

**Maria Nieplowicz**

Wrocław University of Economics, Wrocław, Poland

---

## THE BALANCED SCORECARD IN THE PUBLIC SECTOR

---

**Abstract:** The main goal of this paper is to introduce the possibilities of using the Balanced Scorecard as a tool which describes the strategy and helps to monitor its realization. In order to adjust the traditional concept of the Balanced Scorecard to the public sector needs, its perspectives have been corrected as to their order as well as their meaning. The article presents examples of using the Balanced Scorecard in a city and in the Internal Audit Department. At the beginning the article presents the general concept of the Balanced Scorecard. Then, there is discussed the Balanced Scorecard for Charlotte and West Des Moines, and the concept of the Balanced Scorecard for Polish city. Next, there is presented the Balanced Scorecard for the Internal Audit Department of the University of North Carolina at Charlotte.

**Keywords:** the Balanced Scorecard, public sector, city, Internal Audit.

### 1. Introduction

The challenge for the public sector organizations is to build customer focussed strategies which are well designed, satisfy customer needs and provide superior levels in product and service performance. The next step is to translate their strategies into actions, using for example the Balanced Scorecard. So the main goal of this paper is to introduce the possibilities of using the Balanced Scorecard as a tool which describes the strategy and helps to monitor its realization. In order to adjust the traditional concept of the Balanced Scorecard to the public sector needs its perspectives have been corrected as to their order as well as their meaning. There are four perspectives suggested: customer, finance, internal processes and learn & growth. The article presents examples of using the Balanced Scorecard in a city and in the Internal Audit Department.

At the beginning the article presents the general concept of the Balanced Scorecard. Then, there is discussed the Balanced Scorecard for Charlotte, West Des Moines and the concept of the Balanced Scorecard for a Polish city. Next, there is presented the Balanced Scorecard for Internal Audit Department of the University of North Carolina at Charlotte. In the Internal Audit practice there is also need to correct the name of perspectives. The summary indicates other examples of using the Balanced Scorecard.

## 2. The concept of the Balanced Scorecard

The Balanced Scorecard concept, developed in the early 1990s by Robert Kaplan (Harvard Business School) and David Norton (Renaissance Solution) is a strategic management system (not only a measurement system) which enables organizations to clarify their vision and strategy and translate them into action [5, p. 29]. This system based on the Balanced Scorecard consists of four steps:

- clarifying and translating vision and strategy,
- communicating and linking strategic objectives and measures,
- planning, setting targets and aligning strategic initiatives,
- enhancing strategic feedback and learning.

The first step of strategic management system is carried out by the scheme of the Balanced Scorecard, which consists of four perspectives:

- financial perspective,
- customer perspective,
- internal business process perspective,
- learning and growth perspective.

The first task in designing the Balanced Scorecard is setting financial objectives which senior executive managers want to achieve. It should be considered whether to emphasize revenue and market growth, profitability or cash flow generation. These objectives should be aligned with objectives in customer perspective which concerns above all clients' satisfaction. With financial and customer objectives established, an organization then identifies the objectives and measures for its internal business processes. The Balanced Scorecard highlights these processes which are most critical for achieving breakthrough performance for customers and shareholders. The final activity in designing the Balanced Scorecard is setting objectives and measures in the learning and growth perspective. This activity reveals required investments in re-skilling employees, in information technology and systems.

## 3. The Balanced Scorecard for a city

The City of Charlotte, North Carolina, is widely considered the best example of the Balanced Scorecard success in a public or non-profit setting. The city implemented its first Balanced Scorecard in 1996 as a first city in the world [8, p. 8]. Adhering to a firm belief that “measurement matters”, leaders have continuously fine-tuned their efforts, maximizing the benefits of the Balanced Scorecard as a measurement system, strategic management system and communication tool.

The Balanced Scorecard is also used in other cities as a strategic management system, for example in: Sweden (Arhus, Göteborg, Helsingborg, Lulea, Vaestervik), Norway (Larvik), Germany (Detmold, Essen, Passau), Great Britain (Ipswich, Nottingham), the Republic of South Africa (Cape Town, Johannesburg), the United

States of America (Atlanta, Austin, Bellevue, Chicago, Dallas, Flint, Miami, Portland, San Diego, Seattle, West Des Moines) or in Australia (Brisbane, Cockburn).

