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## The balances scorecard as a tool for designing the strategy of a public sector institution

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## **THE BALANCED SCORECARD AS A TOOL FOR DESIGNING THE STRATEGY OF A PUBLIC SECTOR INSTITUTION**

### **STRATEGICZNA KARTA WYNIKÓW JAKO NARZĘDZIE PROJEKTOWANIA STRATEGII INSTYTUCJI SEKTORA PUBLICZNEGO**

#### **Introduction**

A strategy map is a core element of the Balanced Scorecard. It is a graphical representation of the strategy, designed to clearly communicate desired outcomes and how they are to be achieved. The strategy map presented in this paper is an example how a strategy can be formulated in the form of cause-and-effect connections within four perspectives that an organization (whether profit or non-profit) must have: ‘financial’, ‘customer’, ‘internal business processes’, and ‘learning and growth’. This strategy map is based on the strategy of Nowe Miasto Lubawskie County (the second tier organization in the three-tier system of Poland’s administrative division) and includes all goals listed in this strategy. Additionally, where the strategy lacked information necessary to create the strategy map, additional data (goals, initiatives, etc.) were added. Those additional elements are both in line with the County’s strategy and take into account the reality of managing a local government office.

The creation of the Balanced Scorecard starts with the translation of the strategy into operational terms. To this end, a strategy map is created. Because the map describes the organization’s strategy by means of cause-and-effect connections, all employees are aware how much they contribute to the realization of the strategy.

Apart from financial indicators, which tell the story of the past events, the Balanced Scorecard also includes ‘performance drivers’ – goals which are critical to

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the future success of the organization. The goals and indicators in the Balanced Scorecard originate in the vision and the strategy of the organization.

This paper presents the Balanced Scorecard as a tool for implementation of a public sector institution's strategy – the 'Sectoral strategy for the development of SMEs (small and medium enterprises), labour market and tourism in Nowe Miasto Lubawskie County'.

## **Strategic goals of Nowe Miasto Lubawskie County**

The Balanced Scorecard is always created on the basis of a strategy. The strategy, in turn, originates in the vision of the people who manage a particular organization. In the case presented in this paper, the strategy map was built based on the 'Sectoral strategy for the development of SMEs (small and medium enterprises), labour market and tourism in Nowe Miasto Lubawskie County'. The strategy consists of two sub-strategies:

1. 'Strategy for the development of the SME sector, particularly aimed at increasing employment';
2. 'Sectoral strategy for the development of tourism in Nowe Miasto Lubawskie County'.

When designing a strategy map, we first identify the mission, vision, and strategic goals of the organization. Then we describe the desired outcomes and how they are to be achieved in the form of cause-and-effect connections. The analysis of the strategic goals from both above mentioned sectoral sub-strategies shows that we can find cause-and-effect connections between them. Moreover, those goals can be classified under four categories, or 'strategic themes':

businesses, citizens, tourism, infrastructure (see table 1).

Grouping the goals according to those four strategic themes enables us to present the two sub-strategies in a more detailed way, and replace 10 strategic goals with 4 strategic themes (business, inhabitants, tourism, infrastructure). It makes the sub-strategies easier to understand, and it allows us to present the strategy in a clear way. Moreover, both sub-strategies mentioned above include goals falling into the strategic theme of 'infrastructure', so this area is important for the realization of both these sub-strategies (see Figure 1). This shows how important this theme is for both sub-strategies and makes it clear that the success in the execution of one of them influences the success of the realization of the other one.

The document describing the strategy of Nowe Miasto Lubawskie County does not include the vision of the organization. And when designing a strategy map, and a map of a public sector institution in particular, we need to ensure the cohesion between the elements of the Scorecard and the mission and/or vision of the organization. The four strategic themes under which the strategic goals

were grouped show how the organization perceives its role and in which areas it has decided to operate. At the same time, those strategic themes are relatively general. Therefore, based on them, it is possible to suggest the possible vision of the organization. It could be the following:

“We want to become **a great place for doing business (businesses)**, inhabited by and attracting **citizens of the 21<sup>st</sup> century (citizens)**, which is famous for **being a great holiday destination (tourism)**, and where **everybody feels comfortable (infrastructure)**.”

