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Balance Scorecard Implementation in Public Sector Organization, A Problem?

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ABSTRACT

Implementation of the scorecard has been the subject of professional and academic research. This has resulted in lists or factors that are believed to affect the likelihood of success or failure of an implementation. The implementation and use of the scorecard approach to performance management has been popular for several years, but empirical evidence from the manufacturing and industrial sectors seems to be much more considerable than the public sector environment. Adopting a balance scorecard measurement from the private sector to the public sector is not an easy matter, the differences in the organization's characteristics and objectives lead to the implementation of many obstacles. Balance Scorecard as a means of measuring organizational performance, it turns out that implementation has many challenges in public sector organizations (government), one of which is the problem of cascading communication is also a matter to be considered by the public sector, considering the organization's strategy must be in line with the business unit under it.

INTRODUCTION

The previous literature states that the use of the Strategic Performance Measurement System (SPMS) resulted in better and broader communication to achieve strategic objectives, and a better understanding of the actions necessary to achieve organizational success (Chenhall 2005). However, several other empirical studies analyze the effectiveness of SPMS as a means of communication strategy. Malina and Selto (2001) reported improved manager satisfaction by using Balance Scorecard (BSC), but found no support for effective communication effects. Regardless of the lack of effective support, at least performance measurements with Balance Scorecard are being used in public sector organizations, even in the implementation of many obstacles.

The Balanced Scorecard, a performance measurement and strategic management system proposed by Kaplan and Norton (1996, 2001), can be a valuable tool for a public sector organization (Yee, 2004). Balanced scorecard is a customer-driven process improvement and planning system, focusing primarily on encouraging organizational change processes by identifying and evaluating the

performance measures. This is an integral part of the mission of identification, strategy formulation and process implementation, with an emphasis on translating strategy into a set of financial and non-financial measures. So far, the anecdotal report on the balanced scorecard has been concentrated in the profit-oriented sector and many companies have found the balanced scorecard as a useful tool for focusing and sustaining a steadily increasing effort (Brewer, 2002; Gumbus and Lyron, 2002; Kershaw and Kershaw 2001) .

In the late 1990s many public sector organizations introduced a new accounting system. Changes were proposed into the new public management theory of the 1980s (Hood, 1995) and influenced by strategic management thinking (Mintzberg, 1994) development of IT and accounting techniques (Granlund and Malmi, 2002) with the aim of enhancing the accountability and effectiveness of government organizations and improving efficient use of resources (Guthrie and England, 1997; Dixon et al, 1998). Initially aimed at encouraging private sector organizations to expand management accounting systems beyond concentrating on financial and technological measurements, the 'multi-dimensional balanced scorecard' focus has also been seen as a positive way of dealing with governance and accountability issues typically faced by multi-objective, for-profit and public sector organizations (Kaplan, 2001). Implementation of the scorecard has been the subject of professional and academic research. This has resulted in lists or factors that are believed to affect the likelihood of success or failure of an implementation. The implementation and use of the scorecard approach to performance management has been popular for several years, but empirical evidence from the manufacturing and industrial sectors seems to be much more considerable than the public sector environment (Ittner and Larcker, 1998; Johnsen, 2001; Radnor and Lovell, 2003; Eskilden et al, 2004; Moxham and Boaden, 2005). Adopting a balance scorecard measurement from the private sector to the public sector is not an easy task, the differences in the organization's characteristics and objectives lead to the implementation of many obstacles. Then another approach is how the application of the Balance Scorecard to the public sector is related to the measurement of public sector performance and empirical evidence of the impact of the public sector measurement approach. While related to alignment in communication, Umasev and Willet's (2008) research suggests that cascading may be a common problem in the effective implementation of the Balance Scorecard in any complex multi-objective organization.

