

APPLICATION OF THE BALANCED SCORE CARD IN PUBLIC SECTOR: IS IT POSSIBLE?

ARUOMOAGH, Jude A.

*Lecturer: Department of Accounting, Faculty of management sciences,
university of Benin, Edo state. Nigeria*

Correspondence: 08035481222, jude.aruomoaghe@uniben.edu

Ikhu-OMOREGBE, Godstime

*Lecturer: Department of Accounting, Faculty of management sciences,
university of Benin, Edo state. Nigeria*

Correspondence: 07033119142

ABSTRACT

The Balanced scorecard is a recent contribution to strategic management accounting that emphasizes the role of management accounting in formulating and supporting the overall competitive strategy of an organization. The balanced score card is mainly applied in the private sectors with little evidences of its applicability of the public sector. This study looks at the application of the balanced scorecard in public sector administration. Data were collected through questionnaires from two public sector agencies in Edo state. This data was analysed and hypotheses tested using the t-test with SPSS. The result shows that the balanced scorecard can be applied in public sector administration and this will enhance public sector service delivery. The paper concludes by

advocating for the application of the Balanced scorecard in public sector administration.

1.0. Introduction

Balanced scorecard is a recent contribution to strategic management accounting that emphasizes the role of management accounting in formulating and supporting the overall competitive strategy of an organization. According to Drury (2008:571), it seeks to encourage behaviour that is consistent with an organizational strategy". Balanced scorecard is a web of integrated framework of performance measure which goes beyond the traditional financial measure of performance. The primary aim of such integrated framework is to clarify the organization strategy for implementation and communicate same to all and sundry within the system.

Essentially, the scorecard integrates with the initially used financial measure of performance other non-financial measures which are variables that are needed to make an organization compete favourably in the global competitive environment. Issues such as product, quality, delivery, reliability, after sales services and customer satisfaction have been understood as the key variables which determine how well a firm or organization competes in global environment. These were not given sufficient important measure by the traditional management accounting performance measurement system.

Before 1980s, management accounting control system tended to focus more on financial measures of performance. During the 1980s however, emphasis began to be laid on the need to incorporate into management reporting systems those non-financial performance measures that could provide feedback on the key variable that are required to compete successfully in a global economic environment (Drury, 2008). It was not until 1992 that the balanced scorecard was designed and subsequently refined by Kaplan and Norton (Kaplan and Norton 1996).

Balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. It now has the ability to transform an organizations plan from an attractive but passive document into what must be achieved for the organization on daily basis.

Since the development of the balanced scorecard as a strategic management tool, it has received wide acceptance. For instance Drury (2008) opines that different research surveys shows that different corporations have accepted the balanced scorecard. However, some of these researches seems to concentrate more on the private sectors industries and the extent to which it is applicable in public sector administration seems to be in doubt.

This study therefore intends to ascertain the applicability of the balanced score card in public sector administration. The

remaining part of the paper is divided into literature review, methodology summary and conclusion.

2.0. Literature Review

Since its introduction in 1992, the Balance Scorecard has been a subject of much discussion in academic and practitioner papers, and has also featured in many management textbooks (Lawrie and Cobbold, 2002). The popularity of the Balanced Scorecard is not unconnected with the need to have a strategic management framework that is comprehensive to enable organizations to put some real strategy and strategic thinking into planning process so that the strategic plan helps to allocate resources and focus on the most important things that are strategic and aligned with vision (Rohn, 2008).

There are two things that Balanced Scorecard represents and it derives its definitions from these. First, it represents performance measurement. This is the original intention of this management strategic tool. According to Rohn, (2008) Balanced Scorecard is a measurement-based framework for grouping existing measures into categories and displaying the measures graphically, usually as a dashboard. This follows on the heel of the conventional financial performance measurements generally criticized for a number of reasons. Notably, it is thought that financial performance measurements ignore “other important variables which were necessary to compete in the global competitive environment. Product quality, delivery,

reliability, after sale service and customs satisfaction became key competitive variables but none of these was given sufficient importance measure by the traditional management accounting performance measurements system". (Drury, 2008: 576).

