

IS IT MEANINGFUL TO MEASURE PERFORMANCE IN GOVERNMENT SECTOR?

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ABSTRACT

During the last two decades, financial measures based on numbers generated by the traditional financial accounting system, have been found to be obsolete in measuring organizational performance. Accordingly, organizations, especially those in the private sector, have implemented a number of performance measurement and management tools including one of the so-called best tools, the Balanced Scorecard (BSC), based significantly on non-financial measures. Governments around the world are under pressure to control their costs and improve their services. In response, they have begun introducing changes and implementing modern management tools, including the BSC, in their organizations to deal with the financial constraints and increasing accountability to customers (taxpayers). However, some major underlying differences are obvious between the private sector and the government sector. But, there has been very little research as to how the BSC, in its current form, can be effectively applied in the government sector. Therefore, it is important to examine, if the BSC, in its current form, can be used as an effective performance measurement and management tool for the government sector. This examination should involve identifying the problems associated with the current version of the BSC, suggesting a generic BSC model and some generic measures suitable for the government sector and finally examine the cause-and-effect relations among the suggested generic BSC measures of performance for the government sector.

Introduction

The dominance of financial measures in measuring business performance began to diminish when in 1951, Ralph Cordiner, the Chief Executive Officer of General Electric, commissioned a high-level task force to identify the key corporate performance measures. His task force concluded that these measures should include market share, productivity, employee's attitude, public responsibility and the balance between short-and-long term goals, in addition to profitability (Eccles 1991).

During the past few decades, both academics and practitioners have recognized the limitations of the traditional management accounting system. Accrual-based performance measures have been found to be obsolete as numbers generated by the traditional management accounting system have been lacking to support the investments in new technologies and markets (Curtis 1985). More importantly, the traditional

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financial measures have been failing to measure the intangible and intellectual assets, which are essential for successful performance in global markets (Kaplan & Norton 1996, p.7).

Accordingly, during the last two decades, organizations, especially those in the private sector, have implemented a number of broader performance measurement and management system tools such as Activity-Based Costing/Management (ABC/M), Benchmarking¹, Total Quality Management (TQM), Business Process Reengineering (BPR) and arguably the so-called best tool², the Balanced Scorecard (BSC).

Governments around the world are under pressure to control their costs and improve their services (Kidwell 2002). Federal, national, state, county, municipal and local governments in almost all the countries in the world are feeling some sort of fiscal squeeze (Cokins 2002, pp.1-2). Public agencies confront the dilemma of how to develop and implement practices and procedures that will make them more business-like, the essence of which will be stakeholder-driven strategic planning, implementation and control (Dixon, Kouzmin and Korac-Kakabadse 1998). Managers of public service organizations have been facing a number of accountability-related challenges. They are expected to be responsive and accountable not only to their departmental secretary, minister and parliament but also to client groups in the marketplace, even when their respective interests are in conflict (Dixon, Kouzmin and Korac-Kakabadse 1996). Consequently, they are on a quest to achieve increased economy, efficiency and effectiveness in service delivery.³ There is also a need to reinforce accountability, so that they are clearly held to account for the resources they use and the outcomes they achieve (Randor & Lovell 2003). In response, government administrators have begun introducing changes and implementing modern private sector management tools in their organizations to deal with the financial constraints and increasing demand⁴ in terms of accountability to stakeholders (Ho & Chan 2002).

However, there are underlying differences between the private sector and the government sector. While economic value-added is an important tool for measuring the financial returns of a business, it is virtually meaningless for organizations, whose purpose is not to generate economic returns from the capital invested in them (Herzlinger

¹ The very essence of benchmarking is similar to the Japanese word *dantotsu*, meaning striving to be the “best of the best”.

² In 1997, the Harvard Business Review designated the Balanced Scorecard as one of the most important management practices in the last 75 years (Frigo 2002).

³ “We need to learn how to use our resources in both warfighting and in the support area to do our business more efficiently. In this regard, we’re like any other agency or private-sector business. We’re under constant pressure to spend money wisely and be good stewards of the taxpayer’s money.” - Admiral Archie Clemens, U.S.Navy Pacific Fleet Commander, March 20, 2000.

