LESSONS FROM USING THE BALANCED SCORECARD AS A STRATEGY AND PERFORMANCE MANAGEMENT TOOL IN PUBLIC AND NON-PROFIT ORGANISATIONS – THE CASE A SOUTH AFRICAN MUNICIPALITY

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Masters of Business Administration Degree

By

BUKEKILE MASHOKO

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Supervised by: Professor Richard Chivaka

MOD 557
PLAGIARISM DECLARATION

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Bukekile Mashoko
ABSTRACT

This study explores the potential of the Balanced Scorecard management tool to improve strategy implementation through its use as a strategy and performance management tool in public and non-profit organizations. While substantial research evidence says that the tool is a proven success factor in the implementation of corporate strategy, the case for non-profit entities is less conclusive. Using a South African municipality as a case study of public and non-profit organizations, the study compares expectations from a conceptual framework of Balanced Scorecard methodology with the experiences of the municipality to test the relationship. For the benefit of practitioners that consider using the tool in public and non-profit organisation as well for addition to academic literature, the study goes further to identify, through practical experiences with the model, what the success factors for adopting this model are.

The study confirms the Balanced Scorecard as a relevant model for comprehensive strategy and performance management systems in the public and non-profit sector, provided practitioners are aware and take advantage of recognised key success factors. Besides the improvements to strategic management processes, the qualitative analysis used does not find a causal relationship between the tool and the achievement of strategic objectives in an institution’s strategy. It identifies evidence based decisions on adopting the Balanced Scorecard as a key success factor for maintaining internal commitment to the tool. Appropriate competences at all levels enable the organization to respond to the demands of the model, to maintain the required quality performance management outputs and minimize the risk of reduced commitment. Similarly, automation can contribute by reducing the opportunity costs to managers of slow manual systems that threaten the value of timely and high quality business intelligence that is expected from the system. Maintaining focus on the achievement of strategic objectives helps with appropriate reviews of the BSC performance system to ensure it maintains its relevance.
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### GLOSSARY OF TERMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGSA</td>
<td>Auditor-General South Africa</td>
</tr>
<tr>
<td>BSC</td>
<td>Balanced Scorecard</td>
</tr>
<tr>
<td>EDM</td>
<td>Ehlanzeni District Municipality</td>
</tr>
<tr>
<td>IDP</td>
<td>Integrated Development Plan (Strategic Plan for South African Municipalities)</td>
</tr>
<tr>
<td>KPA</td>
<td>Key Performance Area</td>
</tr>
<tr>
<td>MSA</td>
<td>Municipal Systems Act 32 of 2000</td>
</tr>
<tr>
<td>Non-profits</td>
<td>Public and not for profit organisations</td>
</tr>
<tr>
<td>PMS</td>
<td>Performance Management System</td>
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<td>SDBIP</td>
<td>Service Delivery Budget Improvement Programme</td>
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ACKNOWLEDGEMENT


I would like to acknowledge all GSB lecturers on the MBA 2011 modular programme, for taking the first step with me on this exciting, challenging, sometimes perilous, and intellectually enriching journey!

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Finally, I express sincere thanks to my family, for your patience, support and diplomacy when I was a trifle too boring with my ‘hand-ins’, ‘proposals’ and heaven knows what else when all you needed was probably just a smile or a simple weekend outing!

I will cherish all your valuable contributions as I journey on.
1 INTRODUCTION

1.1 Research context and study area

Poor strategy implementation has been identified as a common determinant of the failure of many formulated strategies. Effective strategy and performance management systems can improve implementation and eventual corporate success by providing relevant and timely information for strategy control and other strategic management decisions (Ehlers et al, 2007). This contribution gives managers the ability to adapt their strategies for survival and for excelling in the intense competition that characterises global markets.

As well as improving competitiveness, performance management systems enable executive leadership to provide financial and non-financial information to shareholders for assessing the current and prospective value of their investment in the company. Chief executives and their managers therefore have a direct interest in accessing the best available performance management systems to support them effectively in the dual role of strategic decision making and performance reporting.

Similarly, senior executives of governments and non-profit agencies need strategic management control systems to improve strategy implementation and account to the public through parliamentary and other oversight structures. There may be no competitive pressure for commercial profits, but various stakeholders demand the services due from a non-profit in relation to its mandate and value for money in the delivery of those services (Niven, 2003; Ehlers, T. et al, 2007 and Chan, Y, L. 2004). Given the substantial resources channelled through the public sector for the benefit of society; and the trend of poor performance in managing these resources, an appropriate response to the demands for value for money is imperative (AGSA, 2010). For example, government expenditure in South Africa in the 2011/12 financial year was budgeted at R889 billion, which is 30.5% of GDP (National Treasury, 2011). Non-profit, non-governmental organisations, who also handle substantial financial resources, also need effective strategic management control systems to operate viably.
1.2 Research Problem

The Balanced Scorecard framework has emerged as a tested tool for releasing the potential value of formulated strategies through improved strategy implementation processes, including performance management (Kaplan and Norton; 1996, 2000 and 2002). These attributes have made the tool valuable in meeting the performance and accountability needs of many contemporary corporate entities.

Empirically, the literature illustrates the utility of the model more conclusively in profit oriented organizations. While there is evidence for successful adoption in public and not for profit organizations, the evidence is limited mostly to developed country economies, the learning curve for non-profits is shorter than that of the private sector and empirical results tend to be anecdotal and therefore cannot be generalised. It is therefore interesting to explore further whether non-profit organizations have found the Balanced Scorecard effective in driving strategy implementation as has been found to be true in business corporations.

1.3 Research Questions & Scope

Based on insights into the research problem from the literature review, the following research questions were posed.

- Has the Balanced Scorecard management tool met the public and non-profit organizations’ needs for effective strategy and performance management systems

- What are the factors influencing the success of using the Balanced Scorecard in public and non-profit organisations?

Due to indications in the literature review that very few South African Municipalities use the BSC methodology in their strategy and performance management systems, the research scope was limited to a case study of one high performing municipality known to have experience in using the tool. The case study would allow for in-depth insights into the questions raised.
1.4 Research Objectives

The main objective of the research was to expand on the knowledge about the usefulness of the BSC in public and non-profit organisations as a strategy and performance management system, given the observed gap in empirical data in the current literature. Secondly, the study sought to generate lessons on success factors in applying the tool for practitioners in public and non-for profit organisations that may seek to use the BSC in their organisations. These objectives would be achieved through a theoretic review and an examination of public sector experience with the BSC tool in comparison with the theoretical expectations.

1.5 Research Assumptions & Ethics

It was assumed that due to the institutional framework and practice of performance management in South African municipalities, targeted respondents in the case study would, by virtue of their positions, identify with the problem area and would therefore have the capacity and stimulation to participate effectively in the research. The municipal IDP was assumed to be a ‘credible’ strategy and that there was political support for it, in line with the institutional framework. Published information on municipal strategies and performance information was assumed to be valid and comparable since they are audited and tabled to key oversight structures. Given the case study approach taken in this research, it was assumed that the findings on this municipality would be applicable to other South African municipalities and government institutions, due to their similar social welfare focus, funding and operational models.

The study was carried out in line with standard research ethics as well as the specific guidelines of the University of Cape Town’ Graduate School of Business. Participants were given honest information about the purpose of the research and were fully informed that they were to participate voluntarily and feel free to withdraw from the process if they felt they needed to do so. Research literature is adequately acknowledged by appropriate citation and references. Relevant procedures were followed in obtaining the Ehlanzeni District Municipality’s consent to access relevant personnel and materials for the study.
2 LITERATURE REVIEW

The literature review deepened understanding of the conceptual framework and application of the popular strategy implementation management tool, the Balanced Scorecard. This understanding provided the basis for analysing the value of the tool to profit and non-profit organisations and to identify the research focus on the utility of the tool.

2.1 Performance management trends in profit organizations

As indicated in the introduction, boards of directors and other stakeholders to which corporate executives are accountable, need reliable information on current and future performance of the companies in which they have a vested interest, as well as the competence of the executives they have entrusted with the management of these corporations. Historically, business success relied mainly on the efficient conversion of physical inputs into goods and services in stable market environments and financial measures were adequate performance management tools. However, due to rapid technological advances, including advances in information technology, the source of competitive advantage has shifted to the possession of superior intangible assets such as employee knowledge, customer relationships and brands (Niven, 2003; Kaplan & Norton, 1996 and 2002; Olve, 2003).

Non-financial measures also gained prominence due to the realisation of the limitations of financial metrics by accountants and other disciplines. Chief of these limitations is the fact that financial results are lag indicators of historical factors that may not necessarily drive future performance. Financial indicators and incentives encourage short term goals at the expense of long term sustainability. Similarly, rewards for financial performance tend to promote a silo mentality among different functional units at the expense of collaborative benefits (Kaplan & Atkinson, 1998). It was also observed that aggregate financial measures are of low decision making value to operational managers and employees (Niven, 2003).

Corporate accounting scandals in multi-billion corporations such as Enron, WorldCom, and Xerox as well as concerns about unsustainable resource use have increased awareness among stakeholders, resulting in increased demands for financial disclosure and sustainability reporting. A third factor driving the need for innovative performance management has been
the business research analyses that identified poor strategy execution as a significant factor limiting business success in many corporations (Ehlers, T. et al, 2007). The Balanced Scorecard emerged as a popular tool for performance management that used both financial and nonfinancial measures to get a balanced perspective of organisation performance.

2.2 Performance management trends in non-profit organizations

In government institutions, performance management progressed through various phases, ultimately converging with the private sector in appreciating the role of non-financial measures and improved strategy implementation systems. Niven, 2003 cites the following phases of performance measurement and management in the US government sector. In the 1960’s and 70’s, governments emphasised planning, programming and budgeting systems to guide performance. The 1980s were characterised by productivity improvement & quality management programmes, in line with the private sector’s pre-occupation with similar programmes. In the 1990’s, measuring performance in terms of the outcomes of Government programmes gained prominence in contrast with the focus on expenditure control in previous years. This approach drew public sector performance management closer to private sector models due to the common elements of focusing entity mission, goals, and outcomes on customer satisfaction.

This progression increased pressure on senior executives of governments and non-profit agencies to move away from budget driven plans and financial controls to outcomes based measures that are more responsive to stakeholder demands for excellence and sustainable impact (Niven, 2003; Halachmi, 2011). McAdam, 2005, notes the same convergence in his study of performance management approaches in United Kingdom public departments. Due to this convergence in performance management needs, the balanced scorecard became a relevant tool for both sectors.

Similar trends have been observed in the South African public sector in recent years as evidenced by the Government performance management frameworks and national strategic plans. For example, the 2012/13 Estimates of National Expenditure highlights the fact that the budget is tied to an Outcomes Approach adopted in 2009 (National Treasury, 2011). Although the South African Government emphasizes the need for strategic planning and
provides regulations and guidelines for their production, implementation frameworks appear to be less elaborate.

2.3 Concepts and applications of the Balanced Scorecard management tool

The Balanced Scorecard tool was introduced in the 1990s by Robert Kaplan and David Norton as a performance measurement tool whose key strength rested on a balanced combination of financial and non-financial performance measures in assessing the success of a company strategy. The tool has been acknowledged as one of the most successful business management tools used by over half of the USA’s Fortune 1000 companies. It is widely used in many other regions of the world as demonstrated by the Bain Management Tool survey (Olve et al, 2003). In 2011, the BSC tool was still an important feature of this survey, receiving a world ranking of 6th position in the top 25 most widely used tools (Bain & Company, 2011). Niven, 2003, pp. 14; acknowledges the BSC as ‘one of the 75 most influential ideas of the twentieth century’.

