White Paper
February 2009

Scorecarding for the public sector:
Align goals, deliver results

Information Management

Cognos®
software

Contents

Abstract

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.

Overview

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 book: The Strategy-Focused Organization.

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

The balanced scorecard

Over the last 20 years, there has 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.

The private sector has always had a strong focus on performance improvement. This focus brought about such management trends as Total Quality Management (TQM), re-engineering, Six Sigma, and the Balanced Scorecard, to name a few. The Balanced Scorecard has since proven its worth as a management tool due to its impressive track record of well-documented performance improvements.

Momentum has been building in the public sector for scorecarding, in particular Kaplan and Norton's Balanced Scorecard. The growing use of scorecarding in the public sector originally sprung from legislative requirements (initiatives such as the President's Management Agenda in the United States) and private sector events such as corporate failures and the resulting compliance fallout.

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 and 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 (or citizen) perspective is the top perspective (Figure 1). In the private sector, the financial perspective (such metrics as shareholder value, revenue, and profitability) is at the top as the focus is on meeting financial expectations.

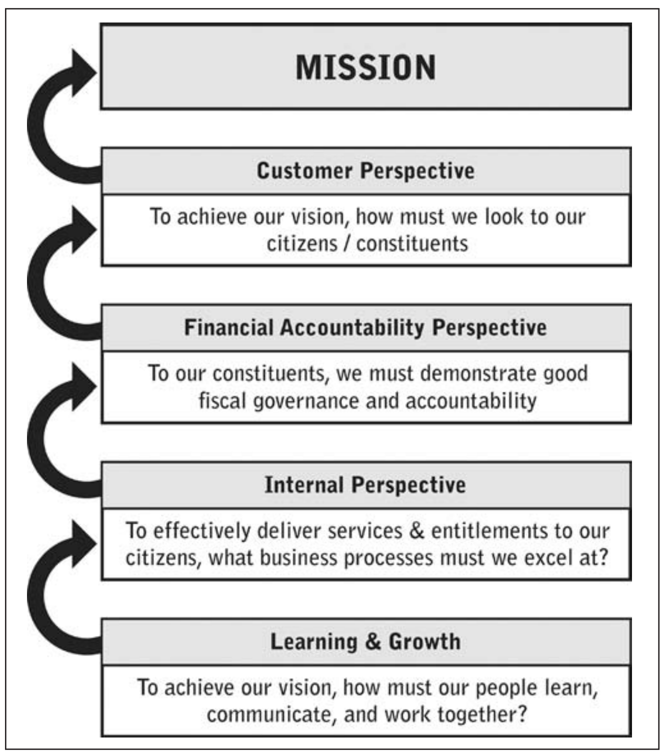


Figure 1: Public sector balanced scorecard strategy map

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 to manage their own performance. They are always on, always current, and always factual. As the organization gains a better understanding of the scorecard, and what impact an individual 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 their mission and program goals. They are able to exploit information to monitor issues, get early warnings when things are not tracking to plan, and manage performance against expected outcomes.

Communicates critical success factors

Everyone has access to relevant information. This ensures that 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 insight into the drivers of organizational success, you can adapt the scorecard to reflect changing priorities.

Business problems

About performance in the public sector

The core mission of government is to serve its citizens—to protect them, deliver services to them, and assure their continued welfare. In recent years we have seen significant shifts in what we expect our public sector organizations to deliver in terms of substance, cost, quality, and time required.

Managing performance effectively, whether in a working group or across an organization, requires everyone to work together toward 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. To achieve these goals, everyone must agree.
- Consistency in accountability: Everyone is accountable for his or her area of responsibility. People 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. Top-line growth and bottom-line efficiency tend to drive private sector organizations. Government tends to be service-oriented with outcomes that they measure 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 you delivered educational materials to 73 percent of high schools? Is it because spot checks of convenience stores by enforcement officials found more than 97 percent 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 five 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 factors can be characterized as personal, organizational, political, and environmental.

Business drivers

Personal factors

Unclear personal accountabilities

Inside most organizations – and the 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.

Organizational factors

Culture of consensus

Most public sector organizations have business practices and a 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. They must 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 or actual performance levels.

Stakeholder or 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. Good performance or the actual financial needs of expected outcomes do not determine their future. Politicians or boards ultimately determine budgets.

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 its 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?

