# APPLYING THE BALANCED SCORECARD METHODOLOGY IN THE PUBLIC SECTOR: THE CASE OF THE DEPARTMENT OF DEFENSE IN THE UNITED STATES

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## Abstract

The public sector in the United States continues to wrestle with the challenges of complying with legislation such as the Information Technology Reform Act and the Government Performance and Results Act that requires federal agencies to align their programs with the overall mission of the agency and to report their success and failures on an annual basis to Congress. The results unfortunately have not been very good. The Office of Management and Budget and the General Accounting Office have found in their reviews that the federal government as a whole has not been doing a very good job aligning their programs with the goals and establishing effective performance measures.

The Balanced Scorecard (BSC) offers a methodology that can be applied to the federal sector to enable more effective alignment of programs to mission and a tangible means for measuring the results. Some agencies, particularly within the Department of Defense, have embraced the Balanced Scorecard as a means for achieving these objectives, and have successfully transformed their programs to achieve higher productivity, aligning with the mission of the agency and resulting in higher efficiencies.

This paper discusses the overall effectiveness and applicability of the Balanced Scorecard to the federal sector of the US Government, including a specific real-world application by the Defense Finance and Accounting Services (DFAS). *JEL Classification: Lll, L86, M31.*

## 1. Introduction: Performance Measurement Models & Systems

*"Man is the measure of all things, but it matters greatly what he measures"* (Stanley Mott, in James Michener's Space, 1986).

*"You can't tell when you're winning if you don't keep score"* (Eric Berkman, CIO Magazine, 2002)

Without clearly defined goals, most organizational efforts can quickly become diffused, unimportant and weak. Cohesion is lost as individuals and departments within organizations compete to achieve 'local optimization' at the expense of 'corporate optimization'. Thus, measures and measurement methods for organizations are necessary for any strategic vision to be successfully implemented and even have a sustainable future. Used properly, measures can tell a firm where it has been, where it is now, and where it is going in the future. Measures can also inform us about how fast a firm is implementing its goals and in what direction an organization is heading. Finally, performance measurement systems not only provide the information necessary for managers to control business activity, but they also influence their behavior and decisions. The difference among simply 'good' organizations and the best-of-breed is that the latter do not use specific indices to guide them through the highly volatile economic environment, while the former have just applied a simple notion: they measure their performance and accordingly decide for the future.

Overall, the main reasons performance measurement systems are necessary by all business organizations are *{University of California's "Business Initiatives", 2000)*:

1. It is difficult to understand whether a company or a public organization is improving quality or performance without measuring results. Feelings and impressions are not accurate or precise enough to base one's decisions on. For example, a sensible manager cannot let a hint to define degrees of customer satisfaction. Moreover, feelings will never tell how much waste someone has in the budget.

2. Measurements can keep the managers focused on what really has to be done right, what really has to be improved. There is a certain quote in management philosophy that says *"If you can't measure it, don't do it."* On the other hand, taking into consideration specific performance measures allows you to set realistic and specific targets, to focus on actions tied to achieving goals.

3. Measuring prevents arbitrary organizational and cultural changes in an institution. For example, it helps in avoiding the trap of restructuring organizations without first having a baseline and targets for improved perfor-

mance and it makes it possible to link changes in institutional culture to specific, desired outcomes.

4. Measurement activity gives management occasions to celebrate real results that people can see and believe.

5. Measurements encourage people to become involved in changes because they provide feedback on their work and offer insights into what needs to be done next.

6. By linking improvements and measurements together, you keep various types of activities from being mixed, matched and confused.

An integral part of performance management and strategic planning involves dynamically assessing the performance indicators associated with the components of the enterprise strategic plan. This can only be accomplished through feedback, which relates the status or effectiveness of the various initiatives within the plan. There are a number of ways to measure or assess feedback, including informal and formal methodologies. This paper will focus on the theory and implementation of a formal strategic feedback assessment tool called the "Balanced Scorecard". Developed by Kaplan and Norton (1992; 1996), the Balanced Scorecard offers organizations, irrespective of their industry, with the necessary methodology to quantify performance results as they relate to integral components of the organizational mission.

Originally intended for use within the private sector, the Balanced Scorecard, due to its structured generic approach, was identified by the federal government and the public sector in general, as a means to assess performance and report quantitative results. As legislation passed through Congress (Information Technology Reform Act and The Government Performance and Results Act) mandating requirements for federal agencies to report on their performance, accounting for their resource utilization relative to meeting and fulfilling their own mission, the Balanced Scorecard offers an ideal tool to bring a level of consistency and structure to the reporting process.