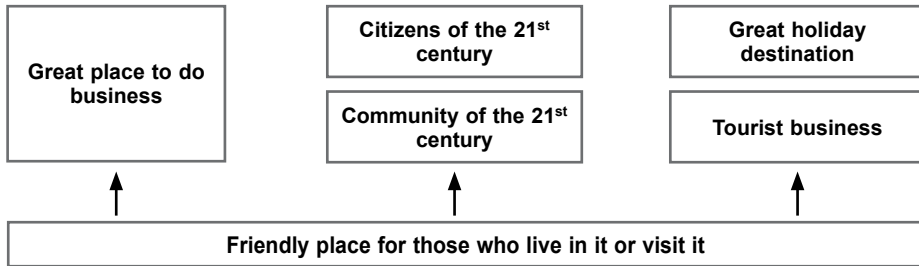
The areas in brackets reveal that the proposed vision of the County embraces all the strategic themes; therefore it includes all the strategic goals chosen by the County.

**Table 1. Classification of strategic goals of Nowe Miasto Lubawskie County**

	<b>‘Strategy for the development of the SME sector, particularly aimed at increasing employment’</b>	<b>‘Sectoral strategy for the development of tourism in Nowe Miasto Lubawskie County’</b>
Businesses	STRATEGIC GOAL 1: Increase in the number of businesses STRATEGIC GOAL 2: Creation of the system aimed at supporting entrepreneurship in the County STRATEGIC GOAL 7: Promotion of investment in the County	
Citizens	STRATEGIC GOAL 3: Adjustment of the educational system to the needs of the labour market STRATEGIC GOAL 6: Fostering social activities aimed at local development	
Tourism		STRATEGIC GOAL 1: Increase in the number of social activities aimed at the development of tourism STRATEGIC GOAL 2: Development of the tourist sector
Infrastructure	STRATEGIC GOAL 4: Preparation of areas for investment STRATEGIC GOAL 5: Improvement in transport infrastructure	STRATEGIC GOAL 3: Improvement in infrastructure and spatial arrangement

*Source: own researches.*

**Figure 1. Classification of the goals of Nowe Miasto Lubawskie County**



*Source: own researches.*

## Creation of a strategy map

Having defined its mission and vision, and having chosen the strategic goals which will lead it to the realization of its vision, the organization can start thinking of more detailed aspects of its strategy. It has already answered the question: Why does the organization exist and what does it want to achieve? The next step is to create a strategy map – a graphical representation of how the organization is going to achieve its goals. The strategy map describes, using cause-and-effect connections, the relations between four perspectives: financial, customer, internal business processes, and learning and growth. The financial, internal business processes, and learning and growth perspectives play a supportive role and tell us how the organization should operate to be able to achieve the goals included in the customer perspective. In other words, they tell us what the organization needs to do to fulfill its mission.

When we work on the customer perspective, we need to define who the customer is, namely who benefits from the services the County provides. The analyses show that it is the companies, inhabitants of the County, local government, NGOs and tourists who benefit from its activities. Each of those ‘market segments’ benefits from the activities of the County in a different way. Some services, such as infrastructure, cater for the needs of several segments of customers. Therefore, having analyzed the vision and the goals of the County, we can describe the ‘strategic themes’ in the following way:

**1. Great place to do business.** This goal will be realized by addressing the needs of existing businesses, so that they develop faster and invest in the region, which will translate into higher employment. Attracting new companies to the region is the second crucial element of the strategy of the County. On top of that, the County wants to create a favourable investment environment to attract large investors, the third group of customers included in this strategic theme. The strategy says that those three groups of companies will develop their activities in the region and thus they will create new jobs for the inhabitants of the County.