⁴ In 1993, US President Bill Clinton announced a governmentwide initiative to reinvent government called the National Performance Review (NPR). He also signed into law the Government Performance and Results Act of 1993, which requires federal agencies to develop strategic plans for how they will deliver high quality products and services to the American people. It was also in 1993 that President Clinton issued an Executive Order requiring federal agencies to determine from their customers the kind and quality of services they want.

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& Regina 2000). Private sector and government sector organizations plan differently because their decision-making, budgeting and accountability processes are different. They budget differently, because their budgeting processes and accountability regimes are different. They organize functions differently, because their budgeting processes, regulatory and accountability regimes are different (Dixon, Kouzmin and Korac-Kakabadse 1998). Consequently, the “financial” perspective (one of the four perspectives of the current version of the BSC) cannot be a bottom-line objective for government organizations, but rather may provide a constraint by limiting spending to budgeted amounts (Kaplan & Norton 1996, pp.179-80).

Despite these underlying differences between the private sector and the government sector, government organizations are increasingly recognizing the BSC as an important performance measurement and management tool.⁵ They are also looking for appropriate performance measurement systems to ensure employees are rewarded for good performance.⁶ But, there has been very little research as to how a standard BSC (originally developed for the private sector), can be effectively applied in the government sector, which have completely different sets of objectives and agenda than the private sector. This knowledge, required for the effective use of the BSC in the government sector as a performance measurement and management tool, represents a gap in the literature (Chan 2002).

It is time to examine if the BSC, in its current form, can be used as an effective performance measurement and management tool for the government sector.

Balanced Scorecard at a Glance

Kaplan & Norton (1996) claim that the BSC provides managers with the instrumentation they need to navigate towards future competitive success. It translates an organization’s mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system. They point out that the ability of a company to mobilize and exploit its intangible assets has become more decisive than investing and managing physical and tangible assets (Kaplan & Norton 1996, pp. 2-3). They also emphasize that front-line employees must understand

⁵ But the progress in BSC adoption by government organizations is still at its infancy. A recent survey of municipal governments in the United States shows that there have been limited applications of balanced scorecard (BSC), even though most have developed measures on five performance perspectives including financial, customer satisfaction, operating efficiency, innovation and change, and employee performance (Ho & Chan 2002).

⁶ In 1999, the Clinton administration’s National Partnership for Reinventing Government (NPR) reported that in its annual survey of federal workers (US), “employees expressed the greatest dissatisfaction with how employee performance is handled. Two out of three employees believe rewards are based on something other than merit; many cited bias and favoritism. Still more employees say that no action is taken against poor performers; many pleaded strongly for something to be done about this problem” (Osborne 2001).

the financial consequences of their decisions and actions and senior executives must understand the drivers of long-term financial success (Kaplan & Norton 2002, p.8). They claim that through a series of cause-and-effect relationships embodied in the BSC the non-financial capabilities (customer, internal business process and innovation, learning and growth) eventually become translated into superior financial performance (Kaplan & Norton 1996, p.14). Thus, to become “strategy – focused”, an organization should be able to (a) translate strategy into operational terms, (b) align the organization to the strategy, (c) make strategy everyone’s everyday job, (d) make strategy a continual process and (e) mobilize change through executive leadership (Kaplan & Norton 2004, p.xi).

The following diagram (Figure -1) shows how, according to Kaplan and Norton, the BSC provides a framework to translate a strategy into operational terms.

