

BALANCED SCORECARD AS A STRATEGIC TOOL FOR MANAGEMENT OF PUBLIC ADMINISTRATION

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Abstract: Balanced Scorecard is one of the modern methods of management currently being applied mainly by progressive organizations of the private sector. The subjected method was recently implemented into financial management, which is the key to the process of organizational management in relation to the achievement of the business goals. This suggests that the Balanced Scorecard could help improve management process in public administration, which should lead to improved efficiency. The aim of this article was to highlight the possibility of using the Balanced Scorecard in the management of public administration. This article defines and describes the Balanced Scorecard method and observation of its application in public administration in the Slovak Republic.

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Introduction

Public administration in the Slovak Republic went through a considerable development during last twenty years. Its transformation were partly performed, which made a big leap forward. Given the current economic development it is quite obvious that yet more steps will be needed to make. Changes that are based on professionalizing of Offices and the implementing of modern management methods into public administration, represent the right way. It is apparent from two perspectives – professional (running the office itself, relations to the citizens) and economical (it is one way to reduce costs and increase efficiency).

The introduction of new management principles is resulting in generation of market-based concept, which is oriented to customer, quality of services and efficiency. Certain risk still remains that the implementation of these methods is limited to the management itself. Since the development of society and economic conditions is very dynamic and variable, it is essential that local authorities (which should be evaluated based on actual performance) implement strategic planning. Particularly the risk management strategy. Defining these risks in the long term allows to respond to changing demands on the local government agenda in the context of influence by globalized changes.

Modern management methods (Balanced Scorecard, Benchmarking or Common Assessment Framework) help efficiently make all these changes to apply. These methods create the conditions for effective management of county or city administration. They may also facilitate transparency in the use of funds and eliminate corrupt environment. The basic principles of these methods lead to the fact that strategic thinking in the management of the Office is a standard that allows you to increase the effectiveness of each method. It ultimately improves the functioning of the organization.

Balanced Scorecard (BSC)

BSC is a recognized method for management strategies and was introduced in 1992. It was originated by Robert S. Kaplan and David P. Norton. Balanced Scorecard is also called as a *method of balancing indicators* or *balanced success*. The method is based on a process approach and suitably complements the benchmarking. Balanced Scorecard effectively aligns strategy with resources, explains the causes and consequences of activities leading to their implementation. It acts as a performance management tool and simultaneously it is able to incorporate collaboration with stakeholders (Kaplan & Norton, 2000).

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The core of the BSC is a set of balanced key performance indicators. Before applying the BSC method, it is necessary to clarify the vision and strategic priorities (e.g. using the techniques of government concept “Miestna Agenda 21”).

The task of the BSC method is not set out a vision and strategy, but to ensure their fulfillment. The logic of BSC is explained below (Figure 1). The vision and strategy of individual city, county, or any other public administration is observed from the four perspectives that must be balanced. The method puts a great emphasis on the process approach.

The benefit of BSC is its ability to convert the mission, vision and strategy of organization into tangible elements - specific indicators in four specified perspectives. It also gives the possibility of clarifying the sequence of events (in terms of identifying the causes and consequences) and the definition of driving forces leading towards the achievement of the strategic objectives (Kaplan & Norton, 2007). Niven (2008) characterizes the BSC as “a set of carefully targeted indicators derived from the organization's strategy.”

Advantages:

- BSC is an effective way to align company strategy with the interests of shareholders, customers and employees.
- It takes into account both financial and non-financial criteria
- BSC gives a real insight into whether the company is meeting its objectives
- It improves communication and thereby provides reliable information on the current strengths and weaknesses.
- BSC focuses on new approach to company future.

Disadvantages:

- BSC implementation is time-consuming
- Training is required before introduction into the business.
- Costs associated with the introduction.

BSC is a system of strategic management and measurement of organizational performance through a combination of financial and non-financial indicators. It is a tool for solving complex problems in the long term perspective, which allow to lead the strategy to its implementation. When using the BSC method in the public sector, the performance of the studied organization is measured by **indicators disaggregated into four perspectives** (Kaplan & Norton, 2007):

- Financial perspective,
- Customer perspective,
- Internal process perspective,
- Learning/Growth perspective.

The **financial perspective** primarily monitors the overall efficiency of financial management that within its application takes into account all possible risks as well as benefits. Strategic directions in this perspective include reducing costs, efficient use of resources, expanding service offerings, more efficient use of assets, etc. These objectives are practically identical to the demands that are currently imposed on public administration.

