

Performance Measurement Of Public Organization By Applying Balanced Scorecard Method

Pascaria Christine P. Siregar

Tarumanagara University, Jakarta, Indonesia Master Degree Program of Management

E-mail : pascaria.christine11@gmail.com

Abstract:

Performance measurement is one of the very important factors for an organization. In general, many organizations measure their performance by giving more emphasis on only financial aspects. Balanced Scorecard method provides comprehensive and balanced performance measurement from financial and non-financial aspects based on four perspectives; namely financial, customer, internal business process, and learning and growth perspectives. Balanced Scorecard method can be applied not only to business organizations but also public organizations. This writing will describe characteristics of public organization, performance measurement in public organization, and Balanced Scorecard as the performance measurement in public organizations.

Keywords: Balanced Scorecard, Public Organizations, Performance Measurement

INTRODUCTION

Performance describes management success of an organization. Performance measurement is required to see whether or not an organization has good performance. Performance measurement is one of very important factors for an organization. Zizlavsky (2014) suggested that “*you cannot manage what you don’t measure.*” Zizlavsky emphasized that measurement of a company’s performance is required if the company wants

rapid growth. In principle, every organization needs regular performance measurement because organizations, especially profit-oriented organizations should keep pace with dynamic developments in the societies. Therefore, they need innovations to develop their products or services so that they are able to survive in a tough competition. (Zizlavsky, 2014; Ondoro, 2015). Therefore, it can be said that performance measurement is in principle an imperative to improve their internal organization managements.

The most common performance management of an organization is based on measurement of financial condition because, for profit-oriented organizations, how good or how bad the organization’s performance is seen from how much profit that the organization can earn (Malgwi dan Dahiru, 2014). However, measuring performance from financial aspects is not enough. Other aspects should be considered because organization’s performance is also affected by many other aspects, including human resources conditions or other invisible factors (Soetjipto, 1997). Therefore,

to measure performance of a public organization, other approaches, including non-financial approaches such as Balanced Scorecard, are required.

Robert S. Kaplan and David P. Norton introduced Balanced Scorecard as comprehensive performance measurement system. Balanced Scorecard interpret organization's visions and strategies into a comprehensive measurement set which provide a comprehensive framework for measurement and strategic management system (Kaplan dan Norton, 1996). In the beginning, Balanced Scorecard is aimed at measuring performance of business organizations. Balanced Scorecard is a performance measuring system, which can be used as an instrument to control, analyze, and revise organizations' strategies. (Campbell et al. 2002). However, in its development, Balanced Scorecard is also considered suitable for measuring performance of public organization. Balanced Scorecard can help public organizations to control organization's finance and to measure its performance. (Modell, 2004). Balanced Scorecard complete the past performance measurement with drivers for future performance (Kaplan dan Norton, 2000). Balanced Scorecard measures performance not only in financial aspects but also non-financial aspects based on four perspectives, namely financial, customer,

internal business process, and learning and growth perspectives.

The purpose of this writing is to describe success in applying Balanced Scorecard method in public organizations.

THEORETICAL STUDIES

Public Organization

Christensen et al (2007) revealed that the very basic differences between public organizations and private organization lay on objects and targets of those organizations. While private organizations pursue profits, public organizations try to pursue values brought by the organizations. Public organizations tend to run in accordance with the norms and values existing in the societies and take people's evaluation and satisfaction as the bases of the organizations (Christensen et al, 2007). Public organizations have compact characteristics, namely clear and rigid bureaucracy structures because public organizations tend to get closer to political interests (Christensen et al, 2007). It is also due to the fact that public organization's objective is to provide services for people in, among other, services/goods procurements. In addition, public organizations are characterized by their leaders who are usually selected by people or political elites in governmental institutions (Christensen et al, 2007).

Public organization is measured based on their successes in providing services for the publics effectively and efficiently. Therefore, public organization should determine the public-oriented indicators and targets of performance measurements. Performance measurement of public organization can increase accountability and improve decision making process (Ittner dan Larcker, 1998).

