

Balanced Scorecard – Strategic Management Tool of Performance in Public Institutions

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Abstract: Balanced Scorecard (BSC) is used to achieve an operational strategic vision at all levels of the organization regarding issues related to performance, strategy, communication, resource allocation, decision-making and competitiveness. BSC was created to restrict the limits of traditional financial and management tools and ensure unity of vision and long-term action in an organization. The main advantage of the method consists in guiding managers and departments, human resources, technological and financial resources towards the strategy of the organization. Unfortunately BSC is mainly used in private companies, because high costs and lack of specialists pose a real obstacle in implementing this instrument in public institutions. Our arguments attempts to show that the Balanced Scorecard can be the most appropriate among all the management tools for the public sector.

Key Words: Balanced Scorecard; KPIs; strategic management; public institutions

JEL Classification: H83; M41

1. Introduction

Balanced Scorecard provides an overview of the entire business, allowing monitoring the performance of all the proposed strategic objectives, the measures taken to achieve them, the degree of staff involvement, involving all financial and non-financial aspects. Balanced Scorecard concept involves grouping key performance indicators (KPIs), financial and nonfinancial, in four perspectives. The four sizes cover financial success, market leadership, customer loyalty, capital development, business process control and, in part, the consequences for the community (*figure 1*).

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Figure 1. Balanced Scorecard for the public sector and non-profit

(Source: adapted from Kaplan & Norton, 1996, p. 76)

Measurement of performance, the main function of the BSC, divides the four perspectives in *result indicators* that indicate past efforts and *pilot indicators* that indicate future performance, intervening in identifying opportunities and preventing errors. Specifically, the Balanced Scorecard approach helps public managers in the implementation of the ideas contained in management plans and strategy development.

2. Balanced Scorecard Perspectives

In what follows, we will consider a public sector entity of the four perspectives. The goal is ultimately to provide useful information management, in decision making, both financial and nonfinancial.

Financial Perspective

Financial perspective shows the results of the financial terms. Unlike the private sector, public organizations do not pursue profit, but efficiency, i.e. providing services at a reduced cost (Şandor & Raboca, 2004). Any organization calculates and uses financial indicators, but this does not automatically ensure utility in making current decisions or in explaining the performance through current actions.

The main feature and, equally, the main problem of the financial indicators is that they measure the past and what is easy to measure. Although often criticized, the financial indicators should not be abandoned, but should be chosen with care and supplemented by the non-financial measures.

Customer Perspective

Customer perspective refers to the organization's ability to provide products or services of good quality, in a way as to please the customer, resulting in his final satisfaction. (Şandor & Raboca, 2004) Meeting consumer expectations and desires must become the fundamental objective of organization. (Kotler, 1997)

In the public sector there are a number of specific issues. Thus, measuring customer satisfaction is an indispensable element for the organization to verify that doing the right thing. A public institution position becomes somewhat difficult because customer satisfaction and citizen satisfaction, although the two concepts are indissolubly linked, they should be treated differently. Meanwhile, the challenge for the public sector is balancing the two key aspects of public services, namely the relatively low price and in the same time, high quality, including their accessibility. Also, unlike the private sector, the public sector can not afford to choose or focus on customers preferred or most profitable customers, but must consider the needs of the entire community.

Internal Processes Perspective

Internal perspective refers to the analysis of the internal processes of the organization, what needs to be done in order to achieve the desired results. For this we need to identify key processes and monitor them continuously so that we know where we stand (Şandor & Raboca, 2004). It is very important for entity to organize and manage its internal work from the point of view of the customer. Customer orientation should be converted into internal indicators to show how customer expectations are met. From this perspective, the organization should identify internal powers: the use of technology, excellence of products and services, easiness to modify a product or service or to create a new one are elements that allow it to maintain and penetrate the market (Albu & Albu, 2005). Good management of internal processes means continuous improvement of processes, labor productivity and ensuring flexibility, quality and providing value.