METHOD

The implementation and use of the scorecard approach to performance management has been popular for several years, but empirical evidence from the manufacturing and industrial sectors seems to be much more considerable than the public sector environment (Ittner and Larcker, 1998; Johnsen, 2001; Radnor and Lovell, 2003; Eskilden et al, 2004; Moxham and Boaden, 2005). There appears to be general agreement among researchers that the transposition of private sector performance models is not readily displayed in a public sector environment, and that some model adjustments are generally required (Kaplan, 2001; Radnor and McGuire 2004; Moullin, 2004; Wisniewski and Stewart, 2004; Adcroft and Willis, 2005; Pidd, 2005). Although performance measurement has evolved into a relatively extensive literary form over the last two decades, many researchers have commented that the development of this field is still lacking (McAdam and Banister, 2001; Bourne et al., 2002; Franco and Bourne, 2003; Thorpe and Beasley, 2004; Bourne et al., 2005; Neely, 2005; Busi and Bititci, 2006). The literature that appeals to this research can be found in two areas: firstly the measurement of public sector performance, and secondly, the empirical evidence reporting the impact of an organization's performance measurement approach. Literature is specifically focused on balanced scorecard applications in the public sector. In the first field, it is said that many of the problems and difficulties associated with public sector measurements appear to arise from the "imported" framework of the private sector. Gooijer (2000) commented that most origin performance measurement solutions derive from commercial earnings of the organization, thereby limiting the application to public sector management (Gooijer, 2000). While Franco and Bourne (2003) identify nine factors that impact how to manage organizations through measurement, and report that public sector environments are often more difficult due to political and government agendas that distort the system. Moullin (2004) recognizes that while a balanced scorecard has been used in public sector organizations there are still

difficulties associated with implementation in this sector. And there seems to be a lot of evidence that performance measurement approaches can not simply be transferred from one organization, or sector, to another without consideration to the organizational or sector context.

Johnsen (2001), on the implementation of the balanced scorecard, commented that the context of public management to date has received little scientific attention. Furthermore, Kaplan (2001) comments that to achieve focus and alignment (of their performance measures) may be very difficult for non-profit organizations. Wisniewski and Olafsson (2004) suggest that for all reasons the process of implementing the public sector balanced scorecard is not easy, and is arguably more difficult than in private firms.

RESULTS AND DISCUSSIONS

Cascading is similar to the concept of alignment, which is illustrated in the private sector as defined by Kaplan's "Car" case study (1999). In "Car", the highest scorecard level is developed at the corporate level associated with lower-level scorecards, decentralized organizational units. Although each unit formulates the right strategy for the target market, each strategy should still be consistent with the larger company strategy.

Case studies of some private companies comment on the alignment problem of sub-units of Scorecards (eg, Malina and Selto, 2001). Case studies of public sector organizations identify similarity issues with those in the private sector, such as flexibility in size and well-designed systems (Pink et al., 2001) and clarity of vision and its relationship to strategic objectives (Gambles, 1999). However, although these two issues are related to alignment factors, no empirical research has so far appeared to focus specifically on the issue of different cascading scorecards in public sector organizations.

The above understanding identifies that one of the most serious problems in implementing Balance scorecards is cascading problems, where the creation of harmony must be all elements of the organization. This indicates that the results and objectives at the program level should be used by the business unit as a reference point for the business unit level scorecard design, not the company's indicator. This will allow flexibility in the application of business unit scorecards.

Cascading problems are related to communication problems, where cascading elements may be the most recent element but still are essentially a special case of alignment problems in the context of multi-layered, multi-objective organizations. The balanced scorecard provides a comprehensive, top-to-the-go view of organizational performance with a focus on the strength of vision and strategy; management performance can be facilitated through its use (Missroon, 2000).

Implementation of the Balance Scorecard will fail if non-violence is created between upper level organizational units and lower-level organizational units. This is evidenced in the research of Umasev and Willet (2008) which found the relationship between corporate strategy and business unit and cascading scorecard, including the selection of key performance indicators in the business unit and found communication problems and other factors (leadership, effectiveness, education and training, back and empowerment) are interconnected. The study also highlights the fact that the factors that determine the success or failure of scorecard implementations are highly interrelated.

Thus the implementation of Balance Scorecard in the public sector is not easy, it means many challenges. Although it works, it requires a long process of time because public sector organizations have multi-objectives. Empirically there are several studies related to the implementation and measurement of the Balanced Scorecard on the public sector, especially in European and American countries (Australia, New Zealand, Canada, UK and America) with varying results through various methodologies.

CONCLUSION AND SUGGESTION

Balance Scorecard as a means of measuring organizational performance, it turns out that implementation has many challenges to public sector organizations (government). Of the many challenges faced are:

1. The measurement of the public sector appears to arise from the "imported" framework of the private sector. Gooijer (2000). While Franco and Bourne (2003) identify nine factors that impact how to manage organizations through measurement, and report that public sector environments are often more difficult due to political and government agendas that distort the system.
2. Kaplan (2001) states that to achieve focus and alignment (of performance measures) may be very difficult for non-profit organizations. Wisniewski and Olafsson (2004) suggest that for all reasons the process of implementing the public sector balanced scorecard is not easy, and is arguably more difficult than in private firms.
3. Communication alignment problems (cascading) are also issues that should be considered by the public sector, given the organization's strategy must be in line with the business units below it.

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