**2. Citizens of the 21<sup>st</sup> century.** This strategic theme means providing services to individuals to help them meet the challenges of the 21<sup>st</sup> century. It is particularly focused on education and development of professional skills. It is also aimed at fostering the civil society and prevention of social exclusion. With respect to these issues, the County will address the needs of the inhabitants in a direct way. This strategic theme also includes the support for organizations operating for the public good, both the governmental ones and NGOs. This is a systemic activity, on the general, organizational level; thus solutions in this area will address the needs of inhabitants in an indirect way, on the County level.

**3. Great holiday destination.** The development of the tourist sector does not only mean direct benefits for those who visit the County. It is also an important social-economic area for the local community, as it leads to cultural development and higher income. The County will support the tourist sector directly by helping the companies from this sector; and in an indirect way: by fostering the development of culture, providing organizational assistance and support for community initiatives related to tourism. Given the attractiveness of the region, the development of this sector is a chance to create new jobs, which is an important element of the County's strategy.

**4. Infrastructure.** The development of infrastructure influences all groups of customers the County serves. Apart from the general infrastructure used by everyone in the County, this strategic theme includes specific infrastructural solutions for tourism, such as those aimed at large, foreign investors.

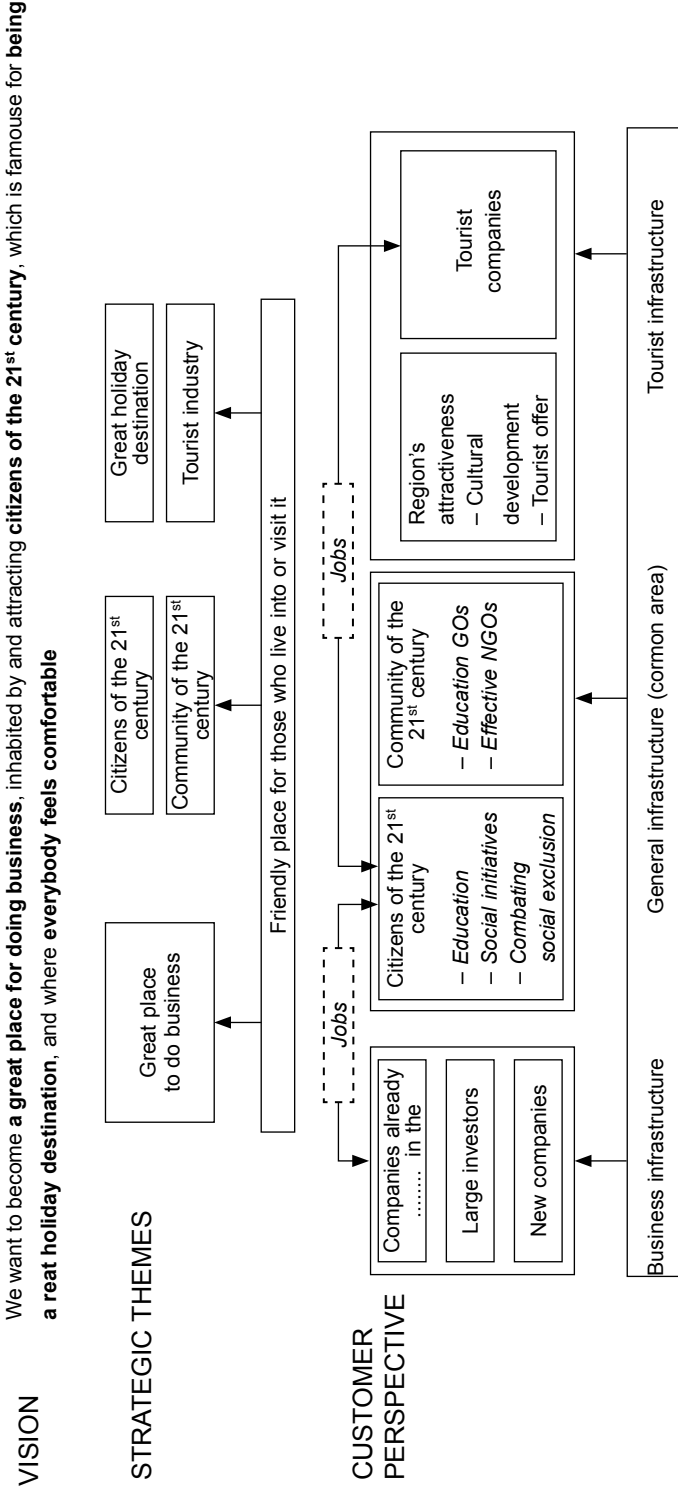
From the point of view of the customer perspective, there are seven areas which the County has decided to address (see Figure 2). Infrastructure plays a supportive role. However it is so important that it was included in this perspective. Thinking of the customers, it is important to answer the following question: What needs to be done to satisfy our customers' needs? (in this case – the needs of the companies already operating in the County, potential new companies or future investors). In other words: What needs to be done for us to be able to say that we have realized our mission?