The second thing Balanced Scorecard represents is strategic planning management and communication system. This is an offshoot of the initial performance measurement intention and it is incidental. The usage of Balanced Scorecard is now a robust organization strategic planning, management and communication system that align the work people do with organization vision and strategy, communicate intent throughout the organization and the external stakeholders and provide a basis for better aligning strategic objective with resources.

Understanding Balanced Scorecard from these two perspectives, attempts have been made to give it a concise definition. It is noted that Kaplan and Norton have not at any time defined what Balanced Scorecard is other than explaining how it works (Lawrie and Cobbold, 2002). Many of the definitions provided have attempted to portray it as a management strategy tool. It is often seen as a strategic planning and management system that is used extensively in business and industry, government, and non-profit organisations worldwide to align business activities to the vision and strategy of the organisation, improve internal and

external communications and monitor organisation performance against strategic goals.

One of the primary objectives of a Balanced Scorecard is that it is intended to guide strategy development, implementation and communication (Malina, and Selto, 2001). And Tayler (2009) is of the opinion that Balanced scorecard has the benefit of gauging the success of strategy.

Kaplan and Norton (1996) outline the four important processes which form the framework for linking the strategy and the Balanced Scorecard.

- I. ***Translating the Vision*** – Having a vision does not translate into action or does not mean that employees at the top management level as well as the middle and lower level management will understand the vision except effort is made to develop a consensus among the top layer of management. The vision must translate to agreement on revenue projections, identify most desirable customer segments and so on (Irala, 2007). Strategy at this level can be defined as a collection of a few high-level themes that break a shared vision into actionable focus area. Kaplan and Norton (1996) make this an important feature in the process of linking strategy to the Balanced Scorecard and there has be a general consensus on the need for this (Rohn 2008).

In the development of strategy, the vision of the future must be clearly stated and defined. The overarching strategic result must be tied to the vision. For management and the employees to act on the words in the vision and the strategy statements, those statements must be expressed as an integrated set of objectives and measures agreed upon by all senior executives that describe the long-term drivers of success. Kaplan and Norton (2007)

- II. ***Communicating and linking*** – This process let the managers communicated their strategy up and down the organisation and link it to departmental and individual objectives Malina and Selto (2001) study the effectiveness of the Balanced Scorecard in communicating and controlling strategy; it was found out that the Balanced Scorecard is an effective device for controlling corporate strategy. Though it finds Balanced Scorecard to be effective in communicating and controlling results also indicate disagreement and tension between top and middle management regarding the appropriateness of specific aspects of the Balanced Scorecard as a communication, control and evaluation mechanism. The Scorecard gives managers a way of ensuring that all levels of the organisation understand the long-term strategy and that both departmental and individual objectives are aligned with it. A glaring attributable advantage of the

Balanced Scorecard therefore is that it allows companies to communicate strategy internally.

III. **Business Planning** – This is the third process of linking an organization strategy to its Balanced Scorecard. It enables companies or any other organisation designing a Balanced Scorecard to integrate their business and financial plans.

When building a scorecard for accomplishment of organization strategy, it is a process of pulling real strategy into the planning process so that the new strategic plan helps to allocate resources and focus on the most important things that are aligned with the organization's vision.

Kaplan and Norton (1996) reason that when an organization's management use ambitious goals set for balanced scorecard measure as the basis for allocating resources and setting priorities, they can undertake and coordinate only those initiatives that move them towards their long-term strategic objectives.

IV. **Feedback and Learning Process** – In building and operating a Balanced Scorecard System, there is a fortification of the learning process also enabled by the ability to provide a feedback. It gives companies a capacity for strategic learning and allows the company to monitor short-term results from three additional perspectives – customers, internal and business process, and learning and growth – and evaluate strategy in the light of recent

performance. The benefit of this is that companies readily modify strategy to reflect real-time learning.

According to Irala (2007), the Balanced Scorecard supplies three elements that are essential to strategic learning. First, it articulates the company's shared vision, defining in clear and operational terms the results that the company is trying to achieve. Second, the scorecard supplies the essential strategic feedback system that is able to test, validate and modify the expectations embedded in the business unit strategy. Third, the scorecard facilitates the strategy review that is essential to strategic learning.