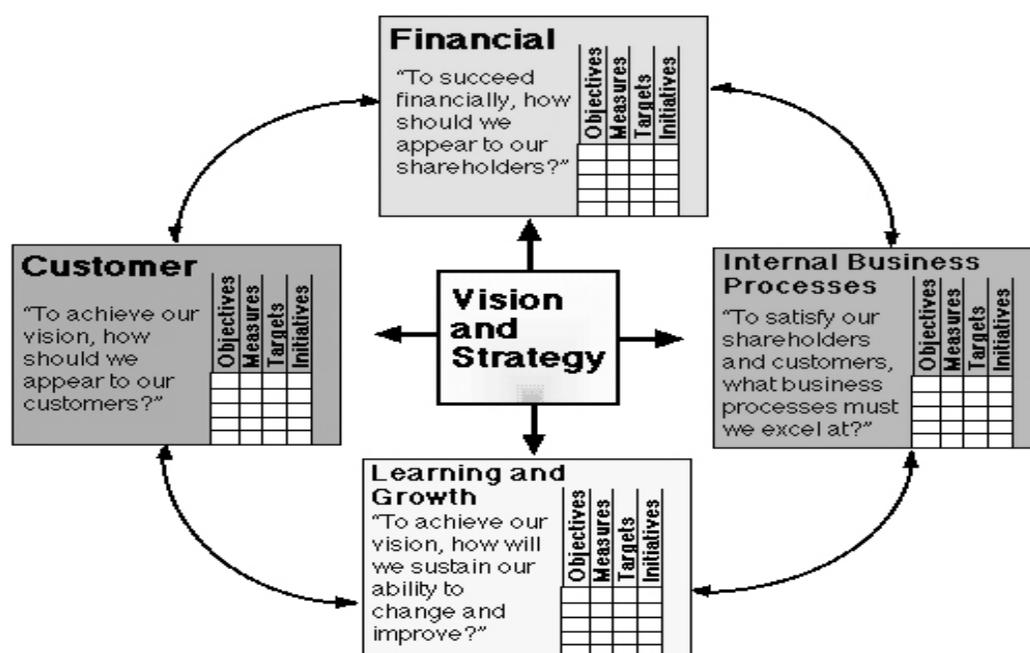


Figure - 1

Source: <http://www.balancedscorecard.org/basics/bsc1.html>

As can be seen in the above diagram that a standard balanced scorecard has four perspectives of which one is financial and three are non-financial. Objectives, measures, targets and initiatives are set for each and every perspective and all the non-financial performances are eventually translated into financial performance, which is considered the bottom-line objective.

Why do we need a Modified Balanced Scorecard for the Government Sector?

There are some obvious weaknesses of the current version of the BSC when it is applied in the government sector. The bureaucratic paradigm and differing objectives of the government sector indicate some problems of the application of the current version of the BSC in government organizations. Government organizations often place their customers or constituents (not the financials) at the top of their strategy maps⁷ (Kaplan & Norton 1995, p.79). But the current version of the BSC fails to provide a blueprint as to how other perspectives (learning and growth, internal business process and financial) ultimately move toward customers.⁸

There is another clear distinction between the private and the government sector. In the private sector, it is the customer who pays for the service and receives the service (Kaplan & Norton 2001, p.134). But in the government sector, the customers (citizens) do not necessarily (or proportionately) pay for the service they receive. In other words, the citizens do not receive service in direct proportion to their tax payments and any form of fiscal contribution.

A government organization's ideals, norms and values must change if it is to include a performance-oriented organization culture that supports managerialist⁹ values and attitudes, encourages and supports behaviours that are performance-centered, emphasizes quality service, adaptability, creativity, initiative, cohesion and team work and gives employees leeway to make mistakes, but requires that they learn from them (Dixon, Kouzmin and Korac-Kakabadse 1998).

Therefore, unlike the private sector, the "financial" perspective is not the bottom-line objective for government organizations (Kaplan & Norton 1996, pp.179-80), whereas the "customer" perspective is. Accordingly, it is very important that a BSC ensures translating all relationships into customer satisfaction but not necessarily into financial success. In fact, in the government sector, it is most often financial success, which leads to customer satisfaction (as contrasted with the private sector, where customer satisfaction usually leads to financial success). This has been clearly experienced by the City of Charlotte. They placed the customer perspective at the top of their corporate scorecard. They experienced that financial objectives became the enablers

⁷ Lisa Schumacher, from the Budget and Evaluation Office of City of Charlotte, once commented in an interview with Paul Niven, "If you look at our Scorecard, you'll see the first thing we did was to move the Customer perspective to the top. We initially attempted to develop the Scorecard with the Financial perspective on the top but found that we were spinning our wheels because financial results don't represent our "bottom line." Financial measures are important, but the customers' view of our performance is much bigger in government." [Niven 2003, p.273]

⁸ We are going to make the federal government customer friendly. A lot of people don't realize that the federal government has customers. We have customers. The American People.