Because the County satisfies the needs of numerous customers, who can be further grouped, or segmented, the strategy map presents a comprehensive, systemic solution for all groups of customers.

The document presenting the strategy of Nowe Miasto Lubawskie County with regard to businesses identifies three groups of business customers: companies already operating in the county, new companies and large domestic and foreign investors. The sub-strategy called the 'Strategy of the development of the SME sector, particularly aimed at increasing employment' includes three strategic goals (see table 1 above):

- Increase in the number of businesses
- Creation of the system aimed at supporting entrepreneurship in the County
- Promotion of investment in the County

**Figure 2. Goals from the financial, internal business processes, and learning and growth perspectives in Nowe Miasto Lubawskie County (a local government organization)**



Source: After: R.S. Kaplan, D.P. Norton. 2001. *The Strategy-Focused Organization*. Harvard Business School Press. Boston Massachusetts, modified.

The aims included in the customer perspective, taking into account those different groups of customers, should answer these three questions:

1. What do we have to do to satisfy the needs of companies already operating in our county so that they develop and create new jobs?
2. What do we have to do to encourage our inhabitants to open new companies and be satisfied with our services?
3. What do we have to do to attract large domestic and foreign investors and to make them satisfied with our services?

All the strategic goals mentioned above will be included in the strategy map, but the answers to the questions above would be certainly be more complex. It would force those who design the strategy to present a comprehensive approach to the service of those groups of customers. Moreover, the goal aimed at the increase in the number of companies depends both on the success of companies already operating in the county as well as the new companies. Secondly, investment promotion is only one of the many factors which attract investors. Investors need much more than good promotion; they also require excellent service as they decide to invest in the region and in their day-to-day running of the business. The customer perspective of the Scorecard would therefore translate the answer to those three questions into specific goals.

The document describing the strategy of Nowe Miasto Lubawskie County includes detailed goals, called 'activities'. Those goals can be grouped into the three remaining perspectives of the Scorecard (financial, internal business processes, and learning and growth). They support the realization of the goals from the customer perspective, and can be presented in the form of cause-and-effect chains. They also allow for synergy, when one goal in the perspective located lower in the cause-and-effect chain supports more goals in the perspective located higher.

Table 2 presents the goals and initiatives included in the three remaining perspectives. They were taken from the strategy of Nowe Miasto Lubawskie County. Based on those goals, and on the goals previously allocated to the customer perspective, a strategy map was built. The map describes, by means of cause-and-effect connections, how the strategic goals will be achieved. The map of Nowe Miasto Lubawskie County (as all the maps of organizations not operating for profit), differs slightly from the maps used in companies; the customer perspective, not the financial one, is the most important in its strategy. However, the importance of the financial perspective is embodied in the goal stating that the County 'will deliver its services at the lowest cost possible'. This goal entails a system of responsible management of finances (natural to companies, however not so obvious in organizations which do not operate for profit). Therefore, the County will be obliged not only to deliver highest quality services, but it will also do it in the most effective way. On top of that, the financial perspective stipulates that the county will find external financial resources needed to achieve the goals from the customer perspective.