Overtime, new features have been added to the Balanced Scorecard tool based on lessons learned from the application of earlier versions and the inputs of critics. Halachmi, 2011, for example, criticized earlier versions, highlighting some of the dangers of relying on performance measurement alone to measure successful strategy execution. Cobbold and Lawrie, 2002; highlight the differences in the concepts and design processes of 1st, 2nd and 3rd generation balanced scorecards. They draw on Kaplan and Norton’s five principles of a ‘Strategy Focused organization’. The Balanced Scorecard conceptual framework outlined below tries to capture the main elements from all three BSC frameworks. The model can now be summarized as an organizational performance measurement system, strategic management system and strategy communication tool (Kaplan & Norman, 1996; Niven, 2003, Olve 2003, Balanced Scorecard Institute, 2009). Key elements of each of the three aspects of its use are outlined below.
2.3.1 Performance measurement system

- Translation of a company’s vision and strategy into a few, high impact measures comprising:
  - financial measures – described mainly as outcome or lag indicators
  - non-financial measures – described as drivers of performance or leading indicators

Non-financial measures enable the company to track improvements in competitiveness due to intangible assets (brands, relationships, etc.)

- Categorises performance measures into the following four generic perspectives that shows how the corporate strategy creates value through cause and effect linkages in the perspectives
  - **Financial:** Measures of ultimate value creation such as revenue (current and new markets) and profitability (e.g. return on total assets or equity)
  - **Customer perspective:** Measures that focus on the company’s value propositions to defined customer segments from which shareholder value is created
  - **Internal Process Perspective:** Measures that improve existing internal processes or develop new ones with the objective of delivering efficiently on the customer value proposition the customer perspective
  - **Learning & growth:** Measures that enhance knowledge, skills and organizational culture and structure to enable achievement of the efficiencies required in the internal perspective and indirectly contribute to the customer and financial perspectives.

- Uses strategic performance measures to monitor, reward and review performance

2.3.2 Strategic management system (strategy execution)

The success of the Balanced Scorecard as a strategy management system is due to its ability to overcome the common barriers of strategy execution as outlined below:
• **Overcoming the Vision barrier** through the participatory translation of the strategy into a Balanced Scorecard of clearly understood objectives, measures and initiatives. According to Kaplan, 1996, using strategy maps effectively demonstrates the strategy translation effect of the cause-and-effect logic among the four types of measures, making them highly effective strategy communication and execution tools to all levels in a company. The use of strategy maps in strategy execution is illustrated in detail in Kaplan & Norton, 2000.

• **Cascading the Scorecard to overcome the people barrier:** The responsibility for achieving organizational Balanced scorecards can be distributed (cascaded) to different functional managers at progressively lower s levels of the organization such that business units and employees are clear about the value they will contribute and be rewarded for. Kaplan, 1996 refers to this linking of incentive and reward systems to personal and team objectives as ‘making the strategy everyone's everyday job’.

• **Overcoming the resource barrier:** Developing the scorecard provides an opportunity of linking strategy to resource allocation. Specific activities need to be budgeted for and any resource constraints lead to trade-offs. Kaplan refers to the key elements of making strategy a continual process. Linking the scorecard to resource allocation enables a double-loop process in which performance is analysed at tactical levels that affect resource use while maintaining the long term link with the strategy.

• **Overcome the management barrier:** Kaplan highlights the energizing effect that Balanced Scorecard development and translation can have on participating managers, in contrast to less imaginative budget variance analyses that characterize financial focused plans. The process enables managers to review and learn about the strategy and then play a change management role.

### 2.3.3 Communication tool

• The process of developing an organizational scorecard and strategy map, cascading it to different organizational levels and managing its implementation is highly participatory and team oriented, resulting in high levels of communication and practical understanding of the strategy by all managers and employees, supported by efficient knowledge management systems.
2.3.4 Key steps in building and implementing a Balanced Scorecard

Successful implementation of the balanced scorecard tool is influenced by a clear understanding of the concepts during the processes of planning, designing and implementing the BSC project. Project planning and design therefore become an integral part of the whole conceptual framework to ensure success in the launch of a BSC project. The key planning, design and implementation steps (Niven, 2003; Olve, 2003, Balanced Scorecard Institute, 2011) are summarised in Table 1 below.

Table 1: Generic Steps in building and implementing a balanced scorecard

<table>
<thead>
<tr>
<th>Planning Phase</th>
<th>Development / design Phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify clear need and objectives for using a balanced scorecard (key for deciding entry level of the required balanced scorecard – corporate, business unit, pilot etc.)</td>
<td>Confirm mission, vision and strategy</td>
</tr>
<tr>
<td>Obtain executive support &amp; commitment</td>
<td>Determine or confirm role relationship of the balanced scorecard with other organisational performance systems</td>
</tr>
<tr>
<td>Confirm availability of current company purpose and strategy</td>
<td>Select key strategic objectives and categorise by perspective</td>
</tr>
<tr>
<td>Commitment to change management process &amp; its resource implications (culture shock – e.g. internal reaction to changes in employee performance management)</td>
<td>Obtain feedback through executive interviews</td>
</tr>
<tr>
<td>Clear communication, understanding of the rationale and commitment of participants (supported by communication plan)</td>
<td>Create strategy map (Determine value creation chain through cause and effect linkages among objectives for each perspective)</td>
</tr>
<tr>
<td>Planning Phase</td>
<td>Development / design Phase</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------------------</td>
</tr>
<tr>
<td>Resource commitments and allocation</td>
<td>Develop performance measures and targets (identify leading and lagging measures for each objective. Set expected targets)</td>
</tr>
<tr>
<td>• core team, skills &amp; roles (executive sponsor, champion, representative &amp; knowledgeable team members)</td>
<td></td>
</tr>
<tr>
<td>• High quality expertise (often external)</td>
<td></td>
</tr>
<tr>
<td>• Time (management &amp; employee – impact on operational downtime must be acknowledged and planned for)</td>
<td></td>
</tr>
<tr>
<td>• data availability (ability to gather data and willingness to be measured)</td>
<td></td>
</tr>
<tr>
<td>• Software (compatibility and cost)</td>
<td></td>
</tr>
<tr>
<td>• Training materials</td>
<td></td>
</tr>
<tr>
<td>• Finance</td>
<td></td>
</tr>
<tr>
<td>Build initiatives</td>
<td>(For each measure, assign and document accountability roles for initiative implementation and achievement of set targets per measure).</td>
</tr>
<tr>
<td>Automation</td>
<td>To support implementation, performance measurement &amp; control, set up appropriate performance measurement software (communicates real time performance information to all decision makers)</td>
</tr>
<tr>
<td>Cascading</td>
<td>Cascade (break down) relevant parts of the enterprise-level scorecard to into business unit, team and individual scorecards to facilitate implementation of lower level operational strategies and plans.</td>
</tr>
<tr>
<td>Develop implementation plan</td>
<td></td>
</tr>
</tbody>
</table>
2.3.5 Expected Benefits of the BSC

When the balanced scorecard is implemented as a comprehensive strategic management system as described above, it can accomplish the following key benefits as summarised by various authors on the subject:

- Improve strategy execution and value creation
- Engage managers and employees in strategic thinking and consensus building
- Effective communication and understanding of organization’s vision and strategy and the links to the operational activities at various management and employee levels
- Measure success in delivering on strategic objectives
- Monitor and control strategy relevant operational activities
- Convert data into timely business intelligence for decision making
- Efficient knowledge management

2.4 Criticism of the BSC

- A criticism of the balanced scorecard as a performance measurement tool is to what degree non-financial information from the organizational balanced scorecard can be used for public disclosure. The criticism emanates from the potential risk of exposing strategic qualitative information to competitors that can be used against the company (Olve, 2003).

- Secondly, organisations apply many variants of the management tool, depending on their needs and understanding of the tool. Some organisations use traditional 1st generation models purely for measuring performance, while others incorporate the integrative elements of strategic management and communication from later versions. Yet others apply scorecards that bear little resemblance to what management literature
prescribes. Due to the wide variation in the types of balanced scorecard frameworks applied by different organization, researchers need to take a cautious approach in interpreting research results on how wide spread the use of the BSC is and the degree of success in using it.

2.5 Adaptation of the Balanced Scorecard framework to public and non-profit organisations

Although public and non-profit organisations offer a diverse range of mainly developmental, social and regulatory services to diverse groups of society, they are united by the fact that they are mission driven (Niven, 2003), using available funds to improve social welfare as the ultimate goal. The second factor unique to non-profits is that they usually serve diverse customers or stakeholders that may be difficult to categorise and often have conflicting needs. Some strategy analysts advocate that, due to this complexity, Governments and other non-profit organizations have a greater need for performance management to track their achievements (Ehlers, T. et al, 2007).

The generic framework for profit driven organisations is therefore modified for Government institutions and non-profit organisations to better reflect their non-profit nature and mode of financing. Adaptations to the non-profit Balanced Scorecard reflect these two key differences, the mission and customer perspective replacing the financial perspective as the ultimate outcome of the scorecard (Niven, 2003). The adapted scorecard is depicted below.

Strategy is maintained as the core of the balanced scorecard, although research shows that public sector strategies tend to be less clear or concise (Niven, 2003). Unlike the rigorous time frames for achieving specific financial outcomes in the profit sector, achieving the mission for a non-profit is usually an on-going exercise while more rigour is possible in the customer perspective. The non-profit’s financial perspective views finance as an enabling input / budget that determines the level of service that can be provided to beneficiary customers. It is also used to consider the efficiency measures for maximising returns on available resources.
Figure 1: Balanced Scorecard framework for the public and non-profit sector

MISSION

CUSTOMER
Whom do we define as our customer? How do we create value for our customer?

FINANCIAL
How do we add value for customers while controlling costs?

INTERNAL PROCESSES
To satisfy customers while meeting budgetary constraints, at which business processes must we excel?

EMPLOYEE LEARNING & GROWTH
How do we enable ourselves to grow and change, meeting on-going demand

STRATEGY

1 Source: Niven, 2003
The Internal process and the learning and growth perspectives have essentially the same utility as in for-profit scorecard, notwithstanding the unique processes, skills sets and culture that best serve the public sector (e.g. passion for social justice, Christian ethos etc.). Some analysts (e.g. Olve, 2003) see a diminished role for causal links among the different balanced scorecard perspectives for a non-profit, reserving their use to performance measurement in functional units.

2.6 Review of empirical evidence on the value of the Balanced Scorecard in for profit organisations

Management literature is rich in highlighting the success of the balanced scorecard. However, Niven, 2003 and Olve, 2003, draw attention to high failure rates as well; providing useful lessons about the determinants of success and failure in balanced scorecard implementation. Olve 2003, analyses cases of balanced scorecard use in several companies including British Airways, Ericsson, Hewlett Packard, Ricoh, Xerox and Volvo and categorises determinants of success or failure into motivational, design, and implementation issues. He argues that the motivator for launching a Balanced Scorecard system substantially influences the subsequent level of commitment, the entry level of the new system into an organisation, the appropriateness of the adopted planning and design processes and finally the degree of success. He illustrates the diversity of motivations in his case study of a number of large corporate organisations. Table 2 below highlights multiple reasons why companies embarked on the use of balanced scorecards in Olve’s case studies.
Table 2: Various Motivators for using the Balanced Scorecard in corporate organisations

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Year</th>
<th>Industry</th>
<th>Country</th>
<th>Motivation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volvo cars (part of Ford)</td>
<td>Mid-1990’s</td>
<td>Automobile</td>
<td>Global</td>
<td>Planning and reporting progress on core metrics (Pioneer in BSC - little resemblance to BSC in management literature)</td>
</tr>
<tr>
<td>British Airways Heathrow</td>
<td>1997</td>
<td>Air transport</td>
<td>United Kingdom</td>
<td>Implement turnaround strategy</td>
</tr>
<tr>
<td>AMF Pension</td>
<td>1998</td>
<td>Financial services</td>
<td>Sweden</td>
<td>Setting up marketing operations to deal with abrupt end to organisation’s monopoly position</td>
</tr>
<tr>
<td>Scandinavian airline system</td>
<td>2001</td>
<td>Air transport</td>
<td>Scandinavian group company</td>
<td>Tracking divisional performance post organisational restructuring</td>
</tr>
<tr>
<td>Hewlett Packard</td>
<td>2001</td>
<td>IT</td>
<td>US global corporation</td>
<td>Business control function for established global strategy</td>
</tr>
</tbody>
</table>

Source: Olve, 2003

Olve illustrates the implications of these differences on the process of launching the Balanced Scorecard in each company. He indicates the positive and negative impacts of the different reasons that motivated companies to launching BSC systems.