Balanced Scorecard in the Public Sectors

The public sector is that portion of society controlled by national, state or provincial, and local governments. The public sector overlaps with the private sector in producing or providing certain goods and services. The extent of this overlap varies from country to country, state to state, province to province, and city to city. This overlap is most often seen in waste management, water management, health care, security services, and shelters for homeless and abused people (Rouse, 2010).

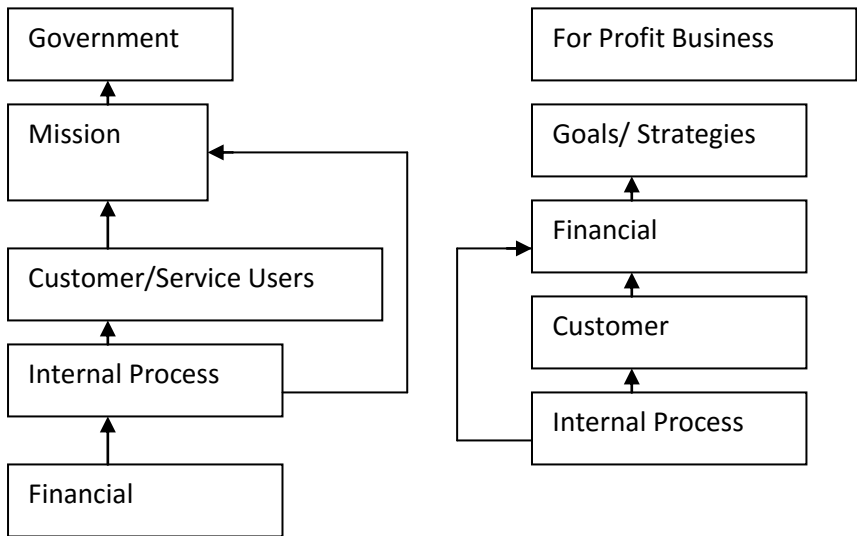
Using the same performance metrics in the public sector as in the private sector could be ineffective. This is because the goals of the two sectors are quite different. The Public sector faces a different environment from what the private sector faces. In the first instance, the focus of the private sector is the shareholder

value and which translates to the bottom line. The Public sector funding comes from the taxpayers it is servicing. The success is not shareholder value or profit but how well the agency is meeting the mission given to them. Although the agency can often times perform this mission in whatever ways it sees fit, it is still bound by the directive of the mission and fulfilling the mission comes down to customer satisfaction with the agency service. However, defining the customer needs is a bit more complex according to Isoraite (2008). The number of customers or stakeholders which the public sector organization must serve also makes a difference.

In the public sector organization, the financial measures are part of what is needed to please the funding agencies. While private sector clients or customers are not concerned with an organization internal efficiency so long as their product price and service needs are met, internal efficiency is of great concern to the public sector's stakeholders who are also its source of funding, taxpayer, in many cases require accountability that their money is being used effectively and efficiently. Therefore, performance, efficient use of resources, and satisfaction with the service by the public are key issues. These differences lead to a different sort of hierarchical model for the balanced scorecard in the public sector. As increasing shareholder wealth does not have primacy in a governmental operation, financial performance becomes less critical reaching the mission of the organization is of key interest to those who

fund this organization. Hence, the government model needs some changes in hierarchical ordering as against the hierarchical ordering of the authors of Balanced Scorecard in their mapping article (Isoraite, 2008). It is common to have financial measures at the bottom of the model in the public sector to indicate the importance of having adequate funding as a precursor to developing the organization as in the Figure 1 below:

Fig 1: comparison between scorecards for government and profit organizations.



Source: *Isoraite (2008)*

According to Isoraite (2008), the Balanced Scorecard may be effective in the public, if and only if, the current perspectives are rearranged. The four perspectives of the current version of the Balanced Scorecard can still be applied in government organizations as long as they are rearranged according to governmental priorities. It is clear that above considerations seem to have considerable impact on the ability of the Balanced Scorecard in ensuring best customer satisfaction. These considerations, if positively dealt with, may contribute to employee satisfaction, superior employee performance and sound internal business process and in turn, may lead to efficient stewardship of taxpayers' money. It is clear that some modifications are needed to the current version of Balanced Scorecard for use in the government sector as an effective performance measurement and management tool.