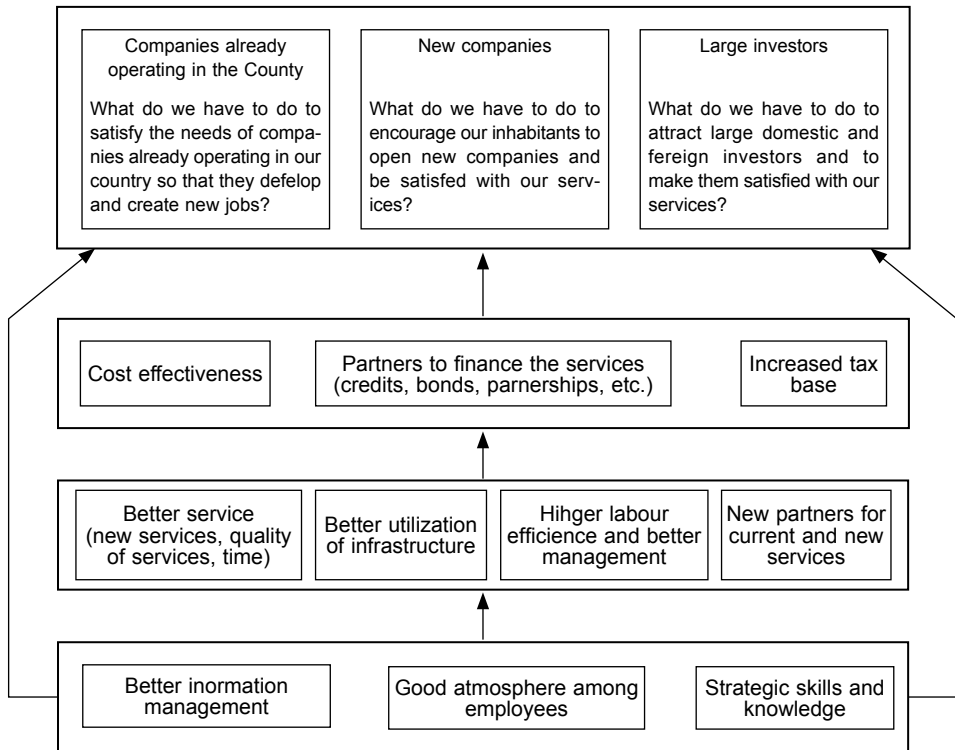


**Table 2. Goals and initiative found in the strategy of Nowe Miasto Lubawskie County**

Strategic goals	Initiatives
<p><b>STRATEGIC GOAL 1</b> Increase in the number of businesses</p>	<p>Initiative 1.1 Tax brakes for companies employing the unemployed Initiative 1.2 Development of specialist services for agriculture Initiative 1.3 Creation of a database on financial support available for SMEs Initiative 1.4 Creation of a database of companies operating in the County Initiative 1.5 Database of real estate Initiative 1.6 Creation of the system of trainings for businesses Initiative 1.7 Development of cooperation with foreign partners</p>
<p><b>STRATEGIC GOAL 2</b> Creation of the system aimed at supporting entrepreneurship in the County</p>	<p>Initiative 2.1 Establishment of a local credit guarantee fund Initiative 2.2 Establishment of an institution supporting regional SMEs Initiative 2.3 Establishment of local lending institutions Initiative 2.4 Support for business self-governments Initiative 2.5 Improvement in skills of public administration staff Initiative 2.6 Establishment of a department responsible for international cooperation</p>
<p><b>STRATEGIC GOAL 7</b> Promotion of investment in the County</p>	<p>Initiative 7.1 Development of the County's investment offer Initiative 7.2 Creation of the investment information system Initiative 7.3 Lobbying for the development of the County Initiative 7.4 Promotion of investment offer abroad</p>

