APPLICATION OF BALANCED SCORECARD METHOD AS A TOOL FOR STRATEGIC MANAGEMENT OF CHOSEN MUNICIPALITY

Petr Řehoř
University of South Bohemia, Czech Republic
rehor@ef.jcu.cz

Darja Holátová
University of South Bohemia, Czech Republic
holatova@ef.jcu.cz

Abstract:
In this article the method Balanced Scorecard (BSC) is applied in a municipality Borovany which is situated in the submontane area of The Novohradske Mountains in Czech Republic. The BSC method represents strategic planning and system management that are supposed to improve internal and external communication and monitor efficiency of an organization against strategic targets. The four perspectives that make strategic BSC settings are: financial, customer, internal processes, learning and growth. Overall necessary information was acquired from a website of municipality Borovany, from a strategic plan of development, personal conversation with the mayor of the municipality and through personal observation. Strategic priorities of Borovany (infrastructure, environment, social domain, health and education, culture, leisure time and tourism) and objectives (e.g. development, optimization of transportation, support of private enterprise, advance of offered leisure time, development of tourism, obtaining financial resources, preparation and realization of investments, support of clubs and associations, quality management of local authority, increasing co-operation in the micro region, development of employees skills and knowledge) were rendered into the strategic map with the help of BSC, and subsequently benchmarks were defined for their prospective fulfilment.

Keywords: balanced scorecard, management, municipality, strategic map, objectives, town Borovany.
1. INTRODUCTION

Self-governing bodies and their institutions are undergoing through a number of reforms at present time. Their aim, besides other things, is to increase efficiency, usefulness and economy. They are looking for ways how to manage and increase quality of provided public services, how to better communicate with their citizens.

Management of self-governing bodies often gains new knowledge from experience abroad, where it gets inspiration for implementation of modern tools for quality management. We started to encounter terms such as quality or BSC within self-governing bodies before 2000.

BSC method is a tool with which the fulfilment of a municipality strategy can be monitored and it is used for effective management of strategies. It is a complete managerial strategic system, according to which a company can be managed in the long run. BSC method is preferred for its compatibility. Professional literature mentions that one of the principal pillars of BSC is rendering the strategy of an organization into objectives and benchmarks categorized in four perspectives. BSC this way provides a setting and a language for communicating a mission and strategies.

These are methods for increasing quality and efficiency of individual public services and processes of effective strategic management, raising quality of life of citizens. The reason for asserting some of these methods in self-governing bodies is the development of municipalities, districts and regions and a well-managed local authority, higher efficiency and quality of work within limited resources, gaining a tool for communication with citizens or interest in getting the feedback about work of the local authority and a quality of life in municipalities from local people.

2. BALANCED SCORECARD

Public Administrations in many countries underwent reform in the last years of the twentieth century. It was based on reforms such as a major emphasis on consumer orientation (Aberbach & Christensen, 2005), privatization, decentralization, strategic planning and management, outsourcing, new accounting methods, the measurement of results, financial efficiency, and separation of politics from administrations (Barzelay, 2001). Public sector organisations worldwide have come under increasing pressure to modernise, to improve overall performance and service delivery and to increase accountability to their stakeholders (Guthrie & English, 1997).

In addition to anecdotal reports on the positive experience of implementing the balanced scorecard in the for-profit sector, there is growing evidence on its application in the not-for-profit sector, especially in the government sector (Atkinson & McCrindell, 1997, Kloot & Martin, 2000). In this sector performance measurement and management has been an issue of concern among administrators (Poister & Streib, 1999). Comparing it with other modern management tools (benchmarking, activity-based costing, process reengineering), Ho and Kidwell found that the balanced scorecard is local governments´ least prevalent tool (Ho & Kidwell, 2000).

The Balanced Scorecard appears to offer considerable potential to local authorities in terms of contributing both to improved performance and to improved performance measurement (Wisniewski, & Olafsson, 2004). Kaplan and Norton declare the scorecard to be a strategic performance management system rather than simply a performance measurement system (Kaplan & Norton, 1992, 1996).

The BSC method represents strategic planning and system management that are supposed to improve internal and external communication and monitor efficiency of an organization against strategic targets (About the Balanced Scorecard, 2011). The strategy of a modern organization is to pursue harmonious, interconnected and systematic embedding of development of all primary aspects (Petříková, 2005). The balanced scorecard is a customer-based planning and process improvement system, with its primary focus on driving an organization’s change process by identifying and evaluating pertinent performance measures. It is an integral part of the mission identification, strategy formulation and process execution, with an emphasis on translating strategy into a linked set of financial and non-financial measures (Kaplan & Norton, 1992).

Two definitions of the BSC are: 1) a system that enables an organization to translate its vision and strategy into action, and 2) a tool that formalizes what an organization should measure (Kisner, 2007).
Kaplan and Norton talk about them in terms of perspectives. The four perspectives that make strategic BSC settings are: financial, customer, internal processes, learning and growth (Kaplan & Norton, 2001).