Improving the business of government with the automated scorecard

Through scorecarding, everyone in the organization—at all levels and across all departments—has a clear understanding of how his or her 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.

Automated scorecards are made by collecting data, rendering it in sensible, easy-to-understand metrics, and providing analytic and reporting tools to get to the root of problems or understand and syndicate success. These scorecards are absolutely essential to drive improvements in performance throughout an organization. Figure 2 shows an automated scorecard for a local government department.

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

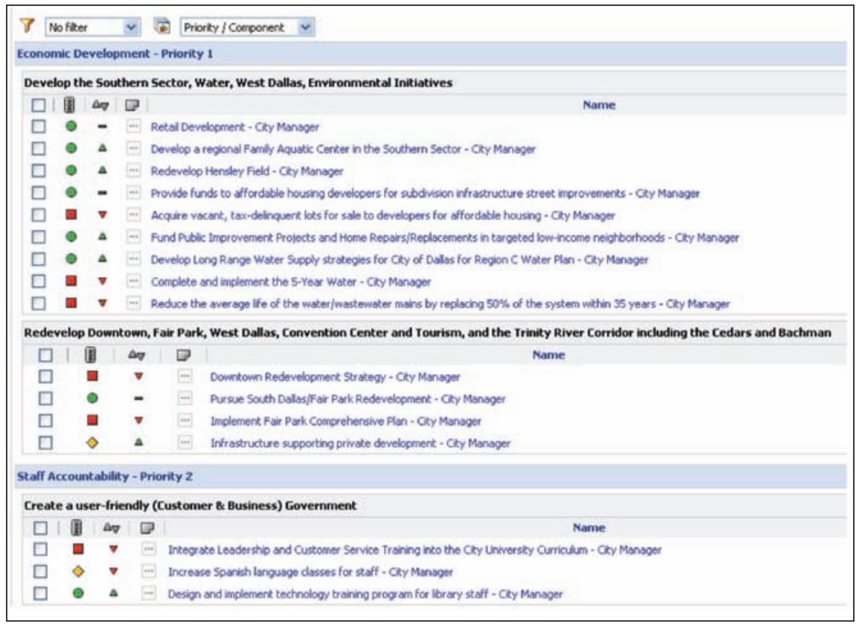


Figure 2: Automated Scorecard for a local government planning department

Automated 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 impossible.

Deliver up-to-date information

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

Tied to analytic and reporting tools

You can 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.

Building commitment and personal accountability

Scorecarding allows individuals to understand their role and link to the successful execution of the organization's strategy. 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. This strategy map for primary/secondary education (called K-12 education in the United States) lays out, by area, the objectives of a particular school district. With the organization's accountability structure linked to each goal, people throughout the board can buy into organizational success. The 'underlaps' and 'overlaps' become clear to everyone. Once in the open, you can deal with them.

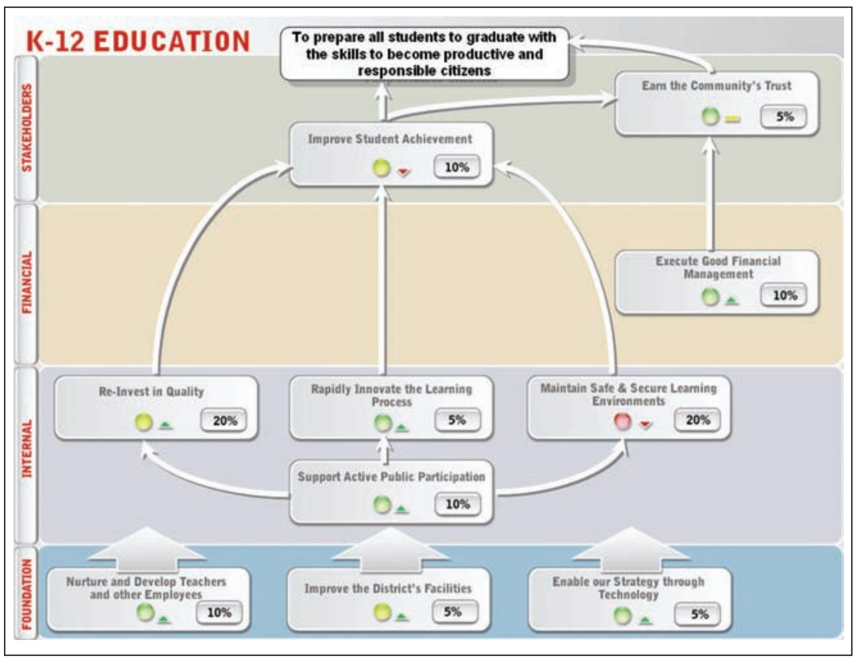


Figure 3: Strategy map for K-12 educational organization

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 respect of "grants-of-authority." 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 come to share goals and objectives, the scorecard can change to reflect the new priorities, allowing individuals, teams, departments, and others to contribute their knowledge and skills to the attainment of the shared goals.