Cobbold & Lawrie, 2004, highlight the key role of applying sound consensus building methods in scorecard projects to strengthen both the rationale for scorecard investment as well as team commitments to decisions taken at every level. Olve 2001 and Niven, 2003, also highlight the important contribution of rigorous planning and design as per the key steps outlined in the conceptual framework. Some common omissions are failure to accurately quantify resource requirements (financial, human, time etc.) and to build strong teams with clear roles. Executives often scale down on investment capital into new tools as a risk management measure or invest only after competitors have done so. However, high success rate depends on full scale application based on a full understanding of the tool and cautious approaches tend to reduce success rates once a decision to invest has been made. (Bain &
Company, 2011), cites current tentative investment into new social media programs as an example of such cautious resource allocation. Resource allocation is easier for large companies with a relatively stronger revenue base and this gives them an advantage over smaller firms.

Other planning and design problems relate to lack of executive support, poor internal perceptions and measurement difficulties. Sustainability problems include failure to manage competing demands on balanced scorecard management, breaks in the link to strategy and weakened links to organisational learning (Olve, 2003).

Some factors affecting the use of management tools in general including the balanced scorecard are exogenous to companies. Such factors include global economic cycles, and regional growth trends. For example, the use of management tools has increased in BRIC countries and over half of executives in emerging markets use the balanced scorecard as opposed to about a third of more established markets (Bain& company, 2011).

2.7 Lessons from public and non-profit organisations

Founders of the BSC and a substantial number of researchers believe that the tool is just as beneficial to public and non-profit organisations as it is to for-profit organisations. However, supportive evidence is mostly normative based on concepts and technical design recommendations on how to apply the tool in the non-profit sector. Empirical evidence on real life organisational experiences with the balanced scorecard in non-profit organisation is mostly limited to anecdotal single case studies of non-profit organizations. Greiling, 2010, is sceptical of some of the findings due to what he perceives to be excessive confirmation of the expectations of the model and calls for studies that rely more on user perceptions. Similarly, McAdam, 2005, cautions against wholesale application of private sector models to the public sector.
Lessons for research questions

Empirical studies reviewed in this research (predominantly from Niven, 2003; Olve, 2003; Yee-Ching, 2004; and Greiling, 2010), show convergence on the need to probe the first research question of whether the Balanced Scorecard has enabled public and non-profit organisations to administer effective strategy and performance management systems. While most of the findings make the case for using the tool effectively in this sector, they also acknowledge the many failures by some of the adopters of the tool. This leads to the second research question of what the success factors are so that adopters can strengthen their potential for success. Findings from the review of empirical studies assisted in identifying possible sub-questions as outlined below.

What motivates the organisation to institute a performance management system?

- A non-profit entity may adopt a PMS in compliance with an imposition by a financier. Declining public funding has increased demands for financial and non-financial accountability by financiers. In the case of the public sector, demands for performance management systems are often enforced through legislation.

- Some institutional environments of public and non-profit organizations are prescriptive in the types of performance management systems that may be used.

- In some cases, public sector leadership may introduce management tools due to prevailing popularity trends. A potential de-motivator for the organization is that it may exhibit attitudes of ‘learning fatigue’ as a result of trying many tools without actually committing to the initiative.

What value do users attach to their organisational performance measurement/management system and measures?

- While many executives value their current performance management systems, they are keen to see quality improvements in the performance information generated from their systems.
• Value attached to the different types of measures - literature shows a preference for output over outcome measures due to ease of measurement across all balanced scorecard perspectives.

• Many executives have the greatest confidence in financial measures, followed by customer and internal process and the least confidence in the measures for the learning and growth perspective.

How comparable are the performance management systems in operation to the Balanced Scorecard?

• Many non-profit organizations use and appreciate the value of using a mixture of financial and non-financial measures. These may by chance be classified under most of the BSC perspectives measures without signifying a conscious effort to use BSC principles. Often the systems of such organizations would not meet any of the other requirements.

How prevalent is the use of the Balanced Scorecard?

There is a low incidence of BSC use in public and non-profit organisations. In 2004, research results showed that only 7.5% US/Canadian municipalities were using the tool. Higher adoption rates apply to urban or municipalities with large budgetary resources. In 2010, Greiling reported a 30% prevalence of BSC use in a small sample of German non-profit organisations in the social services sector.

How knowledgeable are users about these?

Apparently, there were a higher proportion of managers that were aware of the BSC than those that had adopted it. Over 40% of municipal executives reported having a good knowledge about the BSC in contrast with only 7.5% that were actually using it.

What are the reasons for non-adoption?

• Lack of highly developed information system
• Inadequate funding
• Management pre-occupied with short term problem solving
Perceived high demands on time resources

Experience curve of BSC adopters?
In the US, the average length of experience with the tool in municipalities was 2.6 years (Yee-Ching, 2004). Greiling, 2010, consolidates the view that the learning curve of non-profit organisations in using the Balanced scorecards is short (Greiling, 2010). The few empirical studies show the following common traits amongst adopters of the tool:

- Model tested for a short time and abandoned for alternative models
- Model adopted but its application may not meet the minimum requirements of the model
- Model adopted recently and therefore the learning curve is too short to draw useful conclusions about its benefits
- Amount of evidence a factor of the length of the learning curve and available research competences

These variations need to be taken into account in assessing positive experiences with the tool.

What is the extent to which minimum Balanced Scorecard conditions are met?
Those organizations that have opted to use the Balanced Scorecard vary substantially in the number of minimum BSC requirements as well as the correctness of application. A substantial number of non-profit organizations use the classical for-profit version without any adaptations. Sometimes this reflects a lack of understanding of the appropriate tool for non-profits as they strive to respond to pressure on them to be more self-sufficient through the adoption of business oriented approaches.

Condition 1: A few key measures of strategic objectives selected across the four generic perspectives

- Many non-profits meet this first level criterion of BSC implementation, albeit at variable levels of quality
Condition 2: Cause and effect relationship among the BSC elements in each perspective

- Few non-profits meet this condition, implying that many non-profits do not have a real balanced scorecard system according to the assessment by Kaplan and Norton, 2001’s assessment (Greiling, 2010).

Condition 3: Cascading of scorecard to different organizational levels

- For many, cascading is partial down to middle management and in cases where cascading reaches lower levels, it does so mainly in the form of communicating the strategy as opposed to allocating strategic responsibilities.

Condition 4: Link of measures to incentive system

- Very few non-profit organizations have direct links between performance measures and employee incentive systems. Some case studies state that strengthening this link would be a serious risk factor in gaining employee commitment (Greiling, 2010) even if consensus were achieved in all other areas. This implies that many non-profits would defer phase in of this aspect to a later stage.

Condition 5: Rigorous Planning and Design processes as per the conceptual framework

- Very few organizations meet this requirement

What Benefits, challenges and success factors has the organisation experienced in using the BSC?

Common implementation benefits

- Clarifying and gaining consensus on the strategy
- Enhanced competitive position, customer satisfaction, financial performance
- Systems analysis logic (cause and effect) unearths strategy gaps
Common implementation challenges

- Management approval to adopt the framework
- Rejection by new management
- Obtaining executive time
- Challenges in linking performance indicators to reward systems
- Perceived lengthy implementation
- Poor conceptualisation of cause and effect relationships
- Data collection burden

As indicated in the above list of common findings, many of the reasons cited correspond to current expectations of the model.

Common Success factors

Most studies indicate that success factors related mainly to how well an organisation manages the commonly cited challenges. One interesting success factor identified by Greiling in his study of German non-profits is that there needs to be a financial crisis to force the organisation to consider alternative methods (Greiling, 2010). This factor resonates with Niven, 2003; who cites the need for a "platform of danger" as well as Kotter’s recommendation that creating a great enough sense of urgency is one key pre-requisite for successful transformation efforts (Kotter, 2007).

2.8 Lessons for research methodology

Reliability of responses improves if the information provided in research is obtained through the participation of senior executives with a wide range of responsibilities. In the event of using survey methodologies, researchers need to take appropriate risk management measures for possible low response rates such as those experienced in the literature review. The rate was between 11 – 20% in US/Canadian municipalities (Yee – Ching, 2004).
2.9 Institutional environment influencing performance management in South African Municipalities

2.9.1 Legislation on municipal strategy development and performance management

To ensure delivery of the mandate of local governance, that is, social and economic development of local communities as well as universal access to affordable essential services, various policies and legislation require all municipalities to develop strategic plans - Integrated Development Plans (IDPs) and supporting performance management systems for effective implementation. This government objective is expressed through many pieces of legislation. An MBA student research thesis by Jantjes, A, 2008, outlines the institutional environment that guides all municipalities in terms of performance management and reporting. This study cites up to twelve Acts on Strategy (IDP) development and performance management. It may be quite a challenge for some municipalities to develop an integrated system that complies with the diverse provisions of so many Acts, particularly in view of the low technical capacity of many small municipalities.

The White Paper on Local Government (1998) and Treasury guidelines provide the frameworks for developing strategic plans, including key performance areas and criteria for assessing robust or ‘credible’ IDPs. Realising the role of organisational performance management in successfully implementing these strategies, these policies also require municipalities to develop and administer effective performance management policies and systems. The Municipal Systems Act 32 (2000) provides for the systems and processes for IDP formulation. Chapter 6 of the MSA Act requires a municipality to establish a performance management system that is ‘in line with the priorities, objectives, indicators and targets contained in its integrated development plan’. The provisions for IDP linked employee performance management in terms of this Act are specific to municipal managers and the Executive Directors reporting directly to them only (Jantjes, 2008). This may be a limitation if there is no rigorous performance management for lower level employees. Apparently, municipal managers may exercise flexibility in determining the parameters applicable to other levels through the broad provision of Section 55(1) (a) of the MSA, which
stipulates ‘the formation and development of an economical, effective and efficient administration’ by a Municipal manager.

Quarterly and annual reports required in terms of the MSA (2000) provide information on the achievement of IDP objectives and performance targets. The oversight role of the Auditor-General, through the Public Audit Act, 2004, complements and adds authenticity to municipal accountability by auditing municipal performance management processes and performance report. These reports, as well as the Auditor General’s annual performance assessments and opinion on them, become useful public documents.

The performance management frameworks provided by the institutional environment described above have some elements of the Balanced Scorecard. As such, the PMS of many municipalities will reflect these similarities and may refer to the formulation and management of municipal ‘scorecards’. This should however not be misinterpreted as an application of the Balanced Scorecard as described in the academic conceptual framework as described in this literature review.

The Municipal System Act (2000) allows municipalities flexibility in the choice of a performance management system. Hence South African municipalities may choose to use the Balanced Scorecard as a potentially successful tool. However, the detailed strategic planning and PMS frameworks, the prescriptive performance management reporting templates, the influence of capacity building initiatives and legislative structures may direct attention and energy away from exploring alternative methods of strategic and performance management.

2.9.2 Prevalence of Balanced Scorecard Management systems in South African Municipalities

In South Africa, research literature on the prevalence and success rate of the Balanced Scorecard is scarce. The Balanced Scorecard Institute of South Africa cites use by some of its local clients, 18 from the private sector and 3 from the public sector. Four of these clients (MTN, FNB, Distell and Vodacom) are blue chip companies listed on the local stock
exchange. Large public organisations such as the Development Bank of South Africa, Transnet and the Auditor General have also used the Balanced Scorecard. Preliminary discussions with provincial officials with oversight responsibilities over municipalities in KwaZulu-Natal indicated that some municipalities have either tried or are using some forms of Balanced Scorecards as part of their performance management systems. A preliminary scan of municipal strategy documents also indicates the same. However, as indicated in the examination of the institutional environment, the use of the term scorecard in many of these PMS’s has little bearing on the conventional Balanced Scorecards.