Learning & Growth Perspective

Innovation and learning perspective covers the main conditions for success. Innovation and learning capacity of the organization is essential not only when it comes to maintaining the current state of facts, but also to improve it in a constantly changing environment (Şandor & Raboca, 2004). Learning and innovation are not factual elements, quantifiable; therefore they are very difficult to assess and measure, but are elements that provide identity and long-term organizational success. These indicators are included in the BSC according to their relationship with strategy, their power to influence the future performance of the organization. Organizations are not limited only to measure what is easy to measure in this BSC perspective, but will focus on important elements in terms of organizational needs, such as innovation, employee attitude evaluation, the degree of preservation and rotation of employees, experience and learning.

3. Implementing the Balanced Scorecard in a Public Hospital

Worldwide Balanced Scorecard has been implemented widely in the private sector. Some authors (Wisniewski & Olafsson, 2004, pp. 602-610) believe that the Balanced Scorecard was originally conceived as a concept addressed the need for performance measurement in the private sector and not fully meet the needs of the public sector in this regard. While in private sector the managers have begun to realize the advantages of this modern tool for monitoring and improving performance, in public sector the situation is different (Vintilescu-Belciug, et alli., 2010), the phenomenon still being shy.

Even though the costs are high and the lack of specialists constitutes a real obstacle in implementing this instrument in public institutions, we will try in the following to present arguments demonstrating that *the Balanced Scorecard can be the most suitable of all the management tools for the public sector*. Application of BSC in a public hospital (Albu & Albu, 2005) may lead to results very valuable. Currently, hospitals operate in an environment characterized by increasing need for transparency, cost control, simplification and streamlining in organizing. In figure no. 2 we schematized the steps leading the implementation of the Balanced Scorecard in a public hospital.

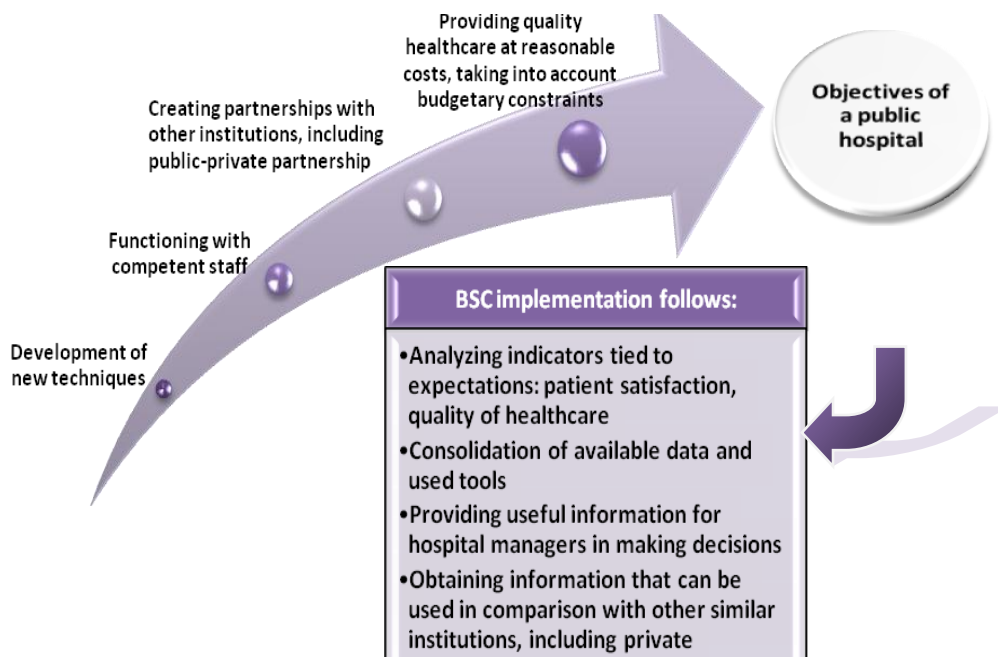


Figure 2. Steps preceding the implementation of BSC in a public hospital

(Source: own achievement)

Basically, the BSC scheme for a hospital is presented in figure no. 3.