Source: *Sektorowa strategia rozwoju sektora MSP, rynku pracy oraz turystyki w Powiecie Nowomiejskim, Nowe Miasto Lubawskie, 2003.*

**Figure 3. Goals from the financial, internal business processes, and learning and growth perspectives**



*Source: After: R.S. Kaplan, D.P. Norton. 2001. The Strategy-Focused Organization. Harvard Business School Press. Boston Massachusetts, modified.*

The internal business processes perspective includes goals which influence the quality of services. New and innovative solutions, better organization of work, and better management are aimed at boosting the effectiveness of work and improve the utilization of resources. It also includes the organization's ability to start cooperation with new partners. The learning and growth perspective concentrates mainly on the strategically important competences of the personnel. It also points to knowledge management and includes goals aimed at ensuring friendly working environment and the spirit of teamwork.

An example of strategy map, based on the strategy of Nowe Miasto Lubawskie County, and complemented by additional goals, (not found in the strategy, but typical to the Balanced Scorecard approach), is presented in Figure 4.

The example of Strategy Map clearly shows how the organization is going to satisfy the needs of its main customers: already existing companies, new companies and large investors. In the customer perspective, the map presents specific

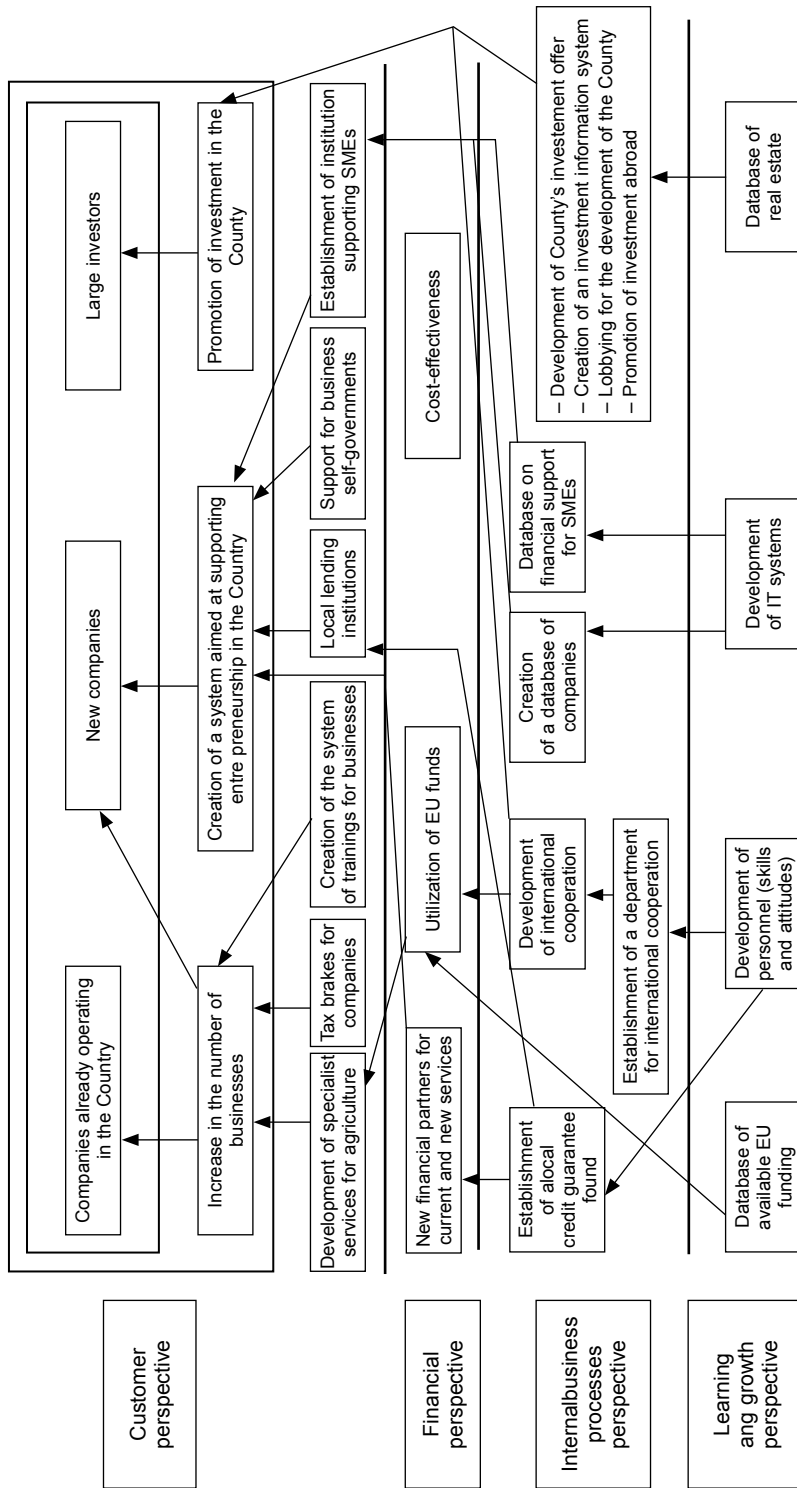
services which the county will provide. The financial perspective reveals the way the goals in the customer perspective will be financed, but it also tells us that the organization wants to deliver its services at the lowest cost possible. The perspective of internal business processes shows what organizational changes the County is going to introduce to become capable of achieving the goals from the customer perspective. And the learning and growth perspective determines what strategic competences the personnel must possess to meet the challenges posed by the new goals, and the new organization of work laid out in the internal business processes perspective. The learning and growth perspective also includes goals concerning data management so that the organization retains the capability of constant development.