2.10 Conclusions from the literature review

The wide body of literature offers many insights into the utility of the Balanced Scorecard. Compared to corporate entities, the incidence of the Balanced Scorecard in public and non-profit organisations is low, the learning curve is short and the adopters of the tool apply it in varying degrees of similarity with the contemporary conceptual framework of the management tool. Although many researchers indicate that the tool is applicable for non-profits, available empirical findings are mostly case based, with limited potential for generalisation.

Due to the above observations, there remains a wide scope for testing the view that says the Balanced Scorecard has been successfully applied in non-profit sector. The literature calls for an increased focus on user perceptions to add objectivity to research results that support the view that the Balanced Scorecard has proven beneficial to non-profits. This would address the critiques that some proponents of the tool provide biased research supporting the utility of the BSC. The research on South Africa’s experience may influence different role players to find better ways to apply the tool for the benefit of local non-profit organisations. Research into South Africa’s experience may add to lessons for BRICS countries and other emerging economies.
3.0 RESEARCH APPROACH & STRATEGY

The research approach is deductive and mainly qualitative data were collected and analysed against the conceptual framework of the Balanced Scorecard model. Due to the limited literature on the use of the Balanced Scorecard in South African non-profits and the indications that adoption rates were low, the research took a case study strategy approach in order to get in-depth insights on current practice. Although it is acknowledged that non-profit organisations are heterogeneous, lessons from the case study approach would be of value to those entities that share the same institutional characteristics as the public sector in general and the South African municipalities in particular. The choice of a South African municipal environment was mainly due to the larger number (283) of municipalities in this environment that had comparable needs for performance management.

3.1 Research Design, Data Collection Methods and Research Instruments

In line with the deductive and qualitative research approach, the research was based on a case study of a South African municipality to give insights about the use of the BSC in the public and non-profit sectors. The conceptual framework for a contemporary Balanced Scorecard described in the literature review was used as a basis for comparison with the practice to be research in the case study. To obtain in-depth insights on the case, a detailed questionnaire (Annexure J) was designed to probe the research questions in section 1.2, using the sub-questions developed in the literature review section. These sub-questions were derived from similar research on the Balanced Scorecard. Some of the key questions were modelled on Niven’s case study on one of the most successful US municipalities in using the Balanced Scorecard, the City of Charlotte (Niven, 2003). They probed the detailed processes of planning, designing and implementing the Balanced Scorecard as a strategic and performance management system as per applications found in the literature review. The data would be complemented by secondary sources on the same institution, mainly published strategy documents (IDPs, annual reports and AGSA reports).
To ensure data validity from the case study, the questionnaire was directed to the municipal manager, who was expected to have the most senior and integrated view on the municipality regarding the relationship between strategy and performance management as well as the interface with political interventions. The municipal manager delegated the task to the Planning and Performance directorate and the Deputy Manager for the Performance Management System provided responses. She was directly involved in the operation of the Balanced Scorecard Management system and was deemed an appropriate delegate. The questionnaire was focused, concise and simple to ensure correct interpretation and accurate responses in the absence of direct interviewing techniques.

The study was done over a period of three months from September to November 2011 to allow for sufficient data collection, clarification, analysis and interpretation using qualitative analysis.

3.2 Research Site

The Ehlanzeni District Municipality (EDM) in Mpumalanga province was selected as a case study to test the research questions because it conformed to the benchmark of a high performing non-profit entity that was using the Balanced Scorecard as a performance management system. According to the Auditor General of South Africa (AGSA), the municipality was one of the seven highest performing South African municipalities in South Africa with respect to performance management in the 2010/11 municipal financial year. The seven municipalities obtained unqualified financial and non-financial audits out of the 283 municipalities in the country in that year. That is, the Auditor General issued it with a financially unqualified audit report, did not find any faults in its accountability reporting on its performance plans and did not find any faults in its compliance with laws and regulations. Table 1 below lists the seven municipalities as follows:
### Table 3: Municipalities with unqualified audits - AGSA 2010/11 Audit Outcomes

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Province</th>
<th>Performance Management Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ehlanzeni District Municipality</td>
<td>Mpumalanga</td>
<td>Kaplan &amp; Norman’s Balanced Scorecard for Strategy-Focused organisations</td>
</tr>
<tr>
<td>Victor Khanye Local Municipality</td>
<td>Mpumalanga</td>
<td>Monitoring of Municipal ‘Scorecard’ of KPA’s through SDBIP aligned performance contracts</td>
</tr>
<tr>
<td>Steve Tshwete Local Municipality</td>
<td>Mpumalanga</td>
<td>Monitoring of organisational Key Performance Areas(^2) – system due for a review</td>
</tr>
<tr>
<td>City of Cape Town</td>
<td>Western Cape</td>
<td>Balance Scorecard Methodology</td>
</tr>
<tr>
<td>Metsweding District Municipality</td>
<td>Gauteng</td>
<td>Not available(^3)</td>
</tr>
<tr>
<td>Frances Baard DM</td>
<td>Northern Cape</td>
<td></td>
</tr>
<tr>
<td>Fetakgomo DM</td>
<td>Limpopo</td>
<td>Monitoring of organisational KPAs and linked S57 employee performance contracts</td>
</tr>
</tbody>
</table>

Source: Auditor-General South Africa, 2011; Municipal IDPs and Annual reports

Of the seven high performers, EDM and Cape Town were found to have adopted the Balanced Scorecard methodology. The PMS Policy Framework for the City of Cape Town showed that the focus of Balanced Scorecard methodology was on performance measurement, with little reference to its use as a strategy management system or communication tool (City of Cape Town, 2011). In contrast, Ehlanzeni District municipality’s policy framework as well as its IDP and annual reports demonstrated application of the model across the spectrum of strategic management, including performance

\(^2\) PMS due for review as per 2009/10 IDP  
\(^3\) The municipality was absorbed into Tshwane Metro in 2011 (www/sacities.net/)
management. EDM was also listed as a client of the Balanced Scorecard Institute of South Africa, an accredited provider of Balanced Scorecard services for the international Balanced Scorecard Institute. This implied that it had been exposed to best practice in the application of the BSC model.

3.3 Research Criteria and Data Analysis Methods

This research applied qualitative analysis to study the use of the Balanced Scorecard in Ehlanzeni District Municipality (EDM), using the conceptual framework developed during the literature review. The analysis method was based on pattern matching of the conceptual framework to the observed practice with the objective of assessing the coherence with which the model was applied, analysing the success achieved in developing a BSC based performance management system and the lessons learnt.

The framework enabled a confirmation of the claim by the EDM that it had adopted a BSC performance management system. As the literature review demonstrated, it is necessary to test this since organisations apply many variants of the BSC, some of which barely meet the basic elements of even the first generation scorecards. The analysis used the same framework to further test whether the adopted BSC had improved the municipality’s performance management system, based on perceptions by the municipality’s management. An analysis of secondary data on EDM’s audited annual performance reports and reviews by the Auditor General also strengthened the interpretation of management perceptions. Finally, the perceived strengths and weaknesses of the model were compared with experiences from the literature review and the analysis used to contribute to lessons for other municipalities and non-profit organisations intending to embark on a similar model.

3.4 Limitations

Although the case study provided in-depth insights into the use of the BSC in a municipal environment, empirical findings are indicative of the expected measure of success other municipalities can potentially obtain from the same model. The results may not be generalised across all non-profit organisations.
4.0 THE USE OF THE BALANCED SCORECARD BY EHLANZENI DISTRICT MUNICIPALITY

4.1 Background on Ehlanzeni District Municipality

Ehlanzeni District Municipality is located in Nelspruit in the Mpumalanga province. It is ‘bordered by Mozambique and Swaziland in the east, Gert Sibande District in the south, Mopani and Sekhukhune Districts of Limpopo in the north and Nkangala District Municipality in the west’ (EDM, 2009). As a District municipality, EDM is mandated to carry out development planning for the local municipalities under its jurisdiction to ensure integration, sustainability and equitable development. It is also charged with the provision of bulk infrastructure, support services and the equitable distribution of resources for these local municipalities, namely Thaba Chweu, Mbombela, Umjindi, Nkomazi, and Bushbuckridge.

According to its Integrated Development Plans, the municipality, aspires to be the ‘The best performing district of the 21st Century’. The municipality has achieved high levels of performance in AGSA’s audit outcomes and has received the award of Best Overall District and best district in 9 key municipal performance areas during the 2011 SALGA Service excellence awards (EDM, 2011), making it an interesting model for the study of effective performance management in a public sector environment.

4.2 The role and type of the Balanced Scorecard adopted by the Ehlanzeni District municipality

As indicated in the conceptual framework for contemporary Balanced Scorecard methodology, the tool is suitable as a comprehensive strategic management system, inclusive of performance management and communication. This is in contrast with earlier versions that limited the value of the tool to performance measurement. To assess the planned role of the BSC in the municipality, the study explored the motivation for adopting this tool by asking for the most important reasons for its need of a viable performance management system.
The municipality’s response demonstrated recognition of the need for a performance management system firstly as a tool for complying with the Government accountability requirements on performance management. While legislative compliance is not an intrinsic factor of strategy success, this response reflects the high value the government places on effective performance management, hence the attempt to achieve this effectiveness in municipalities through a highly regulated environment. More importantly, the Ehlanzeni District Municipality also acknowledged the more important roles of the PMS as a strategy and performance management system. In later responses, they specifically indicated that they were guided by the principles of the “Strategy Focused Organisation”, which emanate from Kaplan and Norton, 2000. These principles, which relate to the BSC conceptual framework reviewed in this research, include;

(i) Maintaining focus on organisational strategy;
(ii) Aligning organizational structure to fit the strategy;
(iii) Monitoring strategy implementation;
(iv) Establishing accountability.

To further explore EDM’s perceptions on the intended role of the PMS tool to be adopted, the municipality was requested to elaborate on why it chose this particular tool as well as who introduced it to them. The initial factor drawing the municipality to the BSC was its popularity as an internationally successful tool in both the public and the private sector. As well as benchmarking itself to international practice, the municipality’s interest and subsequent adoption of the tool was due to the ‘holistic approach brought about by the model in terms of strategy development’. This response strengthens the observation that the municipality uses the tool as an integrated strategy management tool, not just for performance measurement.

The research confirmed this view by examining the application of the BSC as portrayed in its PMS Policy, Strategic Plan and Annual Reports. The PMS policy (EDM, 2007), outlined the BSC methodology to be used in detail. The broad framework was outlined in the policy, including the municipality’s own definitions of the BSC perspectives, as shown in Figure 2 below. The policy also showed the BSC process map highlighting key components of the cycle (Annexure B: Performance Management Process).
Figure 2: Ehlanzeni District Municipality's Framework of Balanced Scorecard Measurement Perspectives

VISION, MISSION, STRATEGY (IDP)

SERVICE DELIVERY & INFRASTRUCTURE PERSPECTIVE
Is the municipality contributing towards the developmental needs of the province and country?

CUSTOMER (ELECTORATE & CITIZENS)
Is the municipality delivering the services the electorate wants?

FINANCIAL PERSPECTIVE
Is the service delivered at a good price?

INTERNAL PROCESSES PERSPECTIVE
Can the municipality improve upon a service by changing the way a service is delivered?

LEARNING AND GROWTH (EMPLOYEE DEVELOPMENT) PERSPECTIVE
Is the municipality maintaining technology and employee training for continuous improvement?