Building a scorecard includes documenting strategic intent to meet the needs of all stakeholders. The strategy map reflects the agreed-upon view 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.

Agencies can use strategy maps to communicate key information to different stakeholders 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 Figure 4).

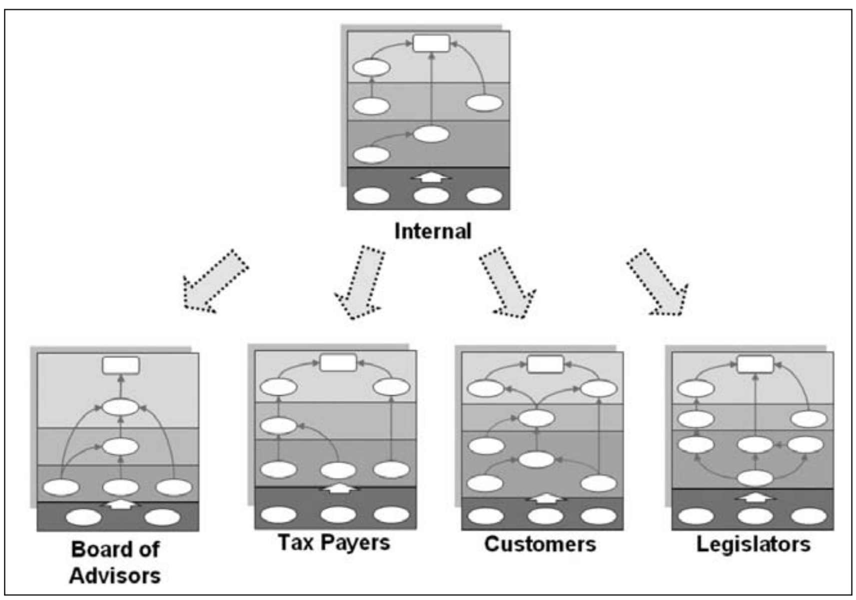


Figure 4: Stakeholders get unique view of organization

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.

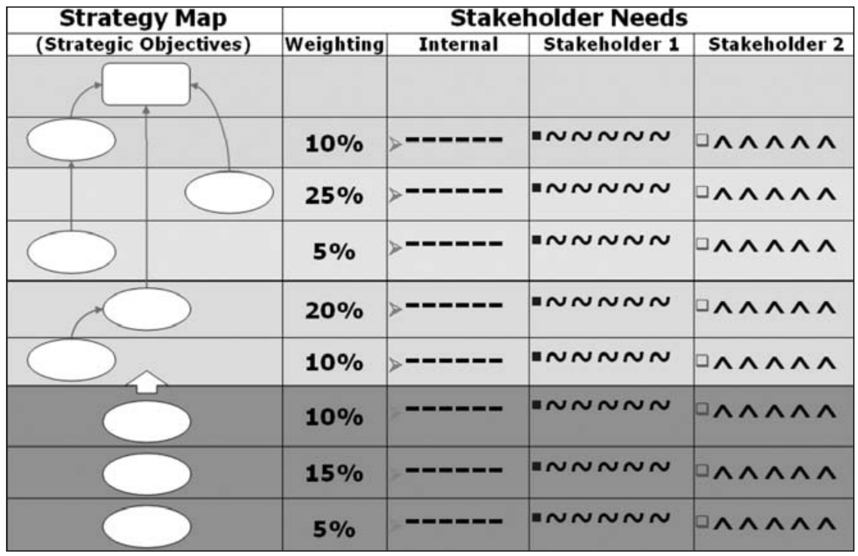


Figure 5: Different stakeholders may like to see different Indicators

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 lets them understand and relate to each stakeholder's needs and expectations, making communication with those stakeholder groups easier.