The very basic difference between business organizations and public organization is that business organizations put their orientations on profits while public organizations put their orientations not on profits. Other differences can be found in strategic goals, financial goals, stakeholders, and outcome as seen in Table 1 below:

Table 1

Comparing Private and Public Organizations

<i>Feature</i>	<i>Private Sector</i>	<i>Public Sector</i>
General Strategic Goals	Competitiveness : uniqueness	Mission success : best practices
Financial Goals	Profit ; growth ; market share	Productivity ; efficiency ; value
Stakeholders	Stakeholders ; buyers ; managers	Taxpayers ; recipients ; legislator
Desired Outcome	Customer satisfaction	Customer satisfaction

(Source: Averson 1999)

Although public organization's goal is not profits, these organizations consist of interrelated units with the same vision, namely to serve the publics. Therefore, public organizations should be able to interpret their missions into strategies, goals, sizes, and targets to achieve before they are communicated to existing units to be carried out so that all units have the same goal, namely the organization's missions.

Balanced Scorecard as Performance Measurement in Public Organizations

There are several ways to measure performance of a public organization, ranging from the simplest ways by calculating the organization's finance to the most complicated evaluation methods. Among many methods to measure performance of an organization is the Balanced Scorecard method.

Balanced Scorecard is a management concept introduced by Robert S. Kaplan and David P. Norton in 1990 as the development of performance measurement concept to measure a company's performance. Kaplan and Northon (2000) said that Balanced Scorecard is a new

framework integrating various measurements derived from companies' strategies. Balanced Scorecard include various value creating activities performed by participating companies having high motivation while keeping considering short-term performances through financial perspective. Balanced Scorecard clearly reveals various matters driving the achievement of performance and long-term superiority in competition.

Balanced Scorecard details missions and strategies of a companies into goals and measurements which divided into four perspectives as follows:

1. Financial Perspective

This perspective measure an organization's performance in optimal financial and market value achievements. The three main targets of this perspective are income growth, cost management, and asset utilization. The measurement instruments used in this perspective is Return on Investment (ROI), income growth, and cost reduction.

2. Customer Perspective

In this perspective, an organization's performance is measured from the extent to which the organization has satisfied its customers. The existence of an organization is determined not only by the qualities attached to the products it produces but also by the

capabilities of those products to satisfy the needs of customers. Customers are the main component of income in a company. Therefore, customers' satisfaction and combination of benefits obtained from using products and efforts made by customers to get the benefits should be prioritized. The main yardsticks in this perspective are market shares, customer retention, new customers, customers' satisfaction, and profitability of customers.

3. Internal Business Process Perspective

Internal Business Process Perspective is a manager process in identifying a variety of important processes that a company should master properly starting from procurements of raw materials to deliveries of finished products to consumers in order to fulfill goals of both shareholders and targeted market segments. According to Kaplan and Norton, identification process is commenced with determination of complete internal value chain by performing three activities, namely (a) innovation processes, (b) operation process, and (c) post purchase services process. The main activities innovation process includes identification of customers' current and future needs and development of the need fulfillment so that consumers absorb the products because they meet their needs before formulating ways to satisfy customers. After that, the ways to satisfy customers are formulated. The

yardsticks used in this measurement include yield, costs, and breakeven time. Operation process is the place where products are produced and delivered to customers. In post purchase processes, company will always expect that customers are satisfied and keep trying to make customers recur the purchase. The yardsticks in this perspective are market creation, design process, production, product delivery, and post-power purchase.

4. Learning and Growth Perspective

This perspective emphasizes on how an organization can innovate and continue developing and growing so that it can compete in the present and in the future. The yardsticks in this perspective are capability of employees, information technology and motivation and alignment.