4 Adapted from EDM, 2007 Policy Framework for Performance Management
EDM’s discussion of the framework within its PMS policy demonstrated an understanding of the need to adapt the corporate model to suit the public sector environment as advocated by Niven, 2003. The adaptation comprised of the addition of a 6th perspective in addition to the five in Niven’s framework for non-profits. This perspective, called the Service Delivery and Infrastructure perspective, focuses on the mandate of municipalities and answered the question “Is the municipality contributing towards the developmental needs of the province and country? This focus is quite close to Niven’s intention in including the Mission’s perspective and could be considered to be superfluous to Niven’s model. However, it suited the municipality and would clarify the role of the mission more effectively. The Mission perspective in the conceptual framework was widened to include Vision and Strategy (IDP). The municipality’s question for each of the perspectives show that the municipality recognised the role of finance as an input into the process and not the ultimate value created as in the corporate model. Similarly, the customer perspective was adequately interpreted by viewing the customer as a recipient of Government services as opposed to a corporate customer through which commercial value is created.

4.3 Ehlanzeni’s Balanced Scorecard experience curve

Ehlanzeni District Municipality embarked on the BSC in July 2007, achieving a cumulative four year experience curve with the tool at the time of this research study. According to the municipality, they had completed all the inception phases of the BSC and were using the tool to implement their IDP at the time of this case study, including the annual review of their performance. The four year continuous period that EDM implemented the BSC suggests that the municipality maintained its confidence in the value of the tool and may have successfully overcome common challenges that often lead many non-profits to abandon for alternative models, such as US and Canadian municipalities who were found in the literature to have an estimated shorter learning curve of 2.6 years.

The municipality confirmed its confidence in the potential value of the tool, giving it the highest rating of 5 assigned to the tool in this research. However, due to internal organisational challenges in it, the municipality rated the actual level of satisfaction at the average level of 3. The relatively longer experience curve lends some measure of credibility
for these findings. The study explored these challenges as indicators of the determinants of success or failure of applying the BSC.

4.4 Influence of BSC project framework on successful adoption

To test the rigour with which EDM applied the BSC framework in launching the BSC project, the municipality was asked to outline the project plan it used and the related challenges. The respondent provided the plan (Annexure H: Performance Management Implementation Plan), confirmed the phases shown and the role players. She then provided the challenges they faced in implementing the planned activities. Although there was a variation in the terminology used for some of the project phases from that in the conceptual framework, it had a very high level of congruence with the framework obtained from the literature review. This shows that the municipality had a reasonable chance for success and any challenges would not be as a result of poor design.

4.4.1 Ehlanzeni’s BSC Project Plan - Planning phase:

The municipality’s planning phase included the expected elements of outlining the project purpose, namely; obtaining political and executive support, communication and getting resource commitments. The project champions achieved high level support by communicating the project rationale and plan to the Mayor, municipal manager and counsellors. The support obtained enabled the constitution of a Task team to drive the project. Team mobilisation and capacity building in Balanced Scorecard methodology followed to ensure a strong and united effort. The team then cascaded the communication, capacity building and change management effort to managers and other internal and external role players. This included training workshops in balanced scorecard concepts and processes. The Performance Management Policy Framework (EDM, 2007) was developed and adopted as part of planning, to give the balanced scorecard system a legal standing and eligibility for municipal funding.
# Challenges and Lessons learnt from planning activities

## Table 4: EDM’s Experiences with the Balanced Scorecard Planning Phase

<table>
<thead>
<tr>
<th>Step</th>
<th>Planning Phase</th>
<th>EDM’s Strengths / Weaknesses and Lessons learnt</th>
</tr>
</thead>
</table>
| 1.   | Identify clear need and objectives for using a balanced scorecard *(key factor for deciding entry level of the required balanced scorecard – corporate, business unit, pilot etc.)* | **Challenge:** Externally identified need for PMS (i.e. government legislation, limited local examples to learn from)  
**Strengths:** Research and international benchmarking informed leadership about the internal rationale for a PMS and the model to be adopted.  
**Lessons:** Leadership is required to identify internal need and ownership of the PMS initiative  
Strategic management and research capacity necessary to research best practice and adopt a viable PMS, a strategic management system in the case of EDM  
Information on alternative models for performance may bridge the knowledge vacuum and encourage more municipalities and some non-profits to investigate and adopt new models |
| 2.   | Obtain executive support & commitment | **Challenge:** None cited for political and executive leadership  
**Strengths:** Well researched model with clear merits, proven benchmarks, practical implementation steps and resource requirements  
Highlights of existing gaps in municipal performance to be addressed by the BSC initiative.  
**Lessons:** Importance of capacity to develop clear motivation for a PMS to political and executive leadership |
| 3.   | Commitment to change management process & its resource implications (culture shock – e.g. internal reaction to changes in employee | **Challenge:** Initial display of negative attitudes and resistance to change.  
**Strength:** Proactive preparation and implementation of a change programme provided for information sessions and other interventions |
<table>
<thead>
<tr>
<th>Step</th>
<th>Planning Phase</th>
<th>EDM’s Strengths / Weaknesses and Lessons learnt</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.</td>
<td>Resource commitments and allocation</td>
<td><strong>Challenge:</strong> Inadequate management commitment for performance review processes and related engagement with subordinates to discuss and institute necessary interventions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>High demands on reporting in some units</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Strength:</strong> Adoption of PMS policy framework by the Council paved the way for budget allocation for PMS</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Lessons:</strong> System reviews required to identify problems and intervene (such as the de-motivators resulting in the challenge above).</td>
</tr>
</tbody>
</table>

**The role of clear project objectives**

Although the impetus for the project came from National Government’s recognition of the need for performance management, the municipality initiated its own research on the rationale for a PMS. The municipality realised that Government legislation had been issued in a vacuum as performance management was still “un-treaded” ground, with no readily available and proven best practice systems in the country. EDM therefore found it necessary to research global systems and models, leading to the identification of the Balanced Scorecard. The principles of the BSC convinced the municipality to embark on an organization wide BSC project, with clear phases as determined by the principles for Kaplan and Norton’s Strategy Focused organization (re: Annexure B). With the understanding of the concepts, EDM formulated and adopted a PMS policy framework (EDM, 2007) to provide firm and sustainable guidance on the PMS. The research based approach played a role in promoting internal conviction and high level of commitment to the project.

**Obtaining high level executive and political support for the BSC initiative**

The conviction enhanced the leadership’s capacity to market it effectively to their political principals. When asked what approach EDM used to obtain high level executive and political
support, the respondent indicated that the planners had to promote the merits of the BSC as a holistic approach to strategic management, based on the extensive research they had done on the model. They demonstrated the success achieved with the model on a global scale as well as the methodology the municipality would need to take in implementing the BSC. The team also highlighted the changes in the municipal’s operating environment and how the BSC management system would be relevant to address those challenges.

**Commitment to change management process**

As expected with any organisational change, there is always some degree of resistance due to real or perceived threats to the status quo in terms of the rights and privileges of different role players. The BSC framework for project implementation anticipates this reaction and proactively recommends the preparation of a change management programme as part of the planning phase. This ensures that the organisation sets aside the necessary resources and also addresses the challenges before they derail the project. In the case of changes to performance management systems, culture shock is one of the expected reactions.

Resistance to change in EDM manifested itself through a display of very negative attitudes to the project plan. The project champions ascribed the negativity to a possible fear of the unknown and the perceived potential abuse of the system to the detriment of those that resisted it. Some managers perceived that the legislation on Performance Management Systems was likely to make it easier for officials to be unfairly disciplined and for some managers to be unfairly removed. In line with the BSC implementation framework, information sessions addressed the fears. A further misperception was that the PMS was designed to determine performance bonuses as opposed to its main role of identifying and addressing constraints to service delivery, including constraints to operational efficiency and employee development. Such misconceptions continued to be dealt with through the information sharing sessions of the change management programme.
Resource Commitments

The BSC framework advocates that BSC project plans include adequate allocation of financial and time resources for items such as high quality expertise, management and employee participation, data collection, software and training materials in order to avoid hold ups during implementation.

Management Time

To obtain the commitment of managers to allocate time for participating in the BSC project, the project team conducted an initial round of engagements with all managers to share the expected benefits of the system. In the four years since project inception, it became evident that managers were readily available for the scorecard sessions but were less committed to participating in performance review sessions and engaging with their teams on performance management.

Data collection resources

With regard to data collection, the municipality indicated that performance reports were collated and consolidated quarterly into an organisation performance report. Most of the 26 units in the municipality were reportedly coping with the demands of performance reporting, with only two units complaining that “more time is being spent on reporting than on actual project implementation”. The municipality regarded this mainly as an externally generated problem due to other government departments requesting various reports on diverse templates. This conclusion could be faulty since the two units could be handling proportionately higher volumes or value of the municipality’s business and the impact of the reporting resource constraints could be having a larger impact than realised.
Financing the BSC project

The EDM did not cite any challenges with securing funding for introducing the BSC project into the organisation. The project inception was preceded by the adoption of the PMS Policy and the municipality could therefore allocate an operational budget from its resources, mainly for the salaries of the three employees in the PMS unit as well as for a service provider in the preliminary phases of the project. In the 2009/10 IDP review, performance management was a priority initiative with an operational budget of R2.7 million and was set to benefit from a R2.6 million budget allocation for in-depth studies and surveys for the 2010/11 financial year.

At the time of this study, the system was still Excel-based and according to the PMS unit, this played a major role in avoiding the much higher costs that would be incurred if the system were to be automated. This view was however not shared by all parties. EDM’s 2009/10 annual report highlighted the delays in the production of performance reviews, compromising the quality of the reports and their value for decision making. The report suggested that automating the system could bring improvements to the PMS (EDM, 2010, pp. 25).

4.4.2 Ehlanzeni’s BSC Project Plan –Design/ Development and Implementation

The design and implementation phase described in the conceptual framework comprises the following activities:

- Confirmation of the mission, vision and strategy
- Alignment of PMS with other systems
- Development of Strategy Maps, scorecards and performance measures and initiatives
- Implementation
- Evaluation
EDM’s project plan contained most of these activities although they were placed under different headings to the reference BSC conceptual framework. According to the project plan, the mission, vision and strategy would be confirmed through executive interviews on the main IDP strategy document as well as related business unit strategies. Organisational and business unit scorecards, strategy maps and performance measures would be developed through well represented management workshops. The quality of the plan was enhanced by the inclusion of activities to align scorecards to individual employee performance contracts and incentive structure; as well as a component for monitoring and evaluation.

The following account presents EDM’s experiences from implementing these design and implementation activities. Table 5 below summaries the resultant experiences and lessons.

**Table 5: Experiences with Balanced Scorecard design and development phase**

<table>
<thead>
<tr>
<th>Step</th>
<th>Development / design Phase</th>
<th>Strengths / Weaknesses and Lessons learnt</th>
</tr>
</thead>
</table>
| 5.   | Determine or confirm relationship of the balanced scorecard with other organisational performance systems | **Strength / lesson:** Analytical skills to link legislative framework to new model and reflect the linkages during PMS policy development  
**Challenge:** Residual gap in BSC outputs to meet legislated reporting requirements, resulting in extra effort to comply |
| 6.   | Create strategy map (Determine value creation chain through cause and effect linkages among objectives for each perspective) | **Challenge:** Analysis perceives current strategy maps to be of low value as a communication tool due to unclear linkages among perspectives and poor identification of appropriate internal processes  
**Strength:** Consistent development and communication of strategy through strategy maps |
| 7.   | Develop performance measures and targets (identify leading and lagging measures for each objective. Set expected targets) | **Weakness:** Providing for stakeholder assessments of improvements in Learning and Growth |
| 8.   | Automation  
(To support implementation, performance measurement & control, set up appropriate performance measurement software (communicates real time performance information to all decision makers) | **Challenge:** Lack of automation  
**Strength:** Deliberate strategy to entrench PMS as a manual system until the organization is ready to automate  
**Weakness:** Apparent inconclusive research on appropriate software and timing of the automation |
| 9.   | Cascading | **Strength:** Consultative structures in place for developing |
### Relationship of the balanced scorecard with other organisational performance systems

Although the municipality was not asked to specifically indicate its approach on dealing with potential conflicts of the BSC with other control systems and legal provisions, it emerged that the municipality had to devote substantial technical expertise and time to analyse the extensive legislation on IDP and PMS processes and how to align them to the new PMS policy and management system. However, the municipality indicated that there were still some residual alignment problems such as the need to re-craft performance reports from the Balanced Scorecard to fit into the standard local government reporting templates. It can be deduced that sustained commitment to the Balanced Scorecard in future will depend on the benefits of the model outweighing these disadvantages by a wide margin.