In order to adjust the traditional concept of the Balanced Scorecard to the cities needs, its perspectives have been corrected as to their order as well as their meaning. There are four perspectives suggested with key questions [7, p. 32; 9, p. 135; 12, p. 171]:

- Customer perspective – Is the city focused on the needs of its citizens and delivering high quality services?
- Financial perspective – Is the city delivering services at an affordable and competitive price?
- Internal business process perspective – Can the city change the way services are delivered and/or improved?
- Learning & growth perspective – Is the city maintaining technology and training people for continuous growth and development?

The customer perspective was moved to the top because the city is a public-sector organization, funded by citizens and taxpayers. Financial measures are important, but the customers’ view of city’s performance is much bigger in government.

Table 1 presents four perspectives of Charlotte’s Balanced Scorecard with main goals. Names of perspectives have been changed because they were more consistent with the language used by Charlotte’s city manager. “Serve the customer” was earlier “customer perspective”, “run the business” was originally “internal business process perspective”, “manage resources” was “financial perspective” and “develop employees” was earlier “learning & growth perspective”.

**Table 1.** The Balanced Scorecard for Charlotte

Serve the customer	Run the business	Manage resources	Develop employees
1. Reduce crime 2. Increase perception of safety 3. Strengthen neighbourhoods 4. Provide transportation choices 5. Safeguard the environment 6. Promote economic opportunity	1. Develop Collaborative Solutions 2. Enhance Customer Service 3. Improve Technology Efficiencies	1. Maintain AAA Rating 2. Deliver Competitive Services 3. Expand Tax Base & Revenues 4. Invest in Infrastructure	1. Achieve Positive Employee Climate 2. Recruit & Retain Skilled, Diverse Workforce 3. Promote Learning & Growth

Source: [2, pp. 35-38].

Many cities in the world use the Balanced Scorecard to manage the city. Table 2 presents the Balanced Scorecard for West Des Moines (USA). The city has changed also the name of perspectives. “Customer perspective” was “change to serve customers”, “financial perspective” now is “manage financial resources”, “internal business process perspective” was “change to improve processes”, and “learning & growth perspective” now is “support employees”.

**Table 2.** The Balanced Scorecard for West Des Moines

SERVE CUSTOMERS	
Objective	Measure
Provide Positive Customer Relationships	Approval Scale in Citizen Survey
Pursue Beneficial Alliances	Number of Intergovernmental Agreements
Strengthen Sense of Community	Number of Hours for Community Involvement
Provide Sufficient Infrastructure	Average Level of Service (LOS) at 10 Major Intersections Approval Scale on Citizen Survey
Provide a Well-Maintained Community	Number of Code Enforcement Citizen Complaints Approval Scale on Citizen Survey
Provide a Safe Community	Approval Scale on Citizen Survey
Provide Sufficient Service and Program Delivery	Approval Scale on Citizen Survey
MANAGE FINANCIAL RESOURCES	
Facilitate Balanced Economic Development	Property Tax Valuation Ratio of Full-time Employees Working in WDM to the Population of WDM Building Permit Valuation
Maintain/Improve Bond Rating	Standard and Poor's and Moody's Bond Rating
Diversification of Revenue Sources	Percent of Operating Revenue Not from Operating Tax
IMPROVE PROCESSES	
Advance the Quality Initiative	Percent of PATs (Process Action Teams) Recommendations Implemented Percent of PATs Completed in Less than Nine Months Number of Active PATs and Citywide Process Teams
Simplify Customer Processes	Percent of Online Parks and Recreation Registrations Percent of Water Bills Paid by Non-traditional Methods
Facilitate Community-Based Problem Solving	Number of Hours Where Non-mandated Public Input Is Sought
SUPPORT EMPLOYEES	
Enhance the Management of Information and Technology	Average Number of Help Desk Tickets Open
Foster Employee Skills and Development	Number of Training Hours per Month Turnover Rate for Full-Time Employees
Promote a Positive and Motivated Work Environment	Employee Survey Using Citywide Climate Index

Source: [11, p. 2].