- Al Gore, Ex-Vice-President, United States

⁹ "Managerialism expects public managers to improve efficiency, reduce burdensome costs and enhance organizational performance in a competitive stakeholding situation. Managerialism largely ignores the administrative-political environment which rewards risk-averse behavior, which, in turn, mitigates against the very behavioral and organizational reforms managerialists putatively seek for the private sector" - Dixon, Kouzmin and Korac-Kakabadse 1998 .

for helping the city to achieve its customer objectives. They measured delivering the city's services at a good price, securing external partners for funding and services and maintaining a solid tax base and credit ranking to fund high-priority projects (Kaplan & Norton 2001, p.138). All these financial objectives led them to a higher customer satisfaction.

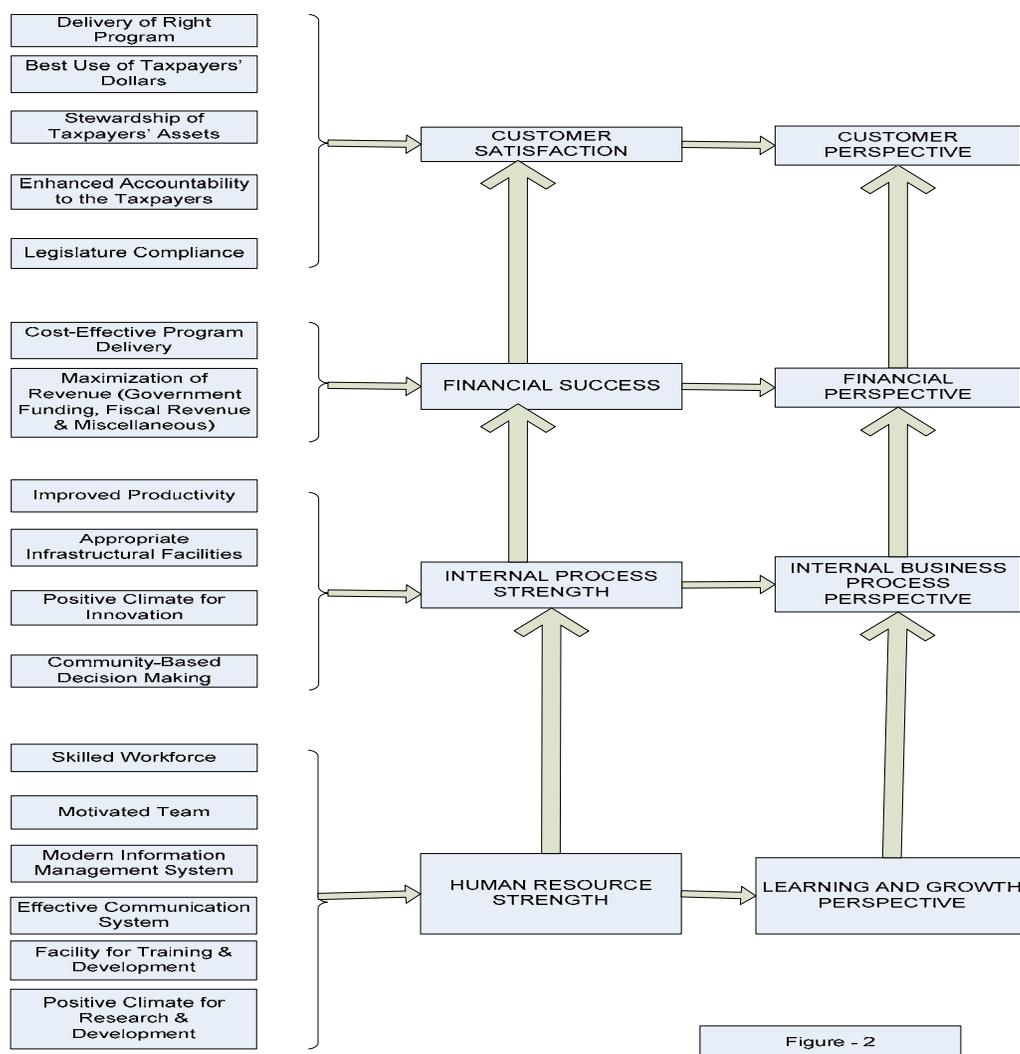
The BSC can be effective in the government sector, if and only if, the current perspectives are rearranged (Figure-2). The four perspectives of the current version of the BSC can still be applied in government organizations as long as they are rearranged according to governmental priorities.