### Selecting key objectives, measures, targets and initiatives for the balanced scorecard(s)

The municipality’s account of how it developed performance measures showed that it attached high importance to aligning BSC measures to IDP objectives, as well as promoting maximum participation in scorecard development. It also indicated that it paid attention to the development of Departmental and SBU scorecards that were aligned to the organisational Scorecard. The respondent did not, however, discuss processes and techniques for the following important practices.

<table>
<thead>
<tr>
<th>Step</th>
<th>Development / design Phase</th>
<th>Strengths / Weaknesses and Lessons learnt</th>
</tr>
</thead>
</table>
|      | Cascade (break down) relevant parts of the enterprise-level scorecard into business unit, team and individual scorecards to facilitate implementation of lower level operational strategies and plans. | strengths: scorecards at different levels  
Challenge: Misinterpretation of Organisational Scorecard in the process of developing unit scorecards, resulting in irrelevant or non-implementable projects  
Lack of IDP-linked employee performance management system for lower levels. Legislative vacuum limits clear linkage between performance and reward. |
| 10. | Develop implementation plan | Strength: Comprehensive implementation with clear roles was developed to guide the implementation phase |
• Targeting a few, key measures
• Providing for both leading and lag indicators
• Spreading measures over the BSC perspectives

However, the IDP documents and annual reports suggest that these aspects are taken into account (see Strategy Maps – Annexure C & D; and Excerpt of performance measures – Annexure E). Examination of these documents displayed a systematic inclusion of expected elements. However, there was evidence that the Organisational Scorecard was too generic and did not display particular logical links among the measures in each perspective. The leading and lag indicators presented had no obvious relationships and were dominated by indices form stakeholder opinions with little or no supporting quantitative measures. The 2009/10 Annual report also expressed reservations on the lack of more suitable performance indicators and expressed concern that the BSC methodology was too ‘intricate’ for some of its participants. These observations suggest a need for improved technical expertise in developing performance measures and indicators that can better reflects what the municipality needs to measure to track performance, including improved processes and learning and growth.

Due to observed weaknesses in the literature about challenges organizations face in developing Learning and Growth perspective, the research explored EDM’s experience in the identification of measures for this perspective. The municipality indicated that although the measures are mostly internal in nature, its area of weakness is the incorporation of measures that would take in stakeholder inputs about progress made by the organization in learning and growth initiatives.

**Communicating organisational strategy through Strategy Maps**

The organisational strategy map demonstrated that the municipality devoted time in finding the important links among the different perspectives (see Strategy Map – Annexure C). However, as indicated in the section above, the high level measures in the map may not be of practical significance to managers and other employees if the linkages are not very clear.
Communicating and cascading the scorecard

The municipality described a systematic, participative consultation process in developing the organisational, departmental and business unit scorecards that are aligned as per the functions of the different units. The municipality faces a serious challenge in which some units fail to understand their role in achieving a particular objective, resulting in measures and initiatives that are either irrelevant or simply do not make much sense and are therefore non-implementable. At the time of the study, the municipality intended to intervene but had not found the appropriate intervention.

The Municipality had not yet cascaded the system down to employees lower than level 3 (i.e. middle managers). The intention was to link performance measures for lower level employees through its Human Resources Unit under Corporate Services. Comparing this with the legal framework, the municipality would need to operate under very broad guidelines on this aspect and as indicated in the response; unions would need to be engaged to ensure they agreed with the interpretation of legislative in the proposed employee management system.

Identifying an appropriate automated system to facilitate performance reporting

At the time of the study, the Municipality indicated it had not yet automated its PMS and was using Microsoft Excel as a software programme for all templates. The EDM indicated that lack of automation was a deliberate strategy to lay a basic foundation of the PMS before rushing to automation. They had also considered that any automated system would still require a “manual” generation of strategic objectives, indicators, baseline data, targets, etcetera, implying that this is a deterrent to pursuing an automated system. This view is similar to that adopted by what is viewed as the world’s best known user of the Balanced Scorecard, the Charlotte municipality in the US (Niven 2003).

The municipality indicated however that is continued to research the possibilities of automation and was aware of software programmes in the market that could add value by reflecting early warning indicators at all times, generating information for decision-making by management and minimizing the processing time and time of generating of reports to a ‘tenth of current timeframes. More effort may be necessary to carry out conclusive research before the small reporting problems worsen to a level that affects operations. It is also
important to note that some manual operations may not be a cause of concern to employees even though they may actually be inefficient.

The perception within the Performance Management that managers need to make more effective use of the information outputs to influence their decisions is disturbing because such a state could seriously erode the value of the investment into the BSC system and the main purpose of performance management.

**Implementation plan**

The municipality indicated that it had developed a comprehensive implementation with clear roles to guide the implementation phase of the project, in line with its performance management policy.

**4.5 Analysis of the benefits of the BSC as a strategy and performance management system in the Ehlanzeni District Municipality**

The case study assessed the benefits of the Balance Scorecard model for Ehlanzeni District Municipality based mainly on what the municipality intended the model to achieve. The intentions were analysed firstly from the municipality’s PMS policy framework and supplemented by recent views from the case study interview as well as annual progress reviews from municipal Annual Reports and IDP review documents. The municipality’s objectives in the 2007 PMS policy framework comprise mainly system and process related improvements for the PMS. These objectives have a lot in common with the system improvement related benefits identified in the literature review. They are summarised below, together with a qualitative assessment of how far the municipality achieved these improvements. The analysis also took into account the strategy management improvements in the BSC as well as possible value creation activities.
<table>
<thead>
<tr>
<th>PERFORMANCE OBJECTIVE</th>
<th>SUCCESS FACTOR</th>
<th>WEAKNESS OR RISK FACTOR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Improvements to PMS’s performance measurement capacity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Key performance measures to monitor and control strategy relevant operational activities</td>
<td>Goals and Objectives, Organisational Scorecard consistently tabled in IDP plan and review documents (re: Annexure E &amp; F) Scorecard measures clearly linked to operational activities through Service Delivery Implementation Plan (re: 2009/10 IDP) Both Lead and Lag Indicators used</td>
<td>Poor development of internal process performance measures (e.g. SCM) and Learning &amp; Growth measures Poor link between leading and lag indicators Too much reliance on stakeholder indices that could be subjective</td>
</tr>
<tr>
<td>Monitor &amp; review organisational performance</td>
<td>Consistent reporting through Quarterly and Annual reports Quarterly and annual performance review reports used by Municipal Manager to account for implementation of Institutional Balanced Scorecard EXCO, Council and the public Reporting excellence through award of Clean AGSA audit in 2009/10 and unqualified audit in 2008/09</td>
<td>Over-reliance on expressing performance in the form of budget expenditure and percentages. Limits information on physical outputs and outcomes Delayed and/or poor quality performance reporting, leading to delayed evaluation Lack of compliance by managers (probably due to incompetence) Manual PMS (Slow assessments, limited non-financial measures) Divergent views about merits of an automated system and apparent inconclusive research on IT option</td>
</tr>
<tr>
<td>Prioritisation of Learning and Growth as per EDM’s PMS policy</td>
<td>High achievement of Learning and Growth objectives set for 2009/10: (EDM Annual report for 2009/10)</td>
<td>Competence gaps levels to contribute effectively to BSC PMS inputs (at management and employee levels)</td>
</tr>
<tr>
<td><strong>2. Improve strategy execution</strong></td>
<td></td>
<td></td>
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<tr>
<td>Performance Reward system</td>
<td>Municipal scorecards linked to Senior management performance contracts and rewards (Progress on PMS - annexure G, item 9)</td>
<td></td>
</tr>
<tr>
<td>Engage managers and employees in strategic thinking and consensus</td>
<td>Objective is embedded in approved PMS policy</td>
<td>Implementation of projects not on adopted IDP</td>
</tr>
<tr>
<td>PERFORMANCE OBJECTIVE</td>
<td>SUCCESS FACTOR</td>
<td>WEAKNESS OR RISK FACTOR</td>
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<tr>
<td>-----------------------</td>
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<td>-------------------------</td>
</tr>
<tr>
<td>building</td>
<td>Effective strategy development through annual IDP review process</td>
<td>Perceived poor infrastructure planning capacity, particularly in relation to SDBIP.</td>
</tr>
<tr>
<td></td>
<td>PMS monitors implementation of identified strategic interventions</td>
<td></td>
</tr>
<tr>
<td>Cascading</td>
<td>All business units take part in internal communication initiatives</td>
<td>Low commitment of middle managers to performance reviews</td>
</tr>
<tr>
<td></td>
<td>Managers required to hold performance review sessions in their departments and decide on control interventions</td>
<td>Some KPAs for organisational Strategy Map too aggregated for meaningful cascading or performance monitoring</td>
</tr>
<tr>
<td></td>
<td>Organisational strategy maps published every year to communicate strategy (re: Annexure C and D)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Clear resource allocation – Service Delivery Budget Improvement Plans (SDBIP) - re: Annexure E</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Communication initiatives evaluated by internal stakeholders</td>
<td></td>
</tr>
</tbody>
</table>

### 3. Value Creation Outputs

<table>
<thead>
<tr>
<th>Financial improvements</th>
<th>Unqualified financial audit for two consecutive years (2008/09 and 2009/10) AG, 2010.</th>
<th>Use of consultants may be a risk of unsustainable performance if there is no provision for skills transfer (AGSA, 2010).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Delivery</td>
<td>No adverse findings on AGSA Performance audit in 2009/10 audit.</td>
<td>Relatively low achievement in Infrastructure delivery (58%) and Monitoring of capital projects (61%) compared to average performance of 71% for all KPAs (2009/19 Annual Report).</td>
</tr>
<tr>
<td></td>
<td>Award of 10 SALGA Service Excellence awards in various categories of municipal performance.</td>
<td>Places doubt on value of AG’s clean audit opinion – awarded for accurate performance ‘accounting’ rather than core service achievements</td>
</tr>
</tbody>
</table>

**Sources:** Various IDP review documents, 2009/10 Annual Report, Case Study information, AGSA reports
The analysis shows that the Ehlanzeni District Municipality has made many strides in establishing a functioning strategy and performance management system in terms of BSC principles as well as the processes expected to be in place by Government. However, there is room for a lot of improvement in the quality of the deliverables from the established systems and processes as indicated in the risk identification column. The most notable observation is the fact that although the municipality is praised for being one of the very few municipalities to achieve a clean financial and performance audit, the excellence is more to do with accurate reporting than the achievement of strategic objectives. Infrastructure service delivery, for example, a crucial determinant of social and economic progress, achieved a 58% delivery rate compared to the overall total of 70%.

Another disappointing observation is the finding that despite the high regard for the BSC model within municipal leadership, the available skills base is inadequate to contribute to the maximum use of the management tool. The level of training is very high in terms of the scorecard measures, but the capacity gap has not been closed. Improvements are needed in the development of non-financial measures across the range of BSC perspective. The root causes for delayed performance reporting by managers need to be explored and rectified. Automation could be one of the areas of intervention. It is quite clear that despite the many important strides in setting a model PMS in a South African municipality, EDM needs to continue to review and improve the system.