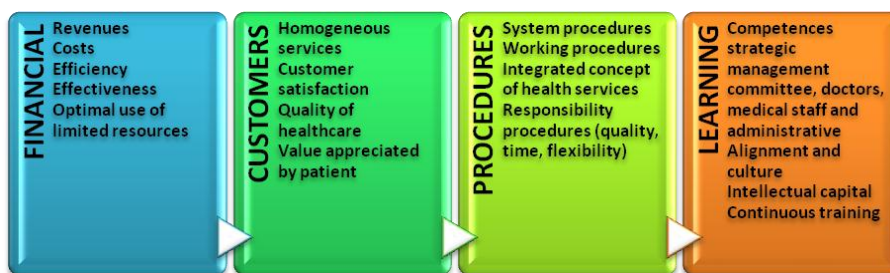


Figure 3. Balanced Scorecard for hospital

(Source: own achievement after Albu & Albu, 2005, p. 221)

After analyzing theoretical aspects of the four perspectives, we built a model for implementation of Balanced Scorecard in a public hospital in Romania. Thus, we specifically identified the sources of data that will get financial and non-financial indicators required BSC analysis and specific objectives for each perspective individually. Finally, we determined the indicators, their measurement mode, established targets and persons in charge for objectives.

3.1. Financial Perspective

Data Sources:

- Strategic development plan and procurement plan;
- Revenue and expenditure budget - on the organization, on medical sections and departments;
- Budgetary execution account;
- Internal accounting system and internal stocks management system.

Objectives:

- Regular monitoring of specific economic and financial indicators:

Evaluation of economic and financial indicators

| Target goal | Indicators | Objective ¹ | Level | Person in charge |
|---|---|------------------------|----------|------------------|
| Optimizing the management of budget' hospital and attracting alternative sources of funding | Budget execution towards approved budget | 94,97% | Tactical | CFO |
| | The percentage of personnel expenditures in total expenditure | 59,26% | | |
| | The percentage of medicines expenditures in total expenditure | 10,03% | | |
| | The percentage of own revenues in total revenues | 12,14% | | |
| | The average cost per day of hospitalization | Minimal | | |

3.2. Internal Processes Perspective

Hospitals are large sized organizations with a high concentration of capital and a higher inertia of internal processes. Internal processes of a hospital mainly relate:

- Strategic management of the organization;
- Operational management of information;
- HR management;

¹ The optimum value of the indicator or national averages according to the Public Health Ministry Order no. 1567 of 14 September 2007 approving the national averages of hospital management performance indicators published in the Official Gazette of Romania no. 683 of 8 October 2007.

- Environment care management;
- Quality services management;
- Patient rights and communication;
- Management of patient data;
- Prevention and risk management;
- Management of nosocomial infections.

Data Sources:

- Integrated Quality Management System (ISO standards and operating procedures);
- Internal analysis based on classification system DRG¹;
- Medical statistics;
- Internal control management & risk management².

Objectives:

1. Improving internal work processes;
2. Increasing the efficiency of work processes;
3. Intensifying the monitoring and control activities in each medical department to eliminate existing risks and efficient use of resources allocated by monitoring indicators for the use of services regularly:
 - Number of patients discharged;
 - Average length of stay;
 - Utilization rate of beds;
 - Complexity index of discharged cases;
 - Proportion of patients hospitalized with programming in all hospitalized patients;
 - Proportion of emergencies in all patients.
4. Development of prevention and control of resources allocated to protect against losses due to waste, abuse, errors and frauds;
5. Improving communication between hospital structures to ensure operational flow of information without distortion, so that they can be exploited effectively in the prevention and internal control;
6. Designing in each structure of performance standards for each activity, in order to use them to perform analyzes based on objective criteria for exploitation of allocated resources;
7. Establishing mutually advantageous relations with partners:

¹ DRG (Diagnosis Related Groups) is a classification scheme in which similar patients are divided into diagnostic groups, homogeneous in terms of clinical disease and the resources used in treatment.