A well-designed scorecard serves 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 and rapidly communicating strategy and performance information, possibly as an early warning of lagging performance. 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.

Facilitating transparency and good governance

The many stakeholders and the public-at-large are actively interested in understanding what the organization plans on doing, has done, and what it plans 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 their charter changes. All stakeholders are immediately aware, since their scorecard reflects the change. The same format above also becomes the format for communication of actual performance

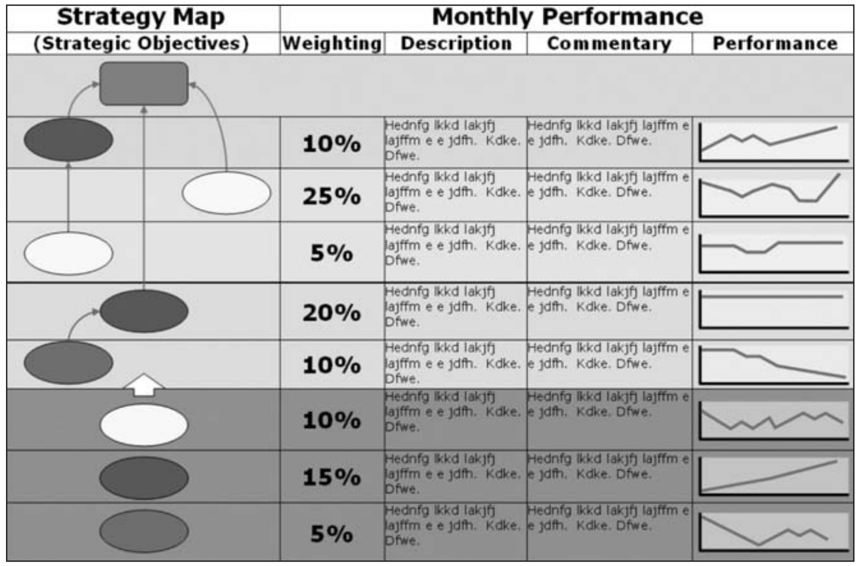


Figure 6: Communicating actual performance

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 five percent, there may be several commentaries:

- To internal people: "It appears as though 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 three 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 of linking strategy and priorities to budgets. The scorecard documents agreed-to priorities and 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.

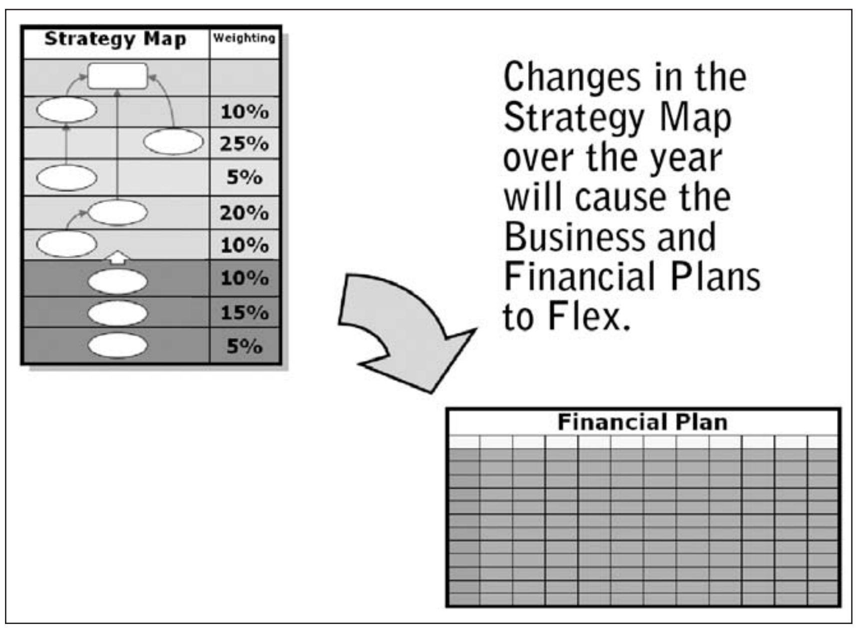


Figure 7: The strategy map is the blueprint for the business plan

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 (Figure 8).