5. CONCLUSIONS

The Balanced Scorecard has the potential to improve strategy implementation in public and non-profit organizations when integrated into an organization as a strategy and performance management system. The conclusion is based on the analysis of process related improvements the BSC introduces to strategic management processes as illustrated in this case study. The qualitative analysis identified a mixture of successes and failures in the achievement of performance targets through the BSC but did not establish any causal relationship between use of the BSC and the achievement of strategic objectives. Quantitative methods would be more appropriate in complementing the findings of this study. This would however require tracking a case over a long time period or a large cross sectional survey when a wider population has adopted the model and has used it over a longer period of time.
The lessons from this case study confirm the view that while the BSC is potentially a strong model for non-profits, its effectiveness as a strategy and performance management system is influenced by several success factors that practitioners need to pay attention to when embarking on such a project.

Leaders of non-profits need to take a proactive role in promoting internal research into strategic management tools such as the BSC. This approach develops the understanding of the organization and its commitment to any chosen model. In the South African public sector, leaders need to be aware of the context in which Government has developed and promoted standard strategic planning and performance management frameworks. Standardised frameworks are meant to provide all institutions with a base to achieve minimum standards of strategic planning, management and performance reporting in recognition of the low capacity for developing independent frameworks in many institutions. When an alternative is adopted, the respective institution must be prepared to align the new model to meet minimum standards while achieving the PMS objectives that it has set for itself.

National planners and institutions to which government institutions are accountable, need to develop research and analytical capacities so that they can accommodate the unique planning and performance management approached adopted by innovative institutions so that legislative provisions and standard frameworks do not stifle such innovations. There is probably an unfilled gap in research linkages between academic institutions and non-profits to support the research needs. The gap is compounded by the fact that some of the research needs are latent needs that require a sensitization effort before they can be addressed.

Innovators in non-profits need to apply rigorous research to support feasibility assessments for new models. Since internal capacity for strategic management, performance management and general skill levels is one of the success factors for BSC methodology, feasibility must take into account current and potential internal competencies of its leadership, management and operatives, in relation to the requirements of the identified model. This consideration is vital for maintaining the momentum of the BSC project and points to the need to integrate the human resource development strategy to the BSC initiative. Capacity in isolated pockets of the organizations is inadequate to carry the demands of the initiative and overcome inevitable resistance to system demands that the rest of the organization can adapt to.

As advocated by the BSC conceptual framework in this study, the quality of the planning and design phase is an integral part of successfully launching a PMS with this model. This helps
to anticipate and proactively prepare to deal with the risk factors. Planning and design competence can effectively deal with factors such as skills transfer from any outsourced services used in the project, quantify and budget for different resource requirements including investments in management time.

Practitioners need to minimize the risk of focusing too much energy on BSC processes and its (Scorecards, Strategy Maps, Performance reviews etc.) more than the skill and quality considerations of these outputs. Insufficient provisions on this aspect results in problems such as organizational scorecards that are too generic and have poorly designed measures such that they provide little guidance to departmental and operational scorecards and can even be misleading. BSC projects must therefore have the support of competent, internal PMS professionals with technical skills, facilitation skills and knowledge of the business for identifying integrated measures of a strategic nature across the BSC perspectives.

To avoid losing the benefits of BSC methodologies to organizational performance management systems, automation must be considered as a way of reducing the opportunity costs of operating on slow manual systems. If the opportunity costs are too high, commitment by operatives go down and leaders lose the value of timely and high quality business intelligence that is expected from the system. Cost effective automation is an important planning consideration.

6. FURTHER RESEARCH QUESTIONS

Based on the findings of this study and its limitations, several areas of research are proposed as follows.

- Investigating the link between the BSC and actual achievement of strategic objectives as opposed to its useful in management processes
- How to strengthen research capacity in public institutions and partnerships with academia in the area of performance management systems
- How to automate successfully and cost effectively
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Nihilent Technologies. (n.d.). *Case Study: Development Bank of Southern Africa (DBSA).*


http://www.middelburgsa.co.za/
# Annexure A: EDM Performance management project implementation plan

## PERFORMANCE MANAGEMENT IMPLEMENTATION PLAN

<table>
<thead>
<tr>
<th>Phase 1: Planning</th>
<th>Activities</th>
<th>Timelines</th>
</tr>
</thead>
</table>
| **Communication and Mobilisation on** | Meeting with Mayor and Municipal Manager  
  - Delegation of Responsibilities  
  - Objectives of PMS  
  - Present PMS Action Plan  
  Workshop PMS Policy to Councillors  
  - Support and clarify roles and responsibilities  
  Develop PMS Action Plan/Change Management Programme  
  - Present and gain inputs/comments on PMS Plan of Action/Change Management Programme  
  - Develop Communication Strategy and plan  
  - Form and train the Balanced Scorecard team (concepts and context)  
  - Present Corporate Solution and purpose  
  Present PMS Plan of Action & Corporate Solution to Management | Week 1 |
| **Stakeholder Consultation and structural alignment** | Meet/communicate with PMS role players and stakeholders (Internal & External)  
  - Assess/facilitate the establishment of PMS institutional structures | Week 3 |
| **Workshop on PMS Framework (Balanced Scorecard) – (management to level 3)** |  
  - Measurement and strategic management framework | Week 4 – 5 |
| **Public Policy and PMS Framework for public comment** | Publish Policy and PMS Framework for public comment | Week 6 |
| **Adoption of PMS by Council (30 days after publication for comments)** | Adoption of PMS by Council (30 days after publication for comments) | Week 7 |

<table>
<thead>
<tr>
<th>Phase 2: Implementation</th>
<th>Confirm municipal mission, values, vision, and strategy (Core IDP Components)</th>
<th>Week 8</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Conduct Executive Interviews</strong></td>
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</table>
  - Explicit and implicit business unit strategies | Week 9 |
<p>| <strong>Develop strategy map (communicating tool of municipal strategy)</strong> | Develop strategy map (communicating tool of municipal strategy) | Week 10 |</p>
<table>
<thead>
<tr>
<th>Conduct management workshop (1st)</th>
<th>Week 10 – 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Develop corporate balanced scorecard – Objectives; Measures; Targets; prioritise strategic Initiatives according to Local Government Key Performance Areas</td>
<td></td>
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</table>
### PERFORMANCE MANAGEMENT IMPLEMENTATION PLAN

<table>
<thead>
<tr>
<th>Phase 3: Organisational Alignment</th>
<th>Activities</th>
<th>Timelines</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Align organisation to strategy</strong></td>
<td>Develop Business/Support Units Scorecards</td>
<td>Week 19 – 34</td>
</tr>
<tr>
<td></td>
<td>- Gather employee feedback on corporate scorecard</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Develop business unit scorecards and strategy maps</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- (consider budgetary priorities and integration to corporate strategic initiatives and SDBIP)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Conduct management workshop (2nd)</td>
<td>Week 34 – 36</td>
</tr>
<tr>
<td></td>
<td>- Review business/support units scorecards / SDBIP</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Refine corporate strategy and scorecard</td>
<td>Week 37 – 38</td>
</tr>
</tbody>
</table>

### Phase 4: Individual Performance Agreements

<table>
<thead>
<tr>
<th>Making strategy everyone’s everyday job</th>
<th>Cascading strategy to individual employees (to level 3)</th>
<th>Week 38 – 46</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Develop and align individual goals to strategy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Develop Performance Agreements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Link and align incentives/bonuses/rewards to performance</td>
<td></td>
</tr>
</tbody>
</table>

### Phase 5: Monitoring & Review

<table>
<thead>
<tr>
<th>Governance to make strategy a continual process</th>
<th>Conduct strategic review meetings</th>
<th>Week 59</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Establish performance reporting</td>
<td>Week 60 – 64</td>
</tr>
<tr>
<td></td>
<td>Integrate planning, budgeting and strategy for next cycle</td>
<td>On-going</td>
</tr>
<tr>
<td></td>
<td>Link the Human Resource Strategy to organisation</td>
<td>On-going</td>
</tr>
</tbody>
</table>

**Source:** Ehlanzeni District Municipality – PMS Unit, 2011
Annexure B: Performance management process

Source: EDM 2009/10 Annual report
## Annexure E: Ehlanzeni District Municipality Goals and Objectives – 2009/10 IDP

<table>
<thead>
<tr>
<th>Table 28 District Goals and Strategic Objectives District Goals</th>
<th>Strategic Objectives</th>
</tr>
</thead>
</table>
| **Goal 1**: Ensuring integrated development planning for the district as a whole | Strengthen existing IDP structures  
Improve the IDP and budget planning process  
Ensure implementation of IDP priorities  
Allocate available funds to identified priorities on a Multi-Year Plan  
Promote Public-Private-Partnerships  
Ensure implementation of tourism and LED strategy |
| **Goal 2**: Promoting bulk infrastructural development and services for the district as a whole | Conduct feasibility studies on existing and future infrastructure development and services  
Solicit additional funding for infrastructural development and services  
Support implementation of capital projects and services in Local Municipalities |
| **Goal 3**: Building the capacity of local municipalities in its area to perform their functions and exercise their powers where such capacity is lacking | Assess the capacity of Local Municipalities  
Provide support to Local Municipalities  
Strengthen inter-governmental relations |
| **Goal 4**: Promoting the equitable distribution of resources between the local municipalities in its area to ensure appropriate levels of municipal services within the area | Conduct constant monitoring of municipal services  
Facilitate appropriate response for identified priority needs |
| **Goal 5**: Building a modern and performance driven municipality | Implement performance management including LM  
Create awareness and buy-in to EDM strategy  
Improve communication  
Continuous assessment and staff development |
### 5.7 PERFORMANCE MEASURES AND INITIATIVES

**GOAL 1: Ensuring integrated development planning for the district as a whole**

<table>
<thead>
<tr>
<th>Strategic Objective</th>
<th>Measure</th>
<th>Target</th>
<th>Priority Initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen existing IDP structures</td>
<td><em>Lag</em>: Credible IDP Index <em>Lag</em>: Credible IDP Index of Local Municipal IDPs <em>Credible</em> is defined as the quality and standards set out by local government <em>Lead</em>: Stakeholder participation index</td>
<td>100% credible IDP including Local Municipal IDPs by 30 June 2010 &gt; 90%</td>
<td>Stakeholder Participation</td>
</tr>
<tr>
<td>Improve the IDP and budget planning process</td>
<td><em>Lag</em>: Unqualified Audit Opinion <em>Lead</em>: Schedule of deadlines (district process plan and framework)</td>
<td>“Positive expression” in terms of IDP and Budget alignment Meet deadlines as set out in the schedule and legislation</td>
<td>IDP &amp; Budget Alignment</td>
</tr>
<tr>
<td>Ensure implementation of IDP priorities</td>
<td><em>Lag</em>: Stakeholder satisfaction rating <em>Lead</em>: Implementation of IDP priorities (Performance Reports)</td>
<td>Establish baseline FY 2009/10 100% according to the SDBIP (Monthly/Quarterly)</td>
<td>SDBIP Adherence 2010 Soccer World Cup</td>
</tr>
<tr>
<td>Allocate available funds to identified priorities on a Multi-Year Plan</td>
<td><em>Lead</em>: Multi-Year Plan with budget for identified priorities</td>
<td>End of FY 2009/10</td>
<td>Multi-Year Planning</td>
</tr>
<tr>
<td>Promote Public-Private-Partnerships</td>
<td><em>Lead</em>: Number of PPP agreements that support Local Economic Development</td>
<td>2 PPP agreements (Mbombela and Nkomazi)</td>
<td>Public-Private-Partnerships</td>
</tr>
<tr>
<td>Ensure implementation of tourism and LED strategy</td>
<td>Percentage implementation of tourism and LED priorities</td>
<td>40% of tourism and LED priorities</td>
<td>Tourism &amp; LED</td>
</tr>
</tbody>
</table>
Annexure G: Progress on PMS Implementation in Ehlanzeni (2009/10 annual report)