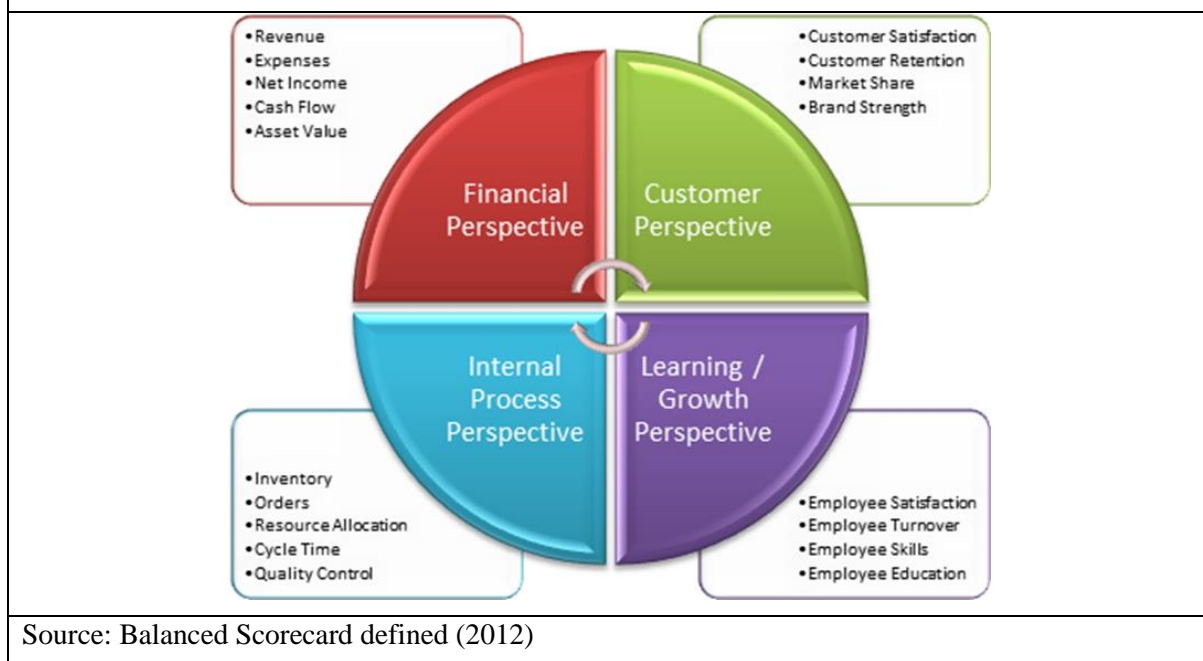
Customer perspective identifies segments of customers that are important for the organization. The profit-oriented organization will be always interested only in certain groups in society that can

contribute to its profit. Organizations of public administration are different, since their activity must cover the whole society not just certain groups.

The **perspective of internal processes** is dealt only after setting of goals, customer and financial perspective measurements. It may result in bringing up the need to implement a completely new internal processes, or somehow modify and improve the existing ones. The example resulting from customer perspective can be the recognized need to improve communication with the public, the implementation of such processes that enable at least basic anticipation of customers' future needs.

The **perspective of learning and growth** sets such goals that create the conditions that will enable the achievement of the objectives set out in other perspectives. This perspective is particularly aimed at skills of employees, information system capabilities, motivation and delegation of power or commitment. Attention to be devoted to own employees, is determined not only by the need to dispose of qualified and experienced staff, but also the fact that ordinary employees are those who come into contact with the customers (citizens). These employees know best the customer requirements and also understands the operational processes of the organization. Therefore, they have a good overview of improvement possibilities. Besides, they also represent their employer in the contact with customers. Their knowledge and its constant improvement is therefore very important. (Mates & Wokoun, 2006).

Figure 1: The four perspectives of Balanced Scorecard



Each indicator in correctly assembled BSC is a part of causal links chain leading towards to the set objectives. The individual indicators have assigned the target values and action plans are defined, allowing achievement of these values. The concept of BSC must maintain a strong bond of all perspectives to financial outcomes. Activities of the organization should meet the basic aim of its existence - sustainable development. If the organization has the vision, it should also set out the way how to achieve the vision, what strategies to adopt. The strategies are fulfilled by the customer (citizen) and founder. These activities have to be funded so this perspective should be in compliance with the financial perspective.

Practical application of the BSC method in organizations confirmed the existence of many critical aspects of such method and pointed to other problems in its implementation and use. One of the main problems is misunderstanding of the very essence of BSC and exaggerated expectations of resolving all issues of strategic management after its implementation. Poor support of top management, lack of

