>
<th>STRATEGY MANAGEMENT PROCESS</th>
<th>OSM Role</th>
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<tr>
<td>1. Scorecard Management – Design and report on the BSC measures</td>
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<tr>
<td>2. Organization Alignment – Ensure all business and support units are aligned with the strategy</td>
<td></td>
</tr>
<tr>
<td>3. Strategy Reviews – Shape the agenda for management strategy review and learning meetings</td>
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</tr>
<tr>
<td>4. Strategy Development – Help the CEO and executive team formulate and adapt the strategy</td>
<td></td>
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<tr>
<td>5. Strategy Communication – Communicate and educate employees about the strategy</td>
<td></td>
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<tr>
<td>6. Initiative and Process Management – Identify and oversee management of strategic initiatives</td>
<td></td>
</tr>
<tr>
<td>7. Planning/Budgeting – Link financial, human resources, information technology, and marketing to strategy</td>
<td>CFO, HRO, CIO, CMO</td>
</tr>
<tr>
<td>8. Workforce Alignment – Ensure all employee’s goals, incentives and development plans link to strategy</td>
<td>HRO</td>
</tr>
<tr>
<td>9. Best Practice Sharing – Facilitate a process to identify and share best practices</td>
<td>CKO</td>
</tr>
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</table>

#### OSM Role

- **Core Roles**
  - **OSM** must run the process
  - **OSM** should run the process
  - **OSM** integrates strategy to a process run by someone else (X)

- **Desirable Roles**
  - **OSM** runs the process (X)

- **Integrative Roles**
  - **OSM** runs the process (X)
Obstacles faced by Public Sector Organizations

- Poor Oversight
- Strategy
- Transparency
- Incentive Compensation
- Causal Linkages
- Integrated Themes