Many cases of the Balanced Scorecard for the city have been analysed in order to create the concept of the Balanced Scorecard taking into consideration operating conditions of Polish cities. In order to adjust the traditional concept of the Balanced

Scorecard to the Polish cities needs its perspectives have been corrected as to quantity as well as their meaning. There are five perspectives suggested:

- perspective of politics,
- perspective of citizen,
- perspective of internal processes,
- perspective of commerce,
- perspective of development.

The analysis of the Polish cities strategy have shown that the Balanced Scorecard for a city of Poland may consist of five perspectives and seventeen strategic goals (see Table 3).

**Table 3.** The Balanced Scorecard for a city of Poland

Politics perspective	Citizen perspective	Internal processes perspective	Commerce perspective	Development perspective
1. Ensure Long-term City Development	1. Promote Economic Opportunity	1. Ensure Information Access	1. Ensure Sustainable Service Delivery	1. Information Technology Development
2. Counteract Unemployment	2. Promote Investment Opportunity	2. Improve Business and Service Delivery Processes	2. Manage Tax Base & Revenues	2. Foster Employee Skills & Development
3. Strengthen the City Image	3. Promote City as a Science and Culture Centre	3. Cooperation with External Specialists	3. Gain the European Union Found	3. Facilitate Community-Based Problem-Solving/ Involvement
	4. Provide Public Safety			
	5. Provide Sufficient Infrastructure			

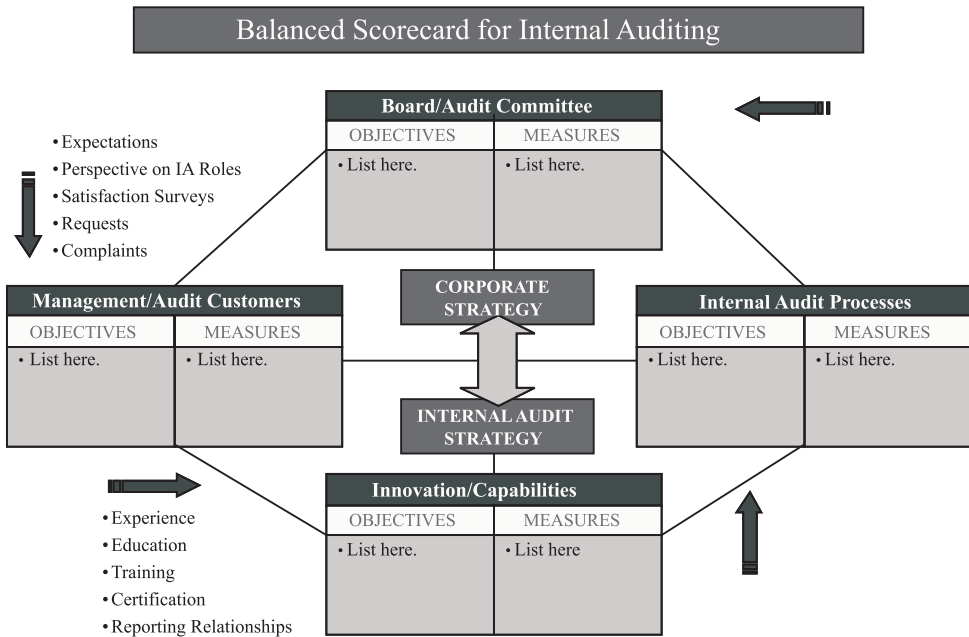
Source: [6, p. 116].

According to the main idea of the scorecard, to create the Balanced Scorecard for the city one have to select the perspectives, choose strategic targets, create the strategy map<sup>1</sup> and define measures for indicated targets. The coherent set of measures of efficiency enables to concentrate on factors that are crucial for realizing the strategy of the city. Besides, the President of the city may be provided with a number of measures presenting a complex look on the strategy in one document. As a result, the President and the City Council could pay less attention to short-term economical indicators. They could concentrate on long-term factors pointing out the right direction for the development of the city and providing conditions for the implementation of the strategy.

<sup>1</sup> The strategy map shows the cause-and-effect links by which specific improvements create desired outcomes. From a larger perspective, strategy maps show how a city will convert its initiatives and resources (including intangible assets such as city culture and city stuff knowledge) into tangible outcomes.