Looking at the strategy map of the County, we see that one of the three goals in the customer perspective is to ‘increase the number of businesses’. When the management of the County analyzed the situation in the region, they arrived at the conclusion that one of the ways to achieve this goal is to develop specialist services for agriculture. To meet this goal, the county needs financial resources (financial perspective), suitable organization and systems (internal business processes), as well as appropriate skills of its personnel (learning and growth). How is the county going to achieve this goal? What resources does it need? The strategy map shows us what needs to happen for this goal to be achieved. From the financial point of view, it is possible to receive EU funding up to 75 per cent of the investment. Therefore, the financial perspective will include the goal related to raising EU funds. Because many EU support programmes require that an organization have foreign partners, the county needs to develop its cooperation with foreign partners. That is why the goal related to international cooperation will be included in the internal business processes perspective. This perspective will also include a goal concerning the establishment of a department responsible for the county’s international cooperation.

The learning and growth perspective will include goals concerning the personnel and knowledge management. To be able to cooperate effectively with its foreign partners, the county needs to have the necessary competences. The goals in this perspective may include the command of foreign languages, knowledge of international or EU law, creation of an thematic internet portal, etc.

The second goal in the customer perspective is the ‘creation of the system aimed at supporting entrepreneurship in the County’. One of the goals (and a specific service at the same time) is the creation of an institution supporting SMEs in the county. The internal business processes perspective tells us that, to achieve this goal, the county needs to create a system of financial support for businesses. To make sure such a system works properly, proper IT infrastructure is needed – such a service can be accessible via a web site. Moreover, employees operating such a service need to know how to find and update the data on the web site.

Figure 4. Part of the strategy map of Nowe Miasto Lubawskie County: Great place to do business



Source: own researches.