Therefore, it is clear that above considerations seem to have considerable impact on the ability of the BSC in ensuring best customer satisfaction. These considerations, if positively dealt with, may contribute to employee satisfaction, superior employee performance, sound internal business process and in turn, may lead to efficient stewardship of taxpayers' dollars. Furthermore, the best possible use of taxpayers' dollars, may eventually lead to achieving the bottom-line objective - absolute customer satisfaction.

In the light of the above observations, it is clear that some modifications are needed to the current version of the BSC for its use in the government sector as an effective performance measurement and management tool. Although significant research has taken place and various modifications to the current version of the BSC have been suggested by the researchers for the private sector, no studies have been found recommending a modified BSC model for the government sector.

The following diagram (Figure-2) is suggested for the government sector, keeping in mind that "Customer" perspective is the bottom line of government sector.

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What do we need to test?

Given the peculiarities of the government sector, the following relationships may be required to be tested to examine the applicability of the suggested version of the BSC for the government sector:

- Is there a positive and significant relation between human resource strength and internal business process strength?
- Is there a positive and significant relation between internal business process strength and financial success?
- Is there a positive and significant relation between internal business process strength and financial success?

As per figure 3 (a path-diagram), Four (4) latent variables (Y's) are suggested to represent the relationships. Six (6) manifest variables (X's) are suggested to be measured for the latent variable "Human Resource Strength", four (4) for "Internal Process Strength", two (2) for "Financial Success" and five (5) for "Customer Satisfaction".