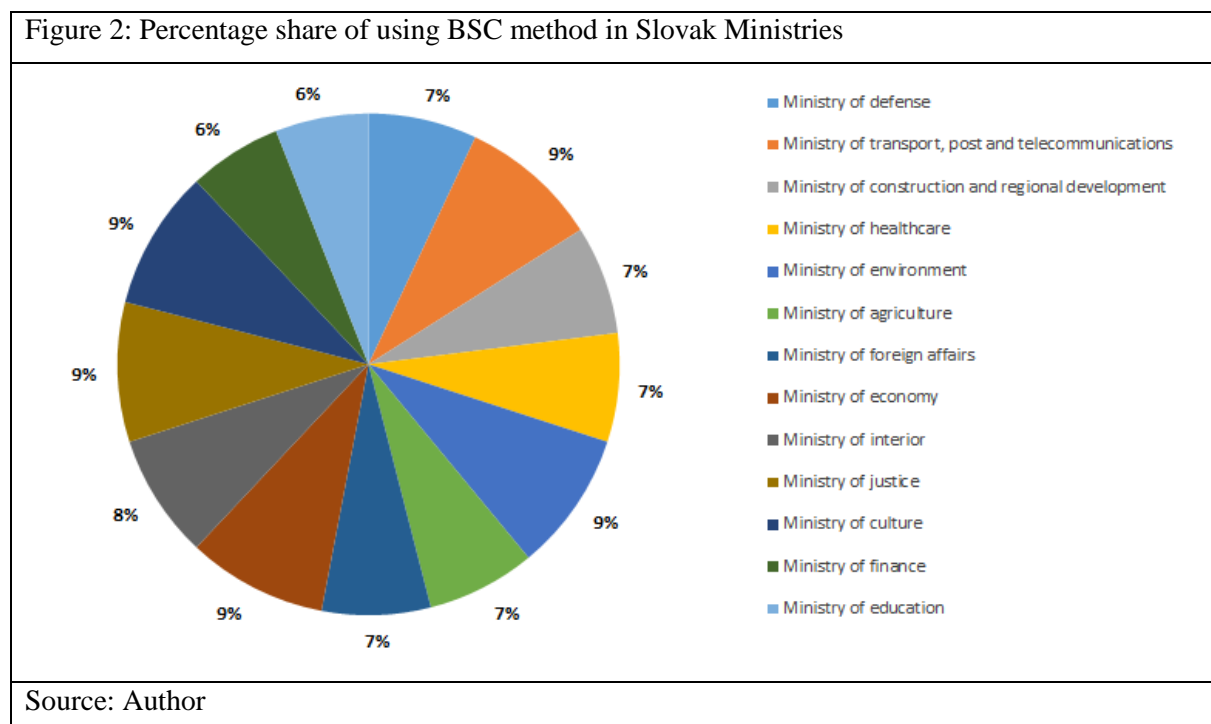
commitment by staff, and non-connecting of BSC with the remuneration system can be a further failure.

European Patent Office that implements and uses the BSC since 2003 also identified a number of problems directly related to BSC. Critical is especially the question of connection between BSC and strategy. Although, BSC is built upon strategy of the Office, its control by BSC is insufficient. It is not entirely clear whether the relevant key indicators are measured. They key indicators relevant to the Offices failed to be specified even over some time and therefore have to be frequently changed. The results of BSC do not yet have sufficient influence to change the strategy and serve only as a report about the state of the organization (Bujanská, 2006).

Implementation of Balanced Scorecard in the Slovak republic

In this section of article, we evaluated the secondary research, specifically the percentage share of using the BSC method (among other strategic management tools) in the authorities of public administration in the Slovak Republic.

The results show that BSC method is used by Slovak ministries at proportional distribution (Figure 2). BSC method is considered to be an innovative tool for benchmarking. It adds quantitative indicators for measuring the efficiency of public administration of the Slovak Republic, the use of funds and identifying key points for success. The method is currently used mainly in financial part of public administration, whereby the Government foresees financial perspective municipalities and higher territorial units. The point is that the BSC is not aimed to check, but focuses on strategy and looking to the future.



The basis of this method is to effectively determine the objectives in terms of budget, financial tasks and efficient use of funds from the national budget reserved for the public activities.

The main contribution of the BSC method for public administration can be identifying capabilities of BSC processes. This should result in effective achievement of the strategic objectives using a synergistic effect of implementation of the BSC as a comprehensive management system. The

potential of the processes used in the implementation of the BSC in strategic management system is to cover all its phases, thus ensuring increasing efficiency in all processes of strategic management.

The BSC itself (as it is known by its authors, Robert Kaplan and David Norton) had the ambition to become a strategic management system since its inception. It succeeded by gradual evolution from measuring tool to management system. It is alive, never-ending, systematic, constantly changing continuous process.

Conclusion

Specific in using the BSC method in public administration is the fact that the public authorities need to ensure compliance with laws and the transparency of its activities. The strategic objectives can be in the public administration draw on documents, such as government programs, documents of political parties, development programs of municipalities and regions, etc. It is important that all objectives would be explained to citizens and the ways to achieve them would be presented as well. Developing an overall strategy for the role of senior officials. The process of its creation should involve the general public. This corresponds with the general requirements of citizen participation in the management of their municipalities, counties and regions. (Mates & Wokoun, 2006)

The effective BSC system is characterized by simplicity, it is motivational and uses element of leadership for achieving the objectives. There is ample space for implementation of a similar system in Slovakia, as the local authorities have a sufficient degree of independence and autonomy, which are guaranteed by law.

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