A suggested diagram depicting Balanced Scorecard for the government sector was given by Isoraite (2008)

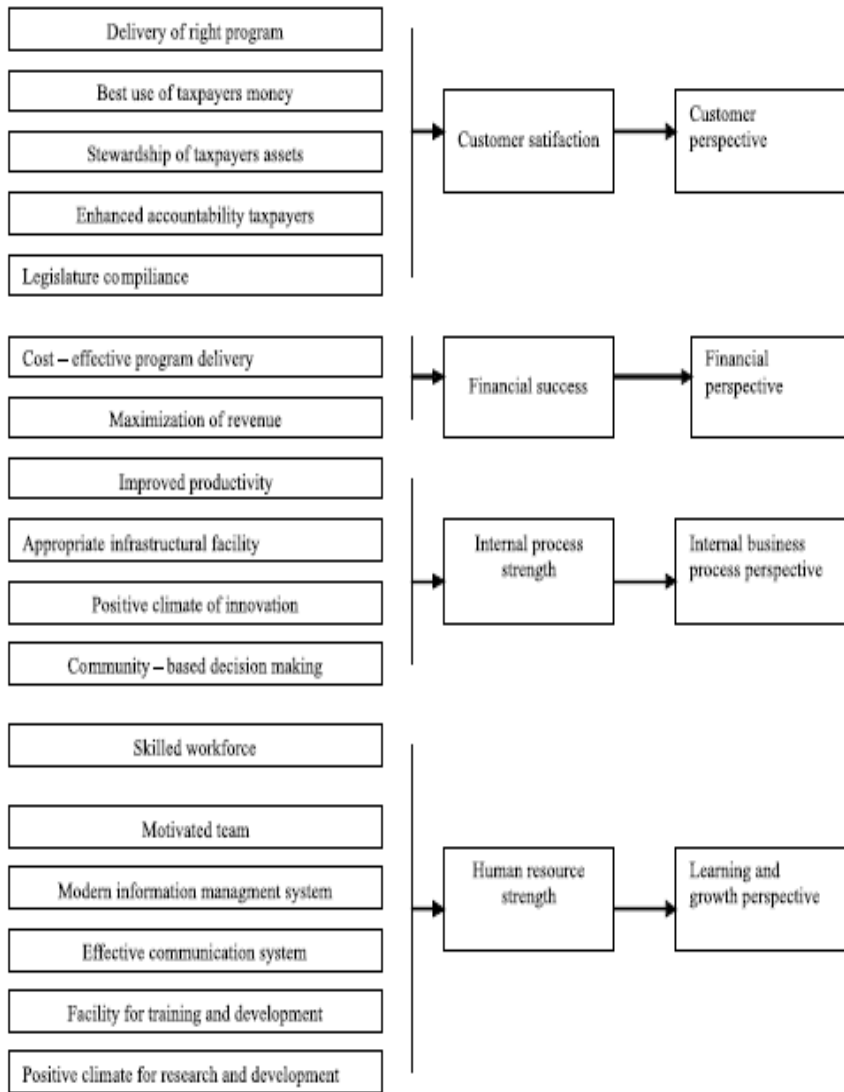


Figure 3. Is it meaningful to measure performance in public sector?

Source: Isoraite (2008).

Criticism of the Balanced scorecard

Inspite the general acceptance of the Balanced Scorecard; there are some criticisms in its trail. There is a belief in some quarters that it does not properly cohere with the stakeholder approach to performance management as it often fails to effectively address issues relating to employee and supplier contributions and/or the role of the community and is based towards shareholders (Mukonje, 2009).