Huška characterises the cycle of improvement of strategic planning and gives example topics for individual perspectives:

- Customer perspective and influence on society: Do we know what our citizens want? What do we have to do in order to reach the goals and satisfy our citizens?
- Financial perspective: What resources do we need to provide in order to reach goals?
- Perspective of internal processes: By which processes do we secure reaching goals, for example satisfaction of citizens and sufficiency of resources.
- Perspective of learning and growth: What else do we need to learn and innovate in order to manage everything? (Huška, 2006).

The four perspectives of a scorecard proposed by Kaplan and Norton were designed for private sector organizations and were an attempt to encourage such organisations to broaden their performance measurement thinking away from merely financial measures. In the public sector, there has always been a tendency to ensure that measures of performance are not simply focused on costs but also try to examine efficiency and effectiveness (Wisniewski & Olafsson, 2004). In the public sector, it seems to be necessary to move from an information system based on financial measures to another, broader-based one in which the performance of activities is promoted to ensure the future success of the organization (Hoque, 2005). The Balanced Scorecard approach can be an invaluable tool for governmental administrators in transforming their organizations and those whose organizations have implemented BSC have a strong belief that its benefits outweigh the costs (Chan, 2004).

In the municipal context, performance evaluation is usually an important element in management control of the organization and the emphasis is shifting from inputs and observing rules to outputs and quantitative measures of output (Pollitt & Bouckaert, 2000). In these public entities, politicians are interested in the implementation of strategic planning and in long-term policies to manage the municipality (Ter Bogt, 2001). BSC constitutes an important management tool to facilitate this management style in governmental organizations, as was verified in the research studies conducted by Ho & Chan (2002) and Wisniewski & Olafsson (2004).

Most municipal governments have developed measures to access their organizations’ financial, customer satisfaction, operating efficiency, innovation and change, and employee performance (Chan, 2004). The greatest emphasis they have on financial performance and the least on innovation and change (Ho & Chan, 2002).

While using the strategy in practise with help of BSC, we start from objectives of financial perspective, continue through customer perspective and over internal enterprise processes to perspective of learning and growth, which again leads back to finances (Sim & Koh, 2001).

Frigo and Krumwiede warn that it is necessary to pay attention and precisely determine indicators, so that the vision of strategy is as precise as possible (Frido & Krumwiede, 2000). Thakkar mentions that every setting has its own view on classification and its view on related fulfilment of measures, but the own effectiveness differentiates according to how precisely we will pursue qualitative and quantitative perspectives (Thakkar, 2007).

In implementing a performance management system, the first critical step is developing a strategic framework map. The strategic map tells the story of the organization. The map describes management’s theory about how the mission and vision will be accomplished by explaining how organization-wide strategies relate to themes and how those themes relate to one another (Eagle & Cooke & Rossi, 2004).

Although some experiences of BSC in municipalities exist, (Farneti & Guthrie, 2008; Kasperskaya, 2008), analysis of the implementation process have not been performed. This could allow the identification of both the determinants and the barriers of the implementation (Yetano, 2009). Bolívar offers an insight into the process of elaborating the Balanced Scorecard for a public sector agency of sport services (Bolívar, 2010).
3. AIM AND METHODOLOGY

The aim of the article is to apply method Balanced Scorecard on a selected municipality in the submontane area of The Novohradske Mountains on the basis of knowledge of strategic management and BSC. The selected municipality is town Borovany. The selection of the municipality is subjected to the assignment of research intent on which the author collaborates. Another reason is that this municipality has elaborated strategic plan of development, which is a prerequisite for compilation of a strategic map and for determining measures of fulfillment of all specified objectives and strategies. Overall necessary information was acquired from a website of municipality Borovany (Borovany, 2012), from a strategic plan of development - Study on strategy and development in a micro region „Sdružení Růže (Strategic plan of development the town Borovany, 2004), personal conversation with the mayor of the municipality and through personal observation.

4. RESULTS AND DISCUSSION

Town Borovany is located in the submontane area of The Novohradske Mountains about 20 km from the county town České Budějovice in Czech Republic. From a viewpoint of possible development, town Borovany can be characterized as a town with manufacture and service domains, constant number of people (nearly 4 thousand) and central purpose, with relatively good geographical and transportation situation and civic facilities.

Every municipality should take care of the development of its own vicinity, economic stability, economy of the municipality and also of provision of needs for its citizens, particularly improve the quality of their lives (Ministry of regional development CZ, 2006, Řehoř, P., 2010a).

Proven advancement of municipality planning is strategic planning. It differentiates from other kinds of planning because it is long-lasting and complex, it optimizes handling human and financial resources and it heads towards consensus within the community. The plan is the result of co-operation of a wide group of key representatives of the municipality. Its contribution is based on help to become aware of the weaknesses and strengths of the municipality. It sets positive desirable course of its development and it concentrates its overall effort and resources on solving key issues, it teaches managing employees to think strategically and work systematically (Řehoř, P., 2010b).

The new strategic map (see picture 1) was compiled including key priorities of the municipality referring to individual perspectives of this method on the basis of detailed analysis of a strategic plan, it also includes new priorities after conversation with the mayor and acquiring knowledge of BSC method.