### 4. The Balanced Scorecard for Internal Audit Department in the University of North Carolina at Charlotte

One of the first attempts at adjusting the traditional concept of the Balanced Scorecard to operating conditions of Internal Audit Department was described in the article „Developing an internal auditing department balanced scorecard” (D.E. Ziegenfuss) published in *Managerial Auditing Journal* in 2000 and also in the book *A Balanced Scorecard Framework for Internal Auditing Departments* (M.L. Frigo) published in *The Institute of Internal Auditors Research Foundation* in 2002. Figure 1 presents the Balanced Scorecard proposed by The Institute of Internal Auditors.



**Figure 1.** The Balanced Scorecard for Internal Auditing

Source: [3, p. 1].

In order to adjust the traditional concept of the Balanced Scorecard to the Internal Audit needs its perspectives have been corrected as to their order as well as their meaning, what is presented in Table 4.

According to the main idea of the scorecard, the Balanced Scorecard for the Internal Audit Department was created on the basis of mission and strategy, then perspectives were selected, strategic targets were chosen and measures for indicated targets were defined.

“The Mission of the Internal Audit Department is to serve the administrators of the University of North Carolina at Charlotte as an independent, objective assurance

**Table 4.** The example of corrected perspectives as to their order as well as their meaning in the Balanced Scorecard for the Internal Audit

Traditional BSC	The Institute of Internal Auditor	B. Seminogovas, R. Rupsys	The University of North Carolina	The Icelandic National Audit Office
Financial	Board/Audit Committee	Value of internal audit services	Customer	Services
Customer	Management/Audit Customers	Audit clients	Audit environment	Internal Processes
Internal business process	Internal Audit Processes	Auditing Process	Internal business processes	Staff and Development
Learning & growth	Innovation/Capabilities	Innovation, competence & capability	Learning and growth	Finance

Source: drawn by the author on the basis of: [3, p. 221; 4, p. 3; 1, p. 14].

and consulting activity designed to add value and improve the University’s operations. The Department assists the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes” [4, p. 1].

There are four perspectives suggested:

- customer perspective,
- audit environment perspective,
- internal business processes perspective,
- learning and growth perspective.

The Balanced Scorecard for the Internal Audit Department consists of four perspectives, eight objectives and twelve measures (see Table 5).

**Table 5.** The Balanced Scorecard for the Internal Audit Department

Objective	Measure	Target	Actual	Score	Change
1	2	3	4	5	6
<b>CUSTOMER PERSPECTIVE</b>					
Improve awareness of Internal Audit functions and capabilities	Number and type of awareness messages produced	12	11	Amber	↓
	Number of unplanned audits completed at management request	90%	7/7	Green	↔
Improve satisfaction with Internal Audit services	Client Evaluation Survey scores	80%	84%	Green	↑
	Audit Committee satisfaction survey results	80%	75%	Amber	↑

Tabela 5, cont.

1	2	3	4	5	6
<b>AUDIT ENVIRONMENT PERSPECTIVE</b>					
Improve operational effectiveness and efficiency of reviewed processes and units	Percentage of findings positively resolved	80%	94%	Green	↑
Develop and execute a risk-based annual audit plan	Percentage of planned events completed	85%	19/24	Amber	↓
<b>INTERNAL BUSINESS PROCESSES PERSPECTIVE</b>					
Meet or exceed performance standards of the Institute of Internal Auditors (IIA)	Results of external Quality Assurance Review/peer review	Meets Standards	No QAR yet	Red	↔
Execute annual spending plan within assigned targets	Spending performance against target as reflected in Banner	99%	66%	Red	↓
<b>LEARNING AND GROWTH PERSPECTIVE</b>					
Obtain and maintain professional certification for each staff member	Number of staff with current professional certifications	1 per staff	0/4	Red	↔
Provide adequate and appropriate training opportunities for each staff member	Number of professional conferences attended per year	1 per staff	3/4	Amber	↔
	Training hours completed annually per staff member	36	25	Amber	↓
	Percentage of annual budget devoted to training	75%	50%	Red	↓

Score: Green = meets standard; Amber = 60% < X > 99% of standard; Red = X < 60% of standard.

Source: [4, p. 2].