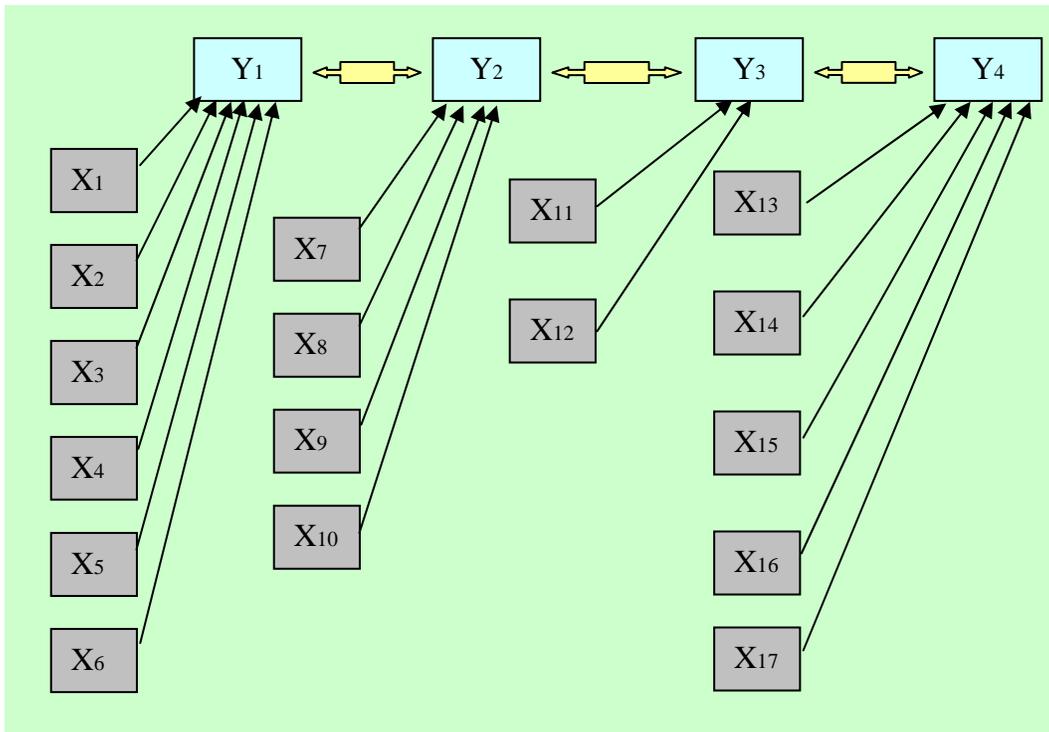


Figure – 3

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The suggested variables are described in the following diagram (Figure – 4).

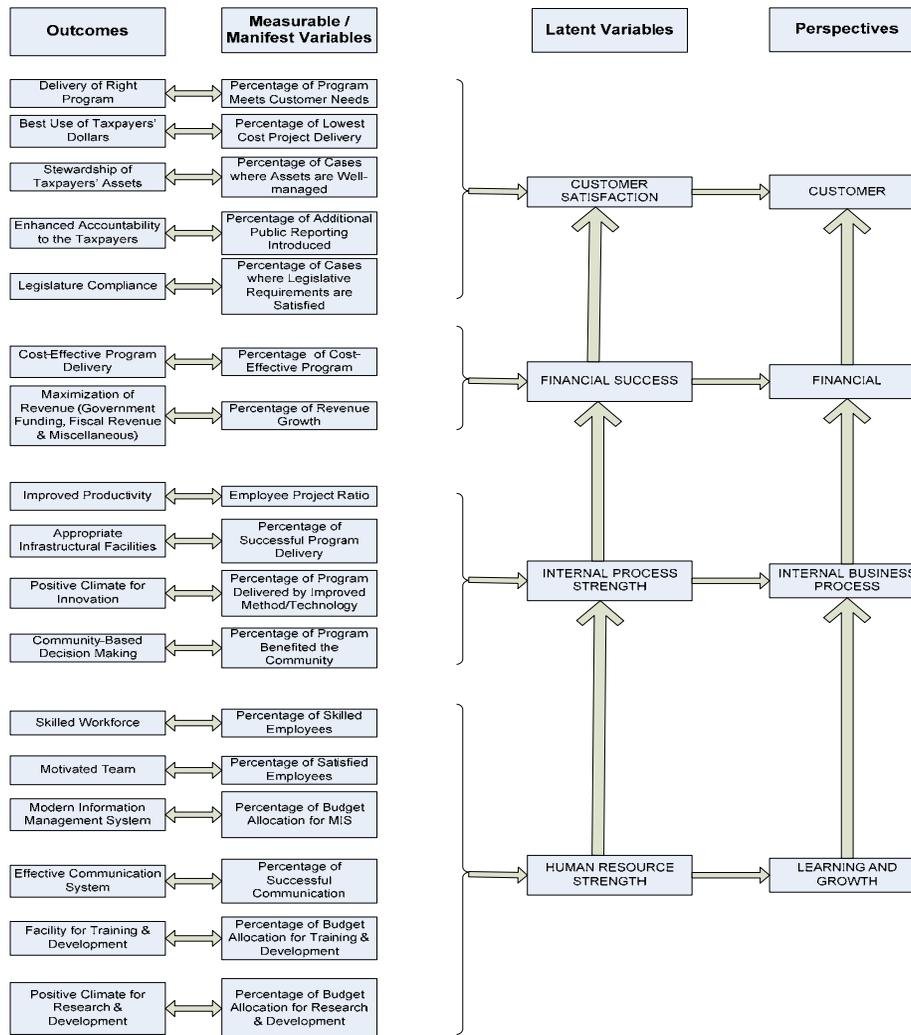


Figure - 4

What is the ultimate expectation?

The suggested model is expected to result in improvement and modifications to the current version of the balanced scorecard and will enable government organizations to use it as an effective performance measurement and management tool for offering more citizen-centric solutions. Besides, the suggested model being generic in nature may fit

into most government organizations with very little tailoring given the fact that most of these organizations share the very objective - satisfying citizens and taxpayers.

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