² According to the Ministry of Public Finance Order no. 946 of 4 July 2005 approving the Internal Control Code, including standards of management / internal control and public entities and for development of management control systems, published in Official Gazette of Romania no. 675 of 28 July 2005.

Assessment of the relation with partners

| Target goal | Indicators | Objective | Level | Person in charge |
|--|---|-----------|----------|------------------|
| The level of unpaid bills to suppliers on due date | The number of unpaid bills to suppliers on due date | → 0 | Tactical | CFO |
| The level of uncollected sales | Uncollected bills on due date on each client | → 0 | | |

3.3. Customer Perspective*Data Sources:*

- Medical statistics;
- Satisfaction questionnaires requested directly to patients and on hospital site;
- Internal studies by category of customers (patients, diagnostics and types of hospitalization).

Objectives:

1. Increasing specialization and diversification of medical services provided;
2. Active involvement at the community level;
3. Obtaining maximum satisfaction of patient:

Evaluation of patient satisfaction

| Target goal | Indicators | Objective | Level | Person in charge |
|---|---|-----------|-----------|-----------------------------|
| Quality of healthcare services provided to patients | Number of complaints received from patients regarding the quality of services | → 0 | Strategic | Manager and |
| | Prejudices caused to patients in the hospital's fault or medical staff | → 0 | | Medical Director |
| Promptitude to achieving health services | Number of cases on non-compliance the conditions set with patients | → 0 | Strategic | Chief of quality management |
| | Number of situations in which exceeded the delivery deadlines stipulated | → 0 | | |

4. Getting patient feedback

Evaluation of patient feedback

| Target goal | Indicators | Objective | Level | Person in charge |
|----------------------|--|-----------|-----------|---------------------------|
| Patient satisfaction | Patient satisfaction index by: <ul style="list-style-type: none"> - Number of suggestions received from patients; - Percentage of complaints considered objective by the medical board; - Number of complaints resolved in favor of patients. | Minim 95% | Strategic | Manager and Medical Board |
| | Analysis of patient satisfaction questionnaires and taking appropriate measures through: <ul style="list-style-type: none"> - Number of completed questionnaires; - Number of improvement measures taken. | → 100% | | |

The patient satisfaction evaluation process in the hospital is shown in figure no. 4

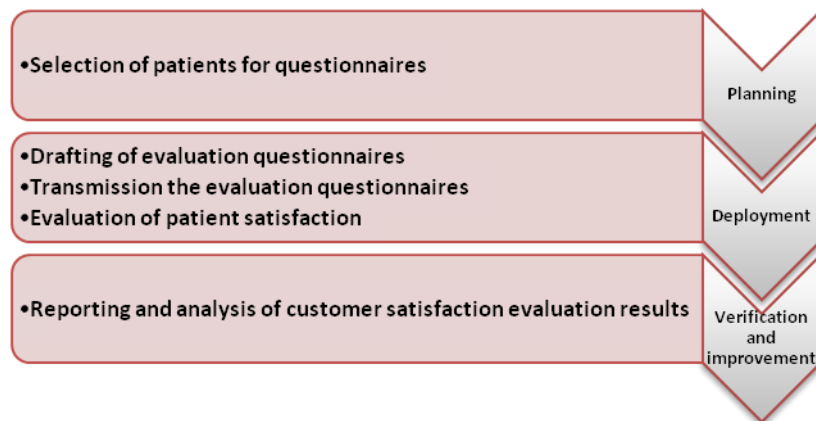


Figure 4. Description of evaluation process of patient satisfaction in hospital

(Source: own achievement)

Increasing the quality of services provided by continuous monitoring of quality indicators:

- In-hospital mortality rate;
- Nosocomial infections rate;
- Rate of patients readmitted within 30 days of discharge;
- Index of concordance between the diagnosis at admission and discharge diagnosis;

- Percentage of patients transferred to other hospitals of all patients hospitalized;
- Number of patient complaints recorded.