The main goal of pure non-profit organizations is to serve the publics. Balanced Scorecards in pure non-profit organization put the customer perspective on the top of other as shown below:

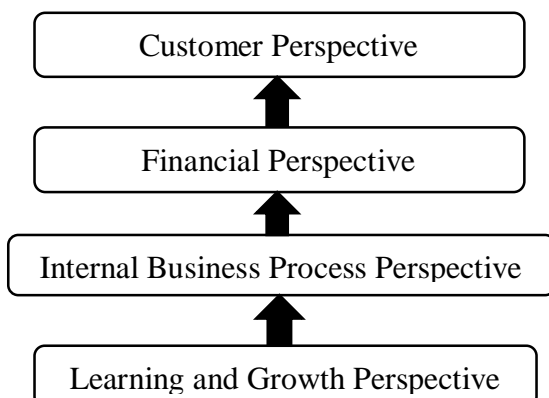


Figure 1 Balanced Scorecard Model for Pure Non-profit Organizations

Source: Mahsun (2009)

METHOD

Performance measurement of public organizations using Balanced Scorecard will compare existing results of several researches to see if the Balanced Scorecard can be used properly to measure performance of public organizations.

DISCUSSION

Several researches have successfully shown that Balanced Scorecard method is able to be used as a measurement instrument to see performance of public organizations. Report of *Balanced Scorecard Institute* in the United States which examined *Defence Finance and Accounting Service* (DFAS) USA in 2001, for instance, revealed that Balanced Scorecard was used to see performance of an organization and trace the development of the organization in achieving its goals. In addition, Balanced Scorecard was applied in every unit of DFAS to see the scorecard of each individu. Individual scorecards were then analyzed by using organization perspective in order to develop the organization. The measurement by using Balanced Scorecard method in DFAS also tried to connect one small objective (from

a small unit) to bigger goals (corporation's goals) to cover the organization entirely. The

followings are forms of relationship developed in DFAS:

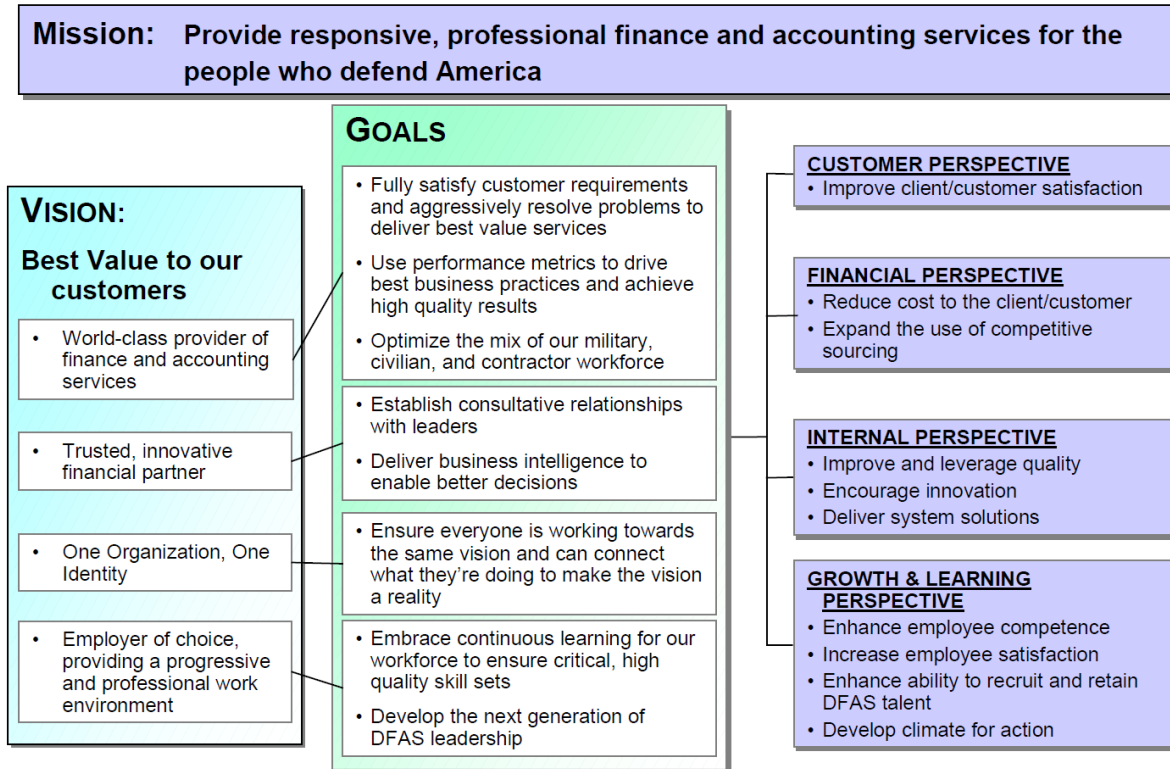


Figure 2 Objectives Linked to Goals

Sources: DFAS (2001)

The figure shows that every vision proposed by DFAS has its own objectives oriented to each perspective in the Balanced Scorecard method. The purpose is that every vision of the organization can be elaborated in accordance with the goals and mapped according the perspectives of the Balanced Scorecard method. Tactically, DFAS used the Balanced Scorecard method in order to increase quality of the organization's performance which will determine the organization's success in every field. It is this organization's success which will subsequently

be the yardstick of capability of leaders in managing the organization. As a public organization, DFAS has responsibility to the publics for services it provides as described in the organization concept of Mahsun (2009) which reveals responsibilities of public organization to the publics. Therefore, the success of DFAS is important to be the yardstick of performance of DFAS in providing services for the publics.

In addition to DFAS in the United States, Balanced Scorecard method was also

used to measure performance of public organization as reported by Kaplan (2001) on the utilization of Balanced Scorecard in several public organizations including United Way of Southeastern New England and Duke’s Children Hospital. Like DFAS, those public organizations also applied the Balanced Scorecard method to manage performance of their organizations. Likewise, researches conducted by Bolivar et. al. (2010) and Kureshi (2011) both of which examined into the

application of Balanced Scorecard in public organization show that that the Balanced Scorecard method is able to explain in details internal condition of public organization to the publics, which then improve the image of the public organization in the societies.

The followings are details of the performance measurement of public organization using the Balanced Scorecard method in several organizations in the world:

Table 2

DFAS Corporate Balanced Scorecard Perspectives, Objectives & Measures

PERSPECTIVE	OBJECTIVE	MEASURE
Customer	Improve Client/Customer Satisfaction	1. Client/Customer Satisfaction
		2. Commitments Met – Performance Contracts
		3. Commitments Met – Client Executive Contacts
		4. Specific Billing Rates
Financial	Reduce Cost to Client/Customer	5. Total Costs
	Expand the Use of Competitive Sourcing	6. Competitive Sourcing Performance
		7. Total Workforce Ratio
Internal Business Processes	Improve and Leverage Quality	8. Quality Index
		9. Rework Identified
		10. Rework Eliminated
		11. Best Business Practices Adopted
	Encourage Innovation	12. New Products or Services Delivered
	Deliver System Solutions	13. Commitments Met – System Milestones
Growth & Learning	Enhance Employee Competence	14. Employees in Developmental Assignments
	Increase Employee Satisfaction	15. Employee Satisfaction
	Enhance Ability to Recruit and Retain DFAS Talent	16. Core Competency Profile
	Develop a Climate for Action	17. Climate for Action

Source: DFAS (2001)

The above table shows that each perspective has its own objectives and gauges. It is because by focusing on each goals and measurement, the results are expected to be maximal. The results of Balanced Scorecard from DFAS show that DFAS will be continually able to new creative ways to reduce

costs and to consolidate superfluous systems, to remove unnecessary processes, and to improve the existing core functions. In line with this plan, DFAS will try to combine the best practice of the government industries and private industries to ensure the success of the plan developed by DFAS.