Table 34 PMS Implementation in Ehlanzeni as at 18 May 2009

<table>
<thead>
<tr>
<th>ASSESSMENT CRITERIA</th>
<th>Bushbuckridge</th>
<th>Mbombela</th>
<th>Nkomazi</th>
<th>Thaba Chweu</th>
<th>Umjindi</th>
<th>Ehlanzeni</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Performance Management Policy/Framework adopted by Council</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2. Dedicated official appointed for performance management</td>
<td>Yes</td>
<td>Yes</td>
<td>No, to be advertised</td>
<td>Position vacant</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>3. Responsibilities of different levels of management and their roles in performance reporting clear, documented and communicated to all staff</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No, partly</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>4. Performance Management Task Team established</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>5. Position of Internal Auditor filled</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>6. Audit Committee established</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>7. Audit Committee performing function of Performance Audit Committee</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>8. Performance Audit Committee established</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>No</td>
</tr>
<tr>
<td>9. Annual performance appraisal for Section 57 for 2007/2008 done</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>10. Fixed-term contracts signed by Section 57 Managers and Municipal Manager</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>11. Performance Agreements signed by Municipal Manager and Section 57 Managers</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>12. Standard templates and formats available and used throughout the year to report on performance information</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>13. Performance information of the previous year submitted in time for audit purposes and required significant adjustments</td>
<td>No</td>
<td>No, did not require adjustment</td>
<td>No</td>
<td>Yes, all.</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>14. Written policies and procedures to guide the</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>In process</td>
<td>In process</td>
<td>No</td>
</tr>
</tbody>
</table>
Annexure H: Informed Consent form

Informed Consent Form

Principal Researcher(s): Mrs Bukelile Mashoko
(MBA Research Student mashuki001@unh.ac.za / ID: R14 R470)

Project Title:
I examine the balanced scorecard as a strategy performance management tool in non-profit organisations – the case of South African Municipalities

Brief overview of the project and its purpose, and what is expected from the respondent:

Performance management systems assist organisations to track strategy implementation. This research project explores the experiences of municipalities with organisational performance management systems, as well as the contribution of the Balanced Scorecard as a municipal performance management system. The findings will contribute to knowledge about the value of the Balanced Scorecard in public and non-profit organisations.

The researcher therefore seeks the participation of Municipal Managers (or their delegates) in giving their perceptions on this subject by completing the attached questionnaire.

There are no known risks or dangers to you associated with this study. Unless you provide an explicit approval, the researchers will not attempt to identify you with the responses to the questionnaire, or to name you as a participant in the study, nor will they facilitate anyone else’s doing so.

I acknowledge that I am participating in this study of my own free will. I understand that I may refuse to participate or stop participating at any time without penalty. If I wish, I will be given a copy of this consent form.

Subject's signature: __________________________ Date: 05/12/2011
Annexure I: Case Study - Email questionnaire & responses

Case Study Interview questionnaire - Experiences of a South African Municipality with using the Balanced Scorecard as a performance management system

Section A:

1. **What are the most important reasons why your municipality needs a viable performance management system?**

   Performance Management is a legislative requirement for Local Government in terms of several pieces of legislation. Monitoring the implementation of the strategy and establishing accountability is critical for any organisation. Apart from this, it was also realised that a PMS can add value to the organisation in terms of keeping focus on the strategy and aligning the organisation to the strategy of the Municipality.

2. **There are many performance systems to choose from. Why was the Balanced Scorecard the right choice for you and who introduced you to the tool the tool?**

   The success that was achieved on international level in both the public and the private sector with the BSC made us to look at the model. The holistic approach brought about by the model in terms of strategy development led to adoption of the model.
3. **When did you launch your Balanced Scorecard project plan and at which phase of the project are you?**

July 2007. All phases have been covered and the annual review of the OPMS is also done based on the BSC methodology.

4. **On a scale of 1 to 5; with 1 being the lowest, how would you rate your current level of satisfaction with the performance of the tool so far?**

   Ability of the tool: 5
   Actual performance: 3. Variance due to internal issues and not the BSC methodology.

Section B:

5. **What were the main objectives of the BSC project?**

   Initially to establish the OPMS in terms of the legislative requirements. Once the model for Strategy Focused Organisations was adopted, the objectives became the phases of the model to a large extent: Translating the strategy in operational terms, assigning accountability, aligning the organisation in terms of the strategy, making strategy everyone’s job through performance agreements and keeping focus on the strategy through regular performance reviews.

6. **What were the main steps taken in phasing in the BSC into your organization, including role players and major challenges?**

   See the Performance Management Implementation Plan for the main steps. (Annexure to this e-mail) Role players are also mentioned in the document.

   Challenges experienced up to this point in time:
   i) Initially the involved parties displayed a very negative attitude and a resistance to change. This could be ascribed to fear for the unknown and the abuse of the
system to their disadvantage. A change management programme inclusive of information sessions was undertaken to address the fears.

ii) At the time of the start of the implementation of the system, hardly any proven best practice systems to benchmark against were available in the country. Although the regulations and the legislation were in place for some time, the field of performance management was still “un-treaded”, to a large extent. Research was done on global systems and models.

iii) A misinterpretation of the intention of the Performance Management System as legislated existed. It was seen as an instrument to discipline certain officials or even to be abused to manipulate the removal of managers. These misinterpretations have been dealt with through informative meetings and reports.

iv) A further misperception with regard to the Performance Management System is that it only revolves around reward (bonuses). The purpose of a PMS is to identify and address pathologies with regard to service delivery and to improve the organisation in terms of operational efficiency, whilst also growing and developing individual staff members. Such misperceptions are being dealt with through information sharing sessions.

v) Another challenge was the linking of the processes as prescribed by the legislative framework to the models to be utilized. Models were studied till a thorough understanding was obtained, to enable the linkage with the processes.

vi) Information generated through the OPMS is still not influencing processes and decisions of management. The system has the potential to become a strategic management tool for the organisation, but only if processes related to the system be given the necessary priority.
Please share your experiences with how the champions of introducing the BSC system have coped with the following common challenges to organizations that adopt this tool:

- **Obtaining high level executive and political support for the BSC initiative**

  High level executive and political support is critical for the successful implementation of the BSC. The approach which was followed to obtain a high level of executive and political support was to indicating the success achieved with the BSC on a global scale, also share information on the change of the environment during the last few years, the importance of looking at performance of an organisation in a holistic manner, as well as the models and methodology embedded in the BSC.

- **Securing funding for launching the Balanced Scorecard Project**

  Funding for the implementation of the PMS is mainly operational funds from the budget of the Municipality. The system used is still excel-based, in other words not much additional funding apart from the salaries of staff members in the Unit is needed. A service provider was initially engaged in the process and a total of R200 000 has been spent on the implementation up to this point in time – apart from the salaries of three staff members.

- **Motivating managers to commit to the project and maintain active participation levels outside their regular time commitments**

  An initial round of engagements with all Managers took place and the benefits of the system were shared. Although Managers have made themselves readily available for the scorecard sessions, the processes which may need more commitment are the performance review sessions and the regular engagement sessions with their subordinates.
• **Selecting key objectives, measures, targets and initiatives for the balanced scorecard(s)**

In a local government context, the Integrated Development Planning process is being undertaken on a five year basis with a review on an annual basis. The Integrated Development Plan (or IDP) is the strategy of the Municipality and the strategic objectives are developed during that process.

A scorecard session is organized with Management to develop the organizational scorecard, which includes the measures for each objective, the targets and the initiatives or organizational programmes linked to each strategic objective. Maximum participation is encouraged. This organizational scorecard is then the basis on which each departmental scorecard session is then scheduled, and the scorecards of all departments are aligned with that of the organization. The departmental sessions are participative and all employees of the specific department are included in the invitation. The same pattern follows then with the business unit sessions, with the only difference being the alignment of the business unit scorecard with that of the department.

• **Identifying measures for the learning and growth perspective**

The learning and growth perspective is regarded to contain the “enablers” of the other perspectives and the foundation on which the rest of the scorecard is built. To a large extent the measures currently involve mostly internal measures and information, but the opinion is held that stakeholders should be engaged when it gets to objectives which require an indication of stakeholder satisfaction.
• **Identifying the cause and effect relationships among BSC measures**

  (Please provide a copy of the organizational strategy map demonstrating the linkages)

Copy of strategy map is attached.

• **Communicating and cascading the scorecard**

  A scorecard session is organized with Management to develop the organizational scorecard, which includes the measures for each objective, the targets and the initiatives or organizational programmes linked to each strategic objective. It is an interactive session with maximum participation and the debate with regard to each objective is quite lengthy.

  It has however been realized that a problem still exist with this step in the planning process because a shared understanding of the strategic objectives and the role which needs to be played by each department and business unit in achieving the objective is still lacking. This leads to non-sensible projects and targets being reflected on the implementation plans of the business units. An adjustment will be made in terms of how this process is being undertaken.

  This organizational scorecard is then the basis on which each departmental scorecard session is then scheduled, and the scorecards of all departments are aligned with that of the organization. The departmental sessions are participative and all employees of the specific department are included in the invitation. The same pattern follows then with the business unit sessions, with the only difference being the alignment of the business unit scorecard with that of the department.
• **Promoting a culture of employee performance management and linking scorecards to individuals and their performance incentives**

The Municipality has not yet cascaded the system down to all employees, and this will be addressed by the HR Unit under Corporate Services. This process will start with a series of engagement sessions of all employees, the drafting of a policy framework on EPMS and a policy on Performance Reward. It is something which the Municipality refrained from doing in the past because the union of the employer (SALGA) has always been very quiet in this regard and in terms of the legislative framework it is not compulsory. It is realized that it is a necessity in terms of making the complete staff complement accountable for their roles and functions.

• **Increased demands on data collection, processing, and reporting on BSC results**

The processes of performance reporting requires data collection and processing. Reports are being compiled on a quarterly basis. Data is being collected within the business units and reflected on the respective performance reports. The substantiating evidence for each indicator reported on needs to be attached as Portfolio of Evidence. The reports are consolidated into a departmental performance report and signed off by the manager of the department. Processing of the data into an organizational performance report is done by the Performance Management Unit.

There are complaints from only one or two units (out of 26) within the organisation that “more time is being spent on reporting than on actual project implementation”. However, the problem can be ascribed to the number of reports expected by other government departments on provincial and national level, all of them being in different templates, rather than to the BSC.
- **Identifying an appropriate automated system to facilitate performance reporting**

The Municipality has not yet automated its PMS and Microsoft Excel is currently being used as a software programme for all templates. This was also done with a reason, which is the laying of a basic foundation in terms the system, for the reason that any automated system will also require the “manual” generation of strategic objectives, indicators, baseline data, targets, etcetera.

However, research has being done on software programmes in the market which is compatible with the Balanced Scorecard Model. Systems do exist which can add incredible value to the organisation in terms of inter alia reflecting early warning indicators at all times, generating information for decision-making by management and minimizing the processing time and time of generating of reports to a tenth of what it is currently.

**Section C:**

7. **How does your BSC system benefit you in your role as Municipal Manager?**

The BSC has given us a holistic view in terms of strategic planning and performance management. The methodology has informed well-established processes which takes care of a number of processes the Municipality has to undertake.

8. **How does the tool benefit your senior managers in their management roles?**

Assist them to operationalise the strategy and take care of their performance agreements, etc. Furthermore it helps them to monitor the implementation of the projects.
9. **Through which processes are employees involved with the BSC?**

Organisational-wide processes are undertaken, coordinated by the Performance Management Unit, to draft the scorecards (organizational, departmental and business unit) and to do performance reviews twice per year.

10. **Which management reports is the system producing and what is the general level of satisfaction with the system’s performance in this regard?**

Four quarterly organizational performance reports per year, including the Mid-Year Performance Report and the Annual Performance Report.

11. **What exciting differences has BSC system brought to the organisation or to the performance of the organization?**

People remain focused on the strategy, teamwork has improved.

12. **What is the risk of future managers rejecting the BSC despite its demonstrated achievements and how does the policy environment minimize this risk?**

There is no real risk involved in rejecting the BSC. The policy environment requires for performance management to be done – as it is currently being done – and the Policy Framework of the Municipality specifically indicates the BSC to be the model used by the organisation.