Akintson et al (1997) in Mukonje (2009) gave a number of reasons why they feel Balanced Scorecard is incomplete. According to them, it fails to (i) adequately highlight the contributions that employees and suppliers make to help company achieve its objectives (ii) identifies the role of the community in defining the environment within which the company works (iii) identify performance measurement as a two-way process which enables management to assess stakeholders contributions to the company's primary and secondary goals and enables stakeholders to assess whether the organization is capable of fulfilling its obligations to them now and in the future. There are a number of views that the Balanced Scorecard downplays the importance of other stakeholders such as employees, suppliers, regulators and communities. The view is held that if Balanced Scorecard should adopt a stakeholder approach and if care is not taken there is a risk that by seeking to incorporate the disparate

demands of each key group the resulting Balanced Scorecard can resemble a series of four independent and uncoordinated lists of measures (Mukonje, 2009). Another criticism of the Balanced Scorecard is its complexity, the time and cost required for its implementation compared to its “low ease of use”. The complexity and difficulty lie in the choice of effective measures. For performance measures to be effective, they have to be reliable and consistent with the actions of the unit, and with the short – long-term goals of the whole organization. Finding measures that are specific to the unit, yet general enough to reflect the strategy of the organization and that incorporate long and short term views seem to be too optimistic.

According to Yahaya (2009), these problems can be avoided simply by not tying measures to performance, and by using measures as a guide rather than a straitjacket.

3.0. Methodology

In order to be able to draw conclusion on this study; the following hypotheses were made.

1. Ho: The balanced scorecard is not applicable in public sector administration.
2. Ho: Application of the balanced scorecard will improve service delivery in public sector.

Two government agencies in Edo state were selected and twenty questionnaires administered to them each. From the total of forty questionnaires administered, twenty – eight questionnaires were carefully filled and returned. These returned questionnaires were used for the data analysis and testing of hypothesis for this study.

4.0. Test of hypothesis

To test for the hypothesis, the student t – test was used with SPSS. The rationale behind this is due to the fact that the returned questionnaires were below thirty.

The result for hypothesis one is given below;

Table 1: T-Test Result for Hypothesis One

	Test Value = 0					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Hypothesis One	14.819	27	.000	1.39286	1.2000	1.5857

Source: SPSS Output

From the SPSS output above, the t- calculated at a degree of freedom of 27 is given as 14.717 with a mean difference of 1.39286. The t- tabulated at a degree of freedom of 27 at 95%

confidence interval is given as 1.70. Comparing both the t-calculated and t-tabulated reveals that the t-calculated is higher than the t-tabulated. We therefore reject the null hypothesis and accept the alternate hypothesis.

The result of hypothesis two is given as;

Table II: T – Test Result for Hypothesis Two

	Test Value = 0					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Hypothesis Two	15.000	27	.000	1.25000	1.0790	1.4210

Source: SPSS Output

From the SPSS output above, the t- calculated at a degree of freedom of 27 is given as 15.000 with a mean difference of 1.25000. The t- tabulated at a degree of freedom of 27 at 95% confidence interval is given as 1.70. Comparing both the t-calculated and t-tabulated reveals that the t-calculated is higher than the t-tabulated. We therefore reject the null hypothesis and accept the alternate hypothesis.

5.0. Summary and Conclusion

The result of our analysis shows that the application of the balanced scorecard in public sector administration is a

possibility. This of course is in agreement with the assertion of Isoraite (2008). Also from our analysis, it will be seen that the application of the balanced score card in public sector administration will enhance service delivery in the public sector. This of course is the hallmark of public sector of the economy.

The application of the balanced scorecard in public sector administration is a welcome idea because it will not only ensure that government businesses are carried out with utmost commitment it deserves but also restore the pride of the public sector administration.

Conclusively, it is important to note that if the balanced scorecard is important to the private sector, it is also important to the public sector especially now that the nation is moving towards the full adoption of the international public sector accounting standards (IPSAS) as a major reporting standard.

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Appendix

RESPONSES TO QUESTIONS

H1

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	17	60.7	60.7	60.7
No	11	39.3	39.3	100.0
Total	28	100.0	100.0	

H2

	Frequency	Percent	Valid Percent	Cumulative Percent
Yes	21	75.0	75.0	75.0
No	7	25.0	25.0	100.0
Total	28	100.0	100.0	

T-TEST

/TESTVAL=0

/MISSING=ANALYSIS

/VARIABLES=H1

/CRITERIA=CI(.9500).

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Hypothesis One	14.819	27	.000	1.39286	1.2000	1.5857

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Hypothesis Two	15.000	27	.000	1.25000	1.0790	1.4210