Table 3

United Way of Southeastern New England Balanced Scorecard

Perspective	Outcomes	Objective
<i>Financial</i>	External growth Internal stability Community building	Increase net amount of funds raised Balance internal income and expenses to maintain our 100 percent guarantee to others Increase amount of funds that go to services Increase amount of funds that go to proprietary products
<i>Customer</i>	Customer satisfaction Market growth Customer retention	Recognition Ease of giving Products that customers care about and that will improve the community Information on results Quality, timely service
<i>Internal</i>	Key internal business processes based on quality Innovative products Viable product line	Improve key internal processes in the following areas: <ul style="list-style-type: none"> • Fundraising • Fund distribution • Community building • Information processing/communications • Pledge processing • Product development • Volunteer/staff development • Customer service • Interdepartmental communications Develop a research and development process to come up with new, innovative products Develop a consistent process for evaluating existing products and services

Source: Kaplan (2001)

Table 3 shows the results of Balanced Scorecard conducted by UWSNE in England, a shared occupation organizer. In this matter, UWSNE argued that by communicating scoreboard from top level to all organizations, individuals in each department will be able to adjust their daily action by assisting the

organization to reach its strategic goals. It is due to the fact that shared occupation in one building requires each occupation to maintain security and comfort jointly. Therefore, the organizer shall consider shared needs of the occupants in the building.

Table 4

Duke Children’s Hospital Balanced Scorecard

<i>Our Mission Excellence in Service, Training, and Research</i>				
<i>Customer Perspective</i>	Satisfied consumers, families, and funders	Recognized as a leader in conducting and disseminating research	Optimizes quality of life	Recognized as a leader in the media and by legislators
<i>Learning and Growth Perspective</i>	Agency wide adherence to performance improvement via PDCA methods	Access to career development and mentoring for all staff	Strategic job coverage at all levels	Diverse staff working Productively guided by the agency’s balanced scorecard
<i>Internal Perspective</i>	Effective, comprehensive information systems (external and internal communications)	Effective, comprehensive, and cost-effective care for consumers	Safeguard rights, responsibilities, and ethics via corporate compliance office	Effective collaboration and partnering with other agencies / providers
<i>Financial Perspective</i>	Achieve continued improvement in net asset and liquidity to support new service development	Effectively link clinical financial systems and decisions	Effectively link staff compensation, performance, and service deliver	Sufficient funding support for all programs / services

Source: Kaplan (2001)

Table 4 shows that Duke’s Hospital (DCH) as one of the oldest health services in England tried to measure its performance by using the Balanced Scorecard method. The results show that DCH tried to see performance of each department to find out what has been achieved and what has not. By applying Balanced Scorecard to focus and align clinical, academic and administrative staff to the new

strategy, DCH has improved patients and doctors’ satisfaction with dramatic financial and operational improvements over a period of two or three years.

The results of the application of the Balanced Scorecard method in the three organizations suggest that the application of the Balanced Scorecard method to measure

performance the organizations also provide positive impacts to the public organization in the form of consistent maintenance of all activities to be in line with the goals and objectives which will be pursued. It is due to the fact that the Balanced Scorecard method

provides sufficient capability of maintaining all existing relationships in the public organization and keeping them in good coordination. The following is the graphic describing the Balanced Scorecard method in the organization.