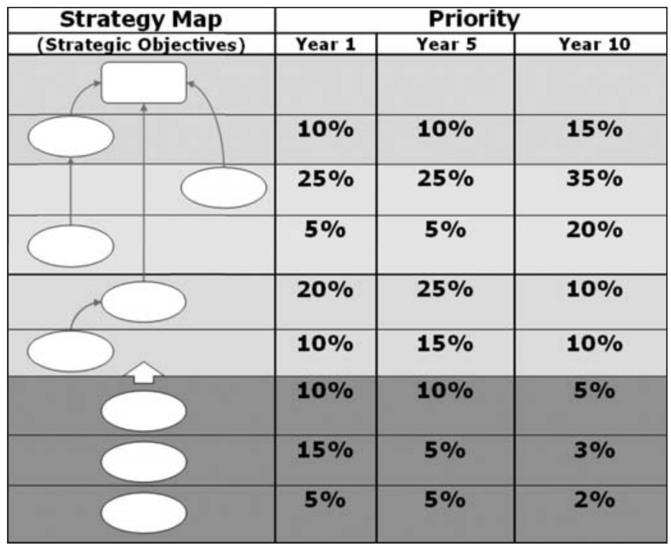


Figure 8: Weightings will change over time

The strategy map captures the linkages between strategic objectives and outcomes, both tangible (more services delivered, for example) and intangible (such as relationship development) (see Figure 9).

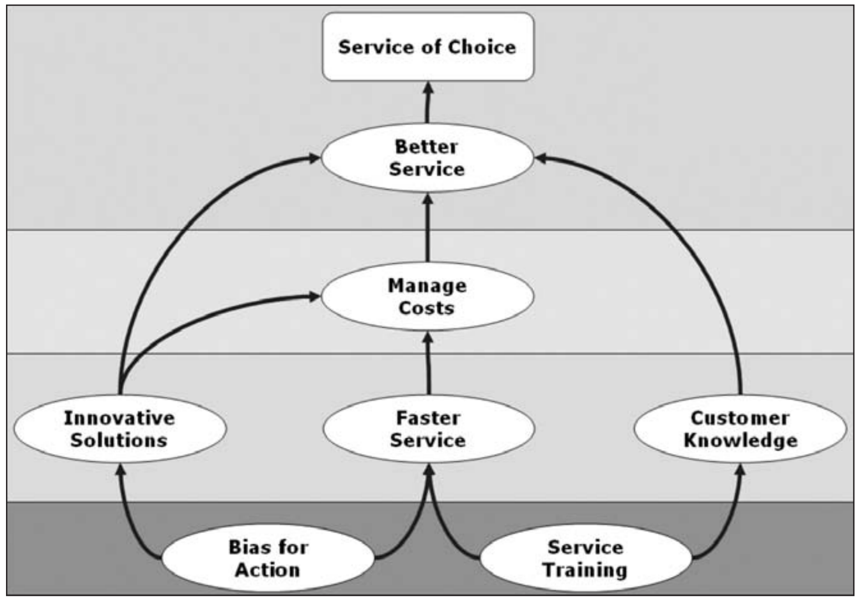


Figure 9: The strategy map articulates intangible and tangible outcomes

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 spreadsheets 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 underlying details or drivers, and what needs to be done to correct and manage them.

The solution

IBM is the scorecarding market leader

The IBM Cognos® scorecarding solution provides a complete performance management solution that lets organizations gain visibility into and across agencies, tie program success to budget allocation, and increase responsiveness and organizational effectiveness. Scorecarding with IBM Cognos 8 Business Intelligence allows organizations to monitor key metrics across multiple departments and locations. It provides an intuitive user interface, a unique centralized pool of metrics, and robust information management through linkages to deep reporting and analysis.

The IBM Cognos scorecarding solution is certified by the Balanced Scorecard Collaborative and provides the monitoring component of a complete performance management system.

Many factors influence the performance of an organization, but none is more critical than the decisions people make every day. Those decisions largely depend on the answers to three fundamental business questions: "How are we doing?" "Why?" And "What should we be doing?" Each of these questions has a category of software to provide the answers. Scorecarding, dashboards, and financial consolidation systems supply the metrics to answer "How are we doing?" Reporting and analysis applications explain the "Why?" And planning, budgeting and forecasting systems look forward to answer "What should we be doing?"