5. Learning & Growth Perspective

Data Sources:

- Training statistics;
- Continuing medical education (CME points): training courses, participation in medical conferences, published articles, etc.;
- Annual evaluation of individual professional competence and performance:

For executive positions:

- knowledge and experience;
- promptness and efficiency in achieving the tasks set out in the job description;
- quality of work and activities;
- assuming responsibilities by responsiveness, availability to extra effort, perseverance, objectivity, discipline;
- intensity of involving in use of equipment and materials without exceeding the norms of consumption;
- adaptation to the complexity of work, initiative and creativity.

For management positions (in addition to the executive positions):

- knowledge of the purpose, objectives and role of the compartment throughout organization;
- ability to make optimal decisions and taking responsibility in connection therewith;
- ability to organize and coordinate the activity of compartment;
- ability to create a stimulating environment, without conflicts and good collaboration with other departments.

Objectives:

1. Providing employment positions with qualified personnel with specialized training necessary to perform the duties set out in the job description;
2. Providing continued training of staff;
3. Increasing the degree of dissemination of successful practices;
4. Developing communication skills and competences;
5. Regular evaluation of employees in regarding the fulfillment of duties and responsibilities:

Regular evaluation of staff

| Target goal | Indicators | Objective | Level | Person in charge |
|------------------------------|---|-----------|----------|------------------|
| Employees evaluation results | Share of employees who have received the qualification « <i>Very Good</i> » or « <i>Good</i> » in the annual evaluation of employees in total evaluated employees | → 100% | Tactical | HR Chief |

Monitoring the performance of employees in each department and medical sectors using quantitative and qualitative indicators, specific and relevant, including with regard to economy, efficiency and effectiveness:

Evaluation of HR management

| Target goal | Indicators | Objective | Level | Person in charge |
|---|--|-----------|-----------|------------------------------|
| Human resource management performance | Average number of patients discharged on a doctor | 291 | Strategic | Manager and Medical Director |
| | Average number of patients discharged to a nurse | 76 | | |
| | Average number of consultations performed in ambulatory on a doctor | 4.571 | | |
| | Average number of consultations on a doctor in emergency care unit | 167 | | |
| Adequacy of establishment plan hospital | Proportion of doctors in all staff | 10,49% | Tactical | HR Chief |
| | Proportion of medical staff in all hospital staff employed | 61,33% | | |
| | Proportion of medical staff with higher education of all medical personnel | 22,77% | | |

Training, awareness and competence of staff covers the following aspects:

At hiring:

- planning the necessary staff (staff establishment, staff normative);
- Evaluation, employment and training at hiring;
- Verification and improvement by upgrading staffing needs.

For employed staff:

- Planning by establishing training needs, planning and preparing training courses;
- Development of training courses, evaluation of the trainees, evidence of training courses and staff awareness;
- Verification and improvement by assessing the effectiveness of training and competence of staff, updating training needs.

6. Conclusions

We appreciate the fact that BSC was created and it is used to restrict the limits of and traditional financial and management tools and to ensure unity of vision and long-term action in the organization. The main advantage of the method consists in guiding managers, departments, human resources, technological and financial toward the strategy organization. In Romania, where organizational climate is quite poor, there is every chance that this system should be regarded only as an additional form of control of staff, so be sabotaged by employees. On the other hand, the interest of public institutions managers did not go too often toward performance, at least in terms of BSC experience. A few public institutions are concerned about customer satisfaction, accountability to the citizen and efficiency. Using the Balanced Scorecard in the public sector is shown to be beneficial since improves and enhances aspects of performance, strategy, alignment, communication, resource allocation, decision-making and competitiveness. Balanced Scorecard is a tool built to harmonize actions and strategic plans into a consistent control system. Since the BSC philosophy is to learn from own actions, teamwork and follow up strategy, this tool puts a heavy emphasis on clear communication of objectives and priorities. In short, being flexible and dynamic, BSC shows what must be done.

7. References

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