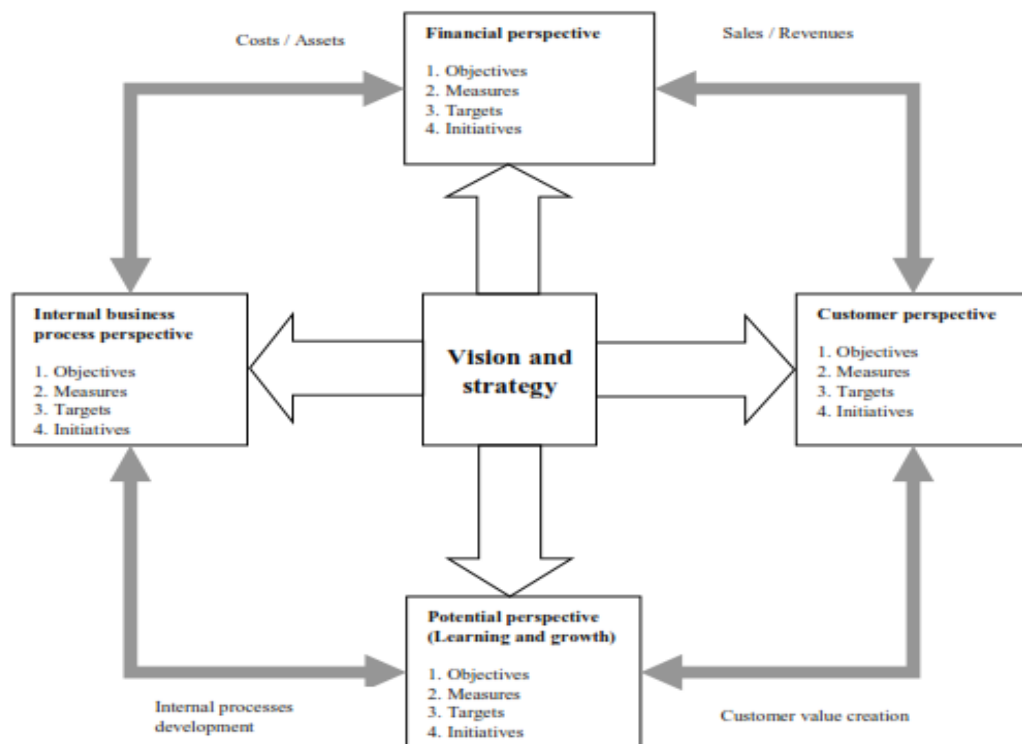


Figure 3 The Balanced Scorecard Framework

Source: Zizlavsky (2014)

Balanced Scorecard framework described above also shows that basis of the application of this method is the visions and strategies developed to comprehend the working mechanism of the Balanced Scorecard method. Sufficient comprehension of the working mechanism of the Balanced Scorecard method will make the execution of each vision and strategies developed in the organization

easy. The same thing has been performed by DFAS, UWSNE, and DCH in evaluating the organizations' performance. As public organizations, DFAS, UWSNE and DCH prioritized its efforts to make their performances transparent to the publics, and the desired transparency can be explained by applying the Balance Scorecard method.

Figure 3 shows that strong relationship between every goal and objectives of each perspective. This strong relationship subsequently shows that the public organizations DFAS, UWSNE, and DCH are very concerned with their services given to the public, maximized their performance, are able to reach anything in their fields. It is reflected from the results given by the Balanced Scorecard method in which each object is bound to the goals or objectives developed by the organization. These results are in line with the research conducted by Kureshi (2011) which found that to comprehend the effectiveness of performance measurement of a public organization the Balanced Scorecard method can be applied. This will be then related to establishment of strategies of the organization so that they will be improved and have higher performance quality

Based on the success in applying the Balanced Scorecard method in DFAS, UWSNE and DCH, it is proven that Balanced Scorecard can be applied to not only business organization but also public organizations. Balanced Scorecard can be modified and adjusted to the visions and strategies developed by an organization to reach its goals and objectives.

CLOSURE

Conclusion

Balanced Scorecard can be applied not only to business organizations but also to public organizations in measuring their performance. This method has been applied by public organizations like Defense Finance and Accounting Service (DFAS) in the United States, United Way of Southeastern New England (UWSNE) in England and Duke's Hospital (DCH) in England. Balanced Scorecard provides procedures for translating organizations' goals into targets with clear measures in various perspectives completely. The application of Balanced Scorecard can be modified and adjusted to organization types, visions, and targets which have been established. Balanced Scorecard is a mechanism to make organization focused on strategies because Balanced Scorecard allows all units in the organizations to contribute to the implementation of the organizations' strategies in measureable manners.