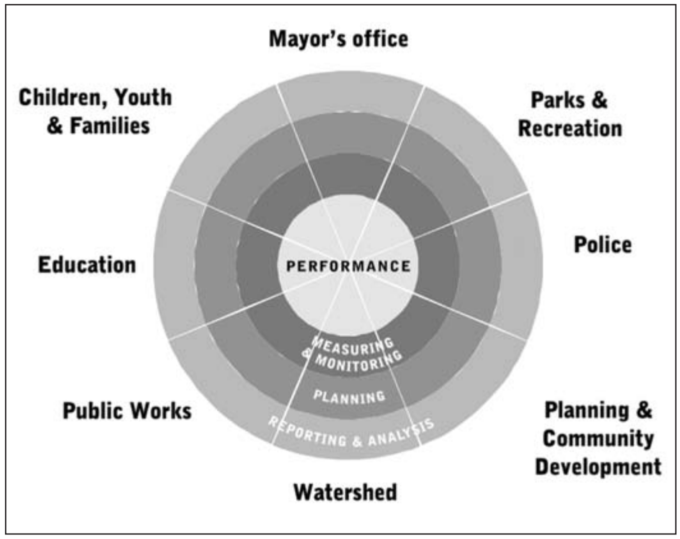


Figure 10: IBM Cognos performance management system for a local government

Conclusion

More and more organizations are turning to performance management for seamless answers to these three fundamental business questions. A recent AMR survey showed continued strong demand for performance management in all types of organizations in North America. It also found that demand for dashboards and scorecards is far outpacing all other performance management segments, indicating an urgency to keep an eye on our performance.[1]

IBM continues to be a thought leader in the scorecarding marketplace. IBM and many of its customers are members of the Balanced Scorecard Hall of Fame, which honors an organization's integration of strategic and financial planning processes and ongoing measurement of core initiatives.

Appendix: Performance management in government primer

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

Using a goal-measure approach, it illustrates the cause-effect linkages between program activities and the result or outcome. 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 the like.

Figure 11 is a scorecard for a K-12 institution, in this case a school district. The six high-level metrics paint a picture of the health of the board, indicating such factors as the cost of instruction and whether students feel safe at school.

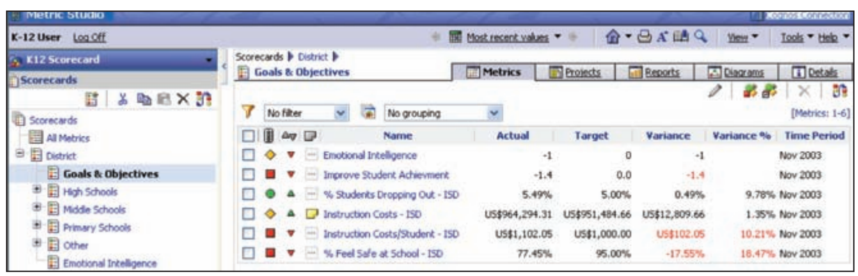


Figure 11: High-level scorecard for a K-12 institution

Some metrics need attention, while others seem to be within acceptable limits. But to what extent does the performance of individual metrics affect other metrics?