The way of presentation of “score” and “change” is very interesting. There are three colours (green, amber and red) used to show the “score”. Green colour means that the score meets standard, the planned value. Amber colour means that the score is between 60 and 90% of standard. And red colour means that the score is below 60% of standard. Also graphic signs (↑, ↓, ↔) were used in order to show the “change”. There can be progress, regress and status quo, compared with previous score.



## 5. Conclusions

Public sector organizations actively adopt a more customer-oriented philosophy. They are finding and implementing the management tools which enable them to meet increasing expectations and offer more in the way of valuable services. The Balanced Scorecard is one of these methods that public sector managers used to manage their organizations much better with. The contents of the paper incline a statement that it is possible to read the strategy using goals and measures included in the Balanced Scorecard provided that it has been properly constructed.

A lot of public sector organizations used the Balanced Scorecard with success. In this paper there were discussed only few examples. In practice the Balanced Scorecard is implemented for example in: government (department, city, police), education organizations (university, school), community centres, hospitals, and also in non-profit agencies.

## References

- [1] *Balanced Scorecard of the Icelandic National Audit Office May 2003*. [http://www.rikisend.is/files/skyrslur\\_2003/arangur\\_rikend\\_en.pdf](http://www.rikisend.is/files/skyrslur_2003/arangur_rikend_en.pdf) (accessed 15.01.2010).
- [2] *FY2010 Adopted Strategic Operating Plan*, <http://www.charmeck.org/Departments/Budget+-+City/Publications/Home.htm> (accessed 15.01.2010).
- [3] Harris T., *Balanced Scorecard for Internal Auditing*, The Institute of Internal Auditors, 2007, [www.theiia.org/download.cfm?file=79721](http://www.theiia.org/download.cfm?file=79721) (accessed 15.01.2010).
- [4] *Internal Audit Department Balanced Scorecard as of: May 20, 2009*, The University of North Carolina at Charlotte, <http://tinyurl.com/nx6py2> (accessed 15.01.2010).
- [5] Kaplan R.S., Norton D.P., *Strategiczna Karta Wyników. Jak przełożyć strategię na działanie*, Wydawnictwo Naukowe PWN, Warszawa 2009.
- [6] Nieplowicz M., *Zrównoważona karta wyników w realizacji strategii miasta*, PhD Thesis, The University of Wrocław, Wrocław 2005.
- [7] Niven P.R., *Balanced Scorecard step-by-step for Government and Nonprofit Agencies*, John Wiley & Sons, New York 2003.
- [9] Seidel A., *Die Balanced Scorecard als Instrument kommunaler strategischer Steuerung*, MA thesis, The University of Dortmund, Dortmund 2002.
- [8] Schumacher L., *Charlotte's Balanced Scorecard. Aligning Strategy with Government Performance*, 2008, <http://www.charmeck.org/Departments/Budget+City/Publications/Home.htm> (accessed 15.01.2010).
- [10] Seminogovas B., Rupsys R., *Creating strategy maps for internal audit activity in the context of BSC, Management of Organisations: Systematic Research 2006*, Vol. 39.
- [11] The City of West Des Moines. *Balanced Scorecard Strategic Plan*, [in:] *Fiscal Year 2009-2010 Budget*, <http://www.wdm-ia.com/index.aspx?page=906> (accessed 15.01.2010).
- [12] Węgrzyn A., *Metody formułowania strategii rozwoju gmin w Polsce*, PhD Thesis, The University of Wrocław, Wrocław 2004.

## ZRÓWNOWAŻONA KARTA WYNIKÓW W SEKTORZE PUBLICZNYM

**Streszczenie:** Celem artykułu jest wskazanie możliwości zastosowania zrównoważonej karty dokonań jako narzędzia opisującego strategię i wspomagającego monitorowanie stopnia jej realizacji. W celu dostosowania klasycznej koncepcji zrównoważonej karty dokonań do sektora publicznego przeprowadzone korektę jej perspektyw, w sensie zarówno ilościowym, jak i interpretacji znaczeniowej. Zaproponowano pięć perspektyw w następującej hierarchii: perspektywa polityki, perspektywa obywatela, perspektywa procesów wewnętrznych, perspektywa gospodarowania oraz perspektywa rozwoju. W artykule zaprezentowano przykłady wykorzystania zrównoważonej karty dokonań przez miasta i przez Departament Audytu Wewnętrznego Uniwersytetu Karoliny Północnej.