Benchmarks that can better assess the scope of fulfillment were set subsequently for next individual strategic priorities and objectives:

1. Infrastructure: quantity of habitable abodes, quantity of jobs, local employment rate (commuting to work), length of public roads, quantity of vehicles passing through the centre (passenger cars as well as lorries), quantity of lines of public transportation, quantity of people connected to the Sewage water treatment plant, quantity of accidents, crime rate, quantity of new housing units.
2. Environment: coefficient of ecological stability, ratio of felled vs. planted trees, purity of water, % of sorted waste, % arable area in the vicinity, ratio of renewable energy resources.
3. Social domain, health and education: quantity of students commuting from and to Borovany, quantity of people with social needs and a spectrum and quantity of provided social services.
4. Culture, leisure time and tourism: quantity of culture events, borrowed books, education programmes, visitors in town, information centre.
5. Growth of housing development: quantity of new or reconstructed housing units, family houses, selection of developing sites for construction with prepared infrastructure, quantity of young families looking for housing, number of parcels for development.
6. Optimization of transportation: density of street and railway networks, quantity of citizens using car, bus or railway transportation, quantity of newly repaired communications, number of new pavements and car parks.
7. Support of private enterprise: quantity of new businesses and trades, rate of unemployment.
8. Advance of offered leisure time: quantity of cultural-educational organizations and organizations engaged in leisure time, number of sports pursued in town, quantity of people visiting sporting, cultural premises.

9. Development of tourism: quantity of tourists, number and capacity of housing and eating facilities, expenses connected with reconstruction of historical sights.

10. Improvement of environment: density of wooded areas, quantity of technical specialists taking care of upkeep of town greenery and open spaces, volume of sorted waste per year.

11. Improvement of social security and health care: number of providers of these services, quantity of people using these services, age index, customer satisfaction.

12. Optimization of educational system: quantity of citizens completing secondary and tertiary education, quantity of retraining courses, quantity of projects from European Social Fund, quantity of educational organizations in town.

13. Obtaining financial resources: volume of financial resources of foreign origin, extent of subsidies and number of grants, investment by other subjects in the area of municipality.

14. Effective financing: indebtedness of the municipality, budget reserves, bookkeeping audit, taxation.

15. Preparation and realization of investments: utilization of business parks, quantity and amount of investments, return on investments.

16. Support of clubs and associations: advance of quantity of clubs and associations, subsidies assigned to these organizations, quantity of citizens in clubs and associations.

17. Quality management of local authority and public services: complaints and audits, satisfaction of citizens.


19. Increasing co-operation in the micro region: quantity of projects completed with surrounding municipalities, degree of publicity.

20. Support of innovations and technologies: quantity of new methods and technologies at the local authority.

21. Development of employees skills and knowledge: employees satisfaction, quantity of training.

**Picture 1:** Strategic map of town Borovany
5. CONCLUSIONS

The new strategic map was compiled including key priorities of the municipality referring to individual perspectives of this method on the basis of detailed analysis of a strategic plan; it also includes new priorities after conversation with the mayor and acquiring knowledge of BSC method. The priorities of Borovany are: infrastructure, environment, social domain, health and education, culture, leisure time and tourism. For perspectives of citizens were defined these objectives: growth of housing development, optimization of transportation, support of private enterprise, advance of offered leisure time, development of tourism, improvement of environment, improvement of social security and health care, optimization of educational system. For financial perspective are two objectives: obtaining...
financial resources (e.g. grants) and effective financing. The perspective of internal process has four objectives: preparation and realization of investments, support of clubs and associations, quality management of local authority and public services and updating targets of the municipality. The perspective of learning and growth consists of three objectives: increasing co-operation in the micro region, support of innovations and technologies and development of employee’s skills and knowledge. After municipal elections in 2010 there were great changes. Mayors and local representatives are trying to increase efficiency and rationalize functioning of local authorities. A complicated administration was indicated to be the biggest problem by a mayor of Borovany. This administration often slows down implementation of plans of the municipality. There is also a limited possibility to sufficiently evaluate employees in the town.

The development of the municipality and its vicinity can be improved in several ways. One of them is to apply for subsidies and grants from European funds. There is possibility to apply for subsidies from The European Social Fund. Resources from these funds can be used for improvement of education quality in the town. Other subsidies and grants can be applied for at the Ministry of Regional Development and Ministry of Culture. In these cases the funds could be used for reconstruction of historical sights, for building cycle paths and touristic sights in the vicinity. Certainly it would be worth to establish co-operation with Austrian municipalities in the border area and gain this way experience and greater knowledge about the town.

Quality of life of citizens can be improved in several ways as well. This includes, for example improving the quality of regular upkeep of town, regeneration of local greenery or building housing units which would attract younger generation to move to town. Next possibility is a quality training of employees of the local authority to eliminate grinding communication between them and town citizens. Benchmarks that can better assess the scope of fulfilment were set subsequently for individual strategic priorities and objectives.

ACKNOWLEDGEMENTS
This article has been presented with the financial support of the project: GAJU 039/2013/S.

REFERENCE LIST