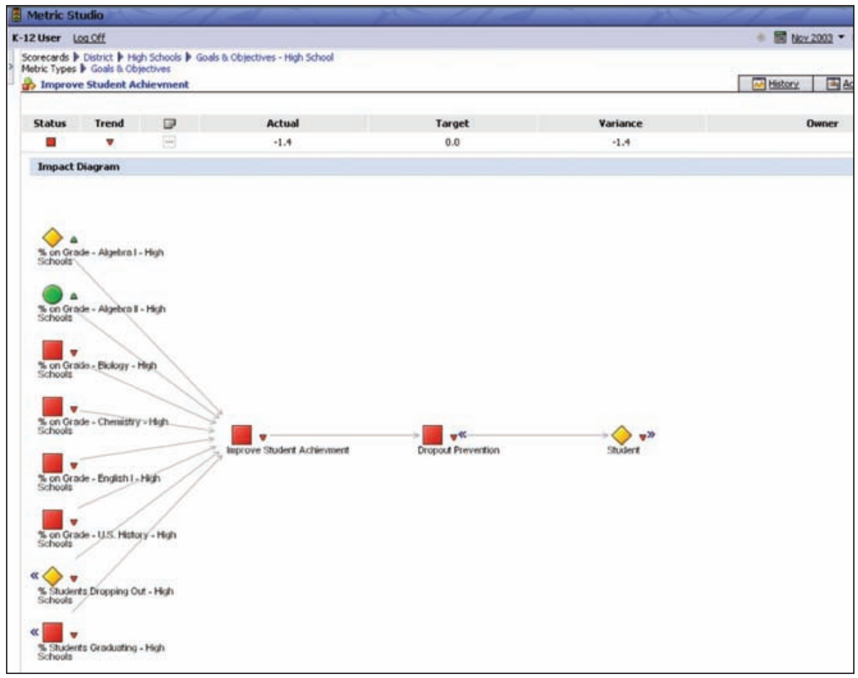
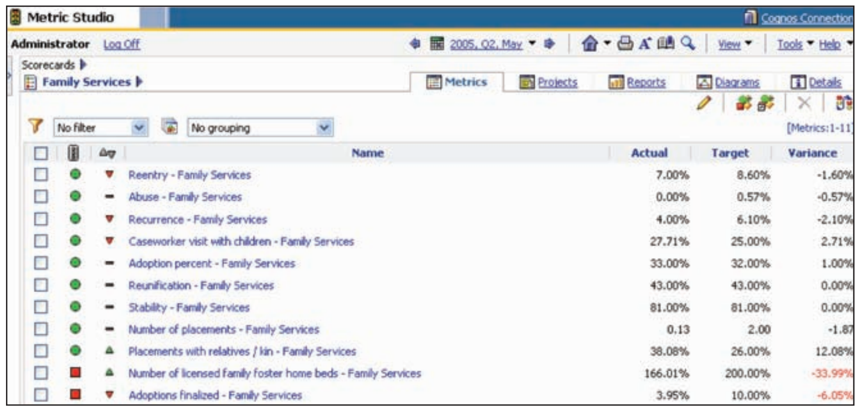


Figure 12: Impact diagram showing the ripple effect of student achievement on dropouts

Through this impact diagram, we can see that student achievement, a composite of a number of subject indicators, affects dropout rates, which in turn has an impact on the ultimate program objective, the success of the student. Thus the downward trend of student achievement, if it continues, could have a negative affect on dropout rates, which is currently a green-light metric. And if achievement could be driven up, dropout rates would remain stable or improve.

As for performance measurements, consider the following health and human services scorecard (Figure 13). While this agency's program objective is to increase the number of adoptions, quarterly adoptions are below strategic targets.



Name	Actual	Target	Variance
Reentry - Family Services	7.00%	8.60%	-1.60%
Abuse - Family Services	0.00%	0.57%	-0.57%
Recurrence - Family Services	4.00%	6.10%	-2.10%
Caseworker visit with children - Family Services	27.71%	25.00%	2.71%
Adoption percent - Family Services	33.00%	32.00%	1.00%
Reunification - Family Services	43.00%	43.00%	0.00%
Stability - Family Services	81.00%	81.00%	0.00%
Number of placements - Family Services	0.13	2.00	-1.87
Placements with relatives / kin - Family Services	38.08%	26.00%	12.08%
Number of licensed family foster home beds - Family Services	166.01%	200.00%	-33.99%
Adoptions finalized - Family Services	3.95%	10.00%	-6.05%

Figure 13: Family services scorecard

Why is this happening? We can see that while the pool of prospective adoptive parents is increasing, it is increasing at a slower rate than the number of children to be placed. To correct the problem, the agency may choose to implement a program to encourage more foster-to adoptive parents' transitions.

About IBM Cognos BI and Performance Management

IBM Cognos business intelligence (BI) and performance management solutions deliver world-leading enterprise planning, consolidation and BI software, support and services to help companies plan, understand and manage financial and operational performance. IBM Cognos solutions bring together technology, analytical applications, best practices, and a broad network of partners to give customers an open, adaptive and complete performance solution. Over 23,000 customers in more than 135 countries around the world choose IBM Cognos solutions.

For further information or to reach a representative: www.ibm.com/cognos

Request a call

To request a call or to ask a question, go to www.ibm.com/cognos/contactus. An IBM Cognos representative will respond to your enquiry within two business days.

IBM Canada
3755 Riverside Drive
Ottawa, ON, Canada K1G 4K9

Produced in Canada
February 2009

Endnotes

1 John Hagerty, AMR Research. Performance Management Spending Nears $23B in *SCORECARDING for the public sector* 2006.

IMW14145CAEN-01