## 2. Performance Measurement for the Federal Government of the US

### 2.1 GPRA Enterprise Planning

The Government Performance and Results Act (GPRA) redefined how performance is to be measured and managed within the federal government by linking agency performance to its budget and mandating that all agencies must

have a comprehensive mission statement. The mission statement must have general goals and objectives for the major functions and operations of the agency and GPRA requires agencies to outline their approaches to achieve their goals and objectives. GPRA also requires federal agencies to document the relationship between long-term goals and objectives (strategic) and annual performance goals (tactical). This documentation should include factors beyond the agency's control (environmental issues) that could influence accomplishment of goals and objectives. The key element of GPRA is the requirement for an annual performance plan, submitted annually to The Office of Management and Budget.

## 2.2 ITMRA - Program and Project Planning

Other legislation that has shifted the federal government towards strategic planning includes The Information Technology Reform Act of 1996 whose purposes were to streamline IT acquisitions and emphasize life cycle management of IT as a capital investment and required agency heads to design and implement an IT management process for maximizing the value and assessing and managing the risks of the IT acquisitions, integrate the IT management process with the processes for making budget, financial, and program management decisions, establish goals for improving the efficiency and effectiveness of agency operations and, as appropriate, the delivery of services to the public through the effective use of IT, and prepare an annual report, to be included in the executive agency's budget submission to Congress, on the progress in achieving the goals, ensure that performance measurements are prescribed for IT by or to be acquired for, the agency and that they measure how well the IT supports agency programs, ensure that the information security policies, procedures, and practices of the agency are adequate, appoint a Chief Information Officer (CIO), and inventory all computer equipment and maintain an inventory of any such equipment that is excess or surplus property.

## 2.3 The GPRA Annual Report

The Government Performance and Results Act of 1993 seeks to shift the focus of government decision making and accountability away from a preoccupation with the activities that are undertaken - such as grants dispensed or inspections made - to a focus on the results of those activities, such as real gains in employability, safety, responsiveness, or program quality. Under the Act, agencies are to develop multiyear strategic plans, annual performance plans, and annual performance reports.

According to The General Accounting Office (GAO), The Government Performance and Results Act remains a mystery to many agencies. Nineteen of 24 major agencies GAO reviewed are having difficulty detailing performance data in relationship to mission goals, according to a new GAO report, Performance Reporting: Few Agencies Reported on the Completeness and Reliability of Performance Data. Only five agencies submitted fiscal 2000 performance reports to Congress that included assessments of the completeness and reliability of the data as required by the Reports Consolidation Act of 2000. GAO said the other 19 included some details of the quality of their performance but that their assessments were incomplete. GAO also found that only six agencies used a standard metric to measure performance data. Four agencies used the Office of Management and Budget's (OMB) suggested standards, one used a self-assessment tool and another hired a contractor. The Energy and Labor departments, Federal Emergency Management Agency, National Science Foundation and Nuclear Regulatory Commission were the four agencies that submitted complete assessments. OMB's plans to emphasize this issue to agencies should help improve agency reporting, the report said.[1]

According to the GAO 2000 Report, "agencies' fiscal year 2000 performance plans show moderate improvements over the fiscal year 1999 plans and contain better information and perspective. However, key weaknesses remain, and important opportunities exist to improve future plans." In a statement by J. Christopher Mihm, Associate Director of The Federal Management and Workforce Issues General Government Division, he noted that a key GPRA objective is to help Congress develop a clearer understanding of what is being achieved in relation to what is being spent. Toward this end, GPRA requires that annual performance plans link performance goals to the program activities in agencies' budget requests. We reported that agencies are making progress in developing useful linkages between their annual budget requests and performance plans, but much additional work is needed. We observed that the fiscal years 1999 and 2000 performance planning cycles produced useful experiments in "connecting resources to results." Collectively, the actions by many agencies constituted important first steps in forging closer links between plans and budgets and could be seen as a baseline from which to assess future progress[2].

## 3. Moving From Performance Measurement to Performance Management

According to a study by The Procurement Executives Association (2002), "Measurement is not an end in itself, but a tool for more effective manage-

ment. The results of performance measurement will tell you what happened, not why it happened, or what to do about it.

In order for an agency to make effective use of the results of performance assessment, it must be able to make the transition from assessment to management. It must also be able to anticipate needed changes in the strategic direction of the organization, and have a methodology in place for effecting strategic change. Successful accomplishment of these two tasks represents the foundation of good performance management. Both of these tasks can be greatly facilitated by use of the Balanced Scorecard. In other words, besides simply assessing performance, the Balanced Scorecard provides a structured framework for performance management.