REFERENCES

- [1] Averson, Paul (25 August 2004), "A *Balanced Scorecard for City & County Services*", <http://www.balanced scorecard.org>
- [2] Averson, Paul (25 August 2004), "*Building a Government Balanced Scorecard: Phase 2 – Implementation and Automation*", <http://www.balanced scorecard.org>
- [3] Bolivar, M.P.R., Hernandez, A.L dan Rodriguez, D.O. 2010. *Implementing the balanced scorecard in public sector*

- agencies: *An experience in municipal sport services*. *Academia, Revista Latino Americana de Administración*, 45, 2010, 116-139
- [4] Balanced Scorecard Institute (Strategy Management Group). Available at <http://www.balancedscorecard.org/BSC-Basics/Examples-Success-Stories> Access on July 28, 2017
- [5] Campbell, Dennis, Datar, Srikant, Kulp, Cohen, Susan and Narayanan, V. G. “Using the Balanced Scorecard as a Control System for Monitoring and Revising Corporate Strategy”, <http://www.ssrn.com>, 12 February 2005.
- [6] Christensen, T., Laegreid, P., Roness, P.G., dan Rovik, K.J. (2007). *Organization Theory and the Public Sector*. New York: Routledge Inc
- [7] Ittner, Christopher D. and Larcker, David F. “Innovations in Performance Measurement : Trends and Research Implications”, <http://www.ssrn.com>, 12 February 2004.
- [9] Kaplan, Robert S and Norton, David P (1996), *Balanced Scorecard*, Jakarta, Erlangga.
- [10] Kaplan, Robert S and Norton, David P (2000), *Balanced Scorecard : Menerapkan Strategi Menjadi Aksi (Implementing Strategies for Action)*, Erlangga : Jakarta.
- [11] Kaplan, R.S. (2001). *Strategic Performance Measurement and Management in Nonprofit Organizations*. *Journal of Nonprofit Management & Leadership*, 11(3), Spring 2001
- [12] Kureshi, N. (2011). *Balanced Scorecard - Public Sector Organizations*. Journal of ICQI-Lahore, 2-3 May 2011. Available at <http://piqc.edu.pk/casestudies/NadeemIshaqKureshiStrategicPerformanceManagementThroughBalancedScorecardinPublicSectorOrganizationsManufacturing&ServiceQualityCaseStudy.pdf> Access on July 28, 2017
- [13] Mahsun, Mohamad, 2009. *Pengukuran Kinerja Sektor Publik (Performance Measurement of Public Organization)*. Yogyakarta : BPFE
- [14] Malgwi, A.A. dan Dahiru, O. 2014. *Balanced Scorecard financial measurement of organizational performance: A review*. *IOSR Journal of Economics and Finance (IOSR-JEF)*. Volume 4, Issue 6. (Jul-Aug. 2014), PP 01-10.
- [15] Modell, Sven (12 Februari 2005), “Performance Measurement Myths in Public Sector”, <http://www.ssrn.com>
- [16] Ondoro, C.O. 2015. “Measuring Organization Performance” *From Balanced Scorecard To Balanced Esg Framework*. International Journal of Economic, Commerce and Management. United Kingdom. Vol. III, Issue 11, November 2015
- [17] Soetjipto, J, 1997. *Pengukuran Tingkat Kepuasan Pelanggan: Untuk Meningkatkan Pangsa Pasar (Performance Measurement of Customer Satisfaction to Increase Market Share)*, Rineka Cipta : Jakarta.
- [18] Zizlavsky, O., 2014. *The Balanced Scorecard: Innovative Performance Measurement and Management Control System*. *Journal of Technol. Manag. Innov.* 2014, Volume 9, Issue 3