To achieve the goal concerning investment, the County needs to introduce a number of changes. As can be seen in the strategy map, the goals from the internal business processes perspective also support other strategic goals located higher in the map. The map shows that the County needs to create a department which will be in charge of its international cooperation. By showing its impact on the realization of strategic goals, the framework of the operations of such a department can be easily determined. To attract the investors, the County needs good promotion and professional service for the investors. Answering the question: What do we have to do to attract new investors? The County defined its internal processes which will lead to the achievement of such a goal, determined the strategic human and material resources it needs. The management of the County concluded that the County has to develop its international cooperation and use its foreign contacts for promotion. The County also found out that it needs to create a system of communication with investors, and engage in the lobbying activities. The learning and growth perspective includes goals related to the qualifications of its personnel, IT systems and creation of a database of information which potential or current investors may find important.

## Conclusions

The example presented above shows how the Balanced Scorecard works and how the strategy is explained by means of a strategy map using cause-and-effect connections in four perspectives. The Balanced Scorecard allows organizations to create groups of goals which address particular segments of their customers. It requires the organization to adapt its organizational structure and redefine its processes and procedures. Based on the analysis of foreign organizations and the example of the strategy map prepared for Nowe Miasto Lubawskie County, the following conclusions can be formulated:

1. It is possible to successfully implement the Balanced Scorecard in a local government institution in Poland.
2. Implementation of the Scorecard in a local government institution leads to the following benefits:
  - a. clear segmentation of the institution's 'customers'; creation of the system analyzing the needs of those customers; delivery of comprehensive services to address the needs of those customers;
  - b. introduction of a cost control system as an integral part of management based on the premise that a public sector organization (being financed by and accountable to the public) is obliged to deliver its services in a cost-effective way;
  - c. introduction of a management system focused on the strategy, in which the role of employees is defined according to their contribution to the realization of the strategy;

d. introduction of a simple and clear system of presentation, communication and verification of the realization of the strategy by means of strategy map.

The Balanced Scorecard is a comprehensive tool. A growing interest from organizations not operating for profit, an increasing number of its successful implementations in the world and a growing level of its public recognition in Poland suggest that, within the next several years, the Balanced Scorecard will also be used in Polish local government institutions.

## REFERENCES

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## SUMMARY

The aim of the study is to present the Balanced Scorecard as a strategic management tool in public sector organizations. The example presented is based on the strategy of a local government office. The presented strategy map (an integral part of the Scorecard), serves as an example how a strategy can be formulated based on cause-and-effect connections within four interdependent perspectives: customer, financial, internal business processes and learning and growth.

The example presented in the paper shows how the Balanced Scorecard works and how the strategy is explained as a strategy map; the goals are grouped in four perspectives and they are presented in the form of cause-and-effect logical chains. The Scorecard is based on groups of goals to serve particular segments of customers in a comprehensive way. Such an approach requires an organization to adjust its structure and redefine its internal processes so that it becomes a truly 'strategy focused organization'.

**KEYWORDS:** Balanced Scorecard, strategy, public organization

## STRESZCZENIE

Celem niniejszej publikacji jest zaprezentowanie Strategicznej Karty Wyników (SKW) jako narzędzia stosowanego w zarządzaniu strategicznym w sektorze publicznym. Ukazany przykład bazuje na strategii jednej z jednostek samorządu terytorialnego. Zaprezentowana mapa strategiczna (integralna część SKW) daje przykład, jak formułowanie strategii może bazować na przyczynowo-skutkowych powiązaniach między czterema współzależnymi perspektywami: perspektywą klienta, finansową, rozwoju oraz perspektywą procesów wewnętrznych.

Przykład przedstawiony w artykule pokazuje funkcjonowanie Strategicznej Karty Wyników oraz przełożenie strategii na mapę strategiczną; cele zgrupowane

są w czterech perspektywach i zaprezentowane w postaci logicznego łańcucha przyczynowo-skutkowego. Dokument bazuje na grupie celów mających służyć poszczególnym segmentom klientów w sposób kompleksowy. Takie podejście wymaga od organizacji dostosowania jej struktury oraz przeredefiniowania jej wewnętrznych procesów, tak, aby organizacja stała się w pełni „skoncentrowana na strategii”.

**SŁOWA KLUCZOWE:** strategiczna karta wyników, strategia, organizacja publiczna