Measurement can provide the basis for an agency to assess how well it is progressing towards its predetermined objectives, help it identify areas of strength and weakness, and decide on next steps, with the ultimate goal of improving organizational performance. It can also provide the data necessary for showing how activities support broader goals, and provide the data necessary for supporting requests for additional resources or for supporting new initiatives. But it is the effective use of this data by decision makers at all levels of the agency to aggressively improve products and services for customers and stakeholders, that is the hallmark of leaders in performance management."[3]

## 4. Balanced Scorecard and the Federal Government of the US

Leading organizations agree on the need for a structured methodology for using performance measurement information to help set agreed-upon performance goals, allocate and prioritize resources, inform managers to either confirm or change current policy or program direction to meet those goals, and report on the success in meeting those goals.

To this end, in 1993 the Procurement Executives Association created the Performance Measurement Action Team. Their task was to assess the state of the acquisition system, to identify a structured methodology to measure and improve acquisition performance, and to develop strategies for measuring the health of agency acquisition systems.

The Performance Measurement Action Team found that organizations were using top-down management reviews to determine compliance with established process-oriented criteria and to certify the adequacy of the acquisition system. This method was found to lack a focus on the outcomes of the

processes used and was largely ineffective in obtaining dramatic and sustained improvements in the quality of the operations.

The Performance Measurement Action Team did extensive research and made site visits to leaders in performance measurement and management in an attempt to identify an assessment methodology appropriate for federal organizations. The model chosen was The Balanced Scorecard, developed by Drs. David Norton and Robert Kaplan. As modified by the Performance Measurement Action Team, the measurement model identified critical success factors for acquisition systems, and developed performance measures within the four perspectives discussed below. Agencies that implemented the Performance Measurement Action Team model, utilized generic survey instruments and statistics obtained from the Federal Procurement Data System and other available data systems to determine the overall health of the system and how effectively it met its performance goals.

The Procurement Executives Association believes this revised methodology to be the best for deploying an organization's strategic direction, communicating its expectations, and measuring its progress towards agreed-to objectives. Additionally, a 1998 study by the Gartner Group found that "at least 40% of Fortune 1000 companies will implement a new management philosophy ...the Balanced Scorecard...by the year 2000."

The Balanced Scorecard is a conceptual framework (Figure 1) for translating an organization's vision into a set of performance indicators distributed among four perspectives: Financial, Customer, Internal Business Processes, and Learning and Growth. Some indicators are maintained to measure an organization's progress toward achieving its vision; other indicators are maintained to measure the long-term drivers of success. Through the balanced scorecard, an organization monitors both its current performance (finance, customer satisfaction, and business process results) and its efforts to improve processes, motivate and educate employees, and enhance information systems - its ability to learn and improve.

## 5. The Four Perspectives of the Balanced Scorecard

**Financial:** In the government arena, the "financial" perspective differs from that of the traditional private sector. Private sector financial objectives generally represent clear long-range targets for profit-seeking organizations, operating in a purely commercial environment. Financial considerations for public organizations have an enabling or a constraining role, but rarely are the

primary objective for business systems. Success for public organizations should be measured by how effectively and efficiently they meet the needs of their constituencies. Therefore, in the government, the financial perspective emphasizes cost efficiency, i.e., the ability to deliver maximum value to the customer.

**Customer:** This perspective captures the ability of the organization to provide quality goods and services, the effectiveness of their delivery, and overall customer service and satisfaction. In the governmental model, the principal driver of performance is different than in the strictly commercial environment; namely, customers and stakeholders take preeminence over financial results. In general, public organizations have a different, perhaps greater, stewardship/fiduciary responsibility and focus than do private sector entities.

**Internal Business Processes:** This perspective focuses on the internal business results that lead to financial success and satisfied customers. To meet organizational objectives and customers' expectations, organizations must identify the key business processes at which they must excel. Key processes are monitored to ensure that outcomes will be satisfactory. Internal business processes are the mechanisms through which performance expectations are achieved.

**Learning and Growth:** This perspective looks at the ability of employees, the quality of information systems, and the effects of organizational alignment in supporting accomplishment of organizational goals. Processes will only succeed if adequately skilled and motivated employees, supplied with accurate and timely information, are driving them. This perspective takes on increased importance in organizations, like those of the Procurement Executives Association members that are undergoing radical change. In order to meet changing requirements and customer expectations, employees may be asked to take on dramatically new responsibilities, and may require skills, capabilities, technologies, and organizational designs that were not available before. Figure 1 visually depicts the Balanced Scorecard framework.

In brief we may describe BSC's appearance as an airplane cockpit, where we can see the main frame of several indicators (panels) - but instead of measuring air pressure, fuels or velocity and height, we deal with variables which refer to business efficient acting.

An example of a BSC system is shown in Figure 1.1 (adapted from www.ergometrics.com/balscorecard.htm). In this example, the company has identified the key performance areas that it wants to be reported. Each is given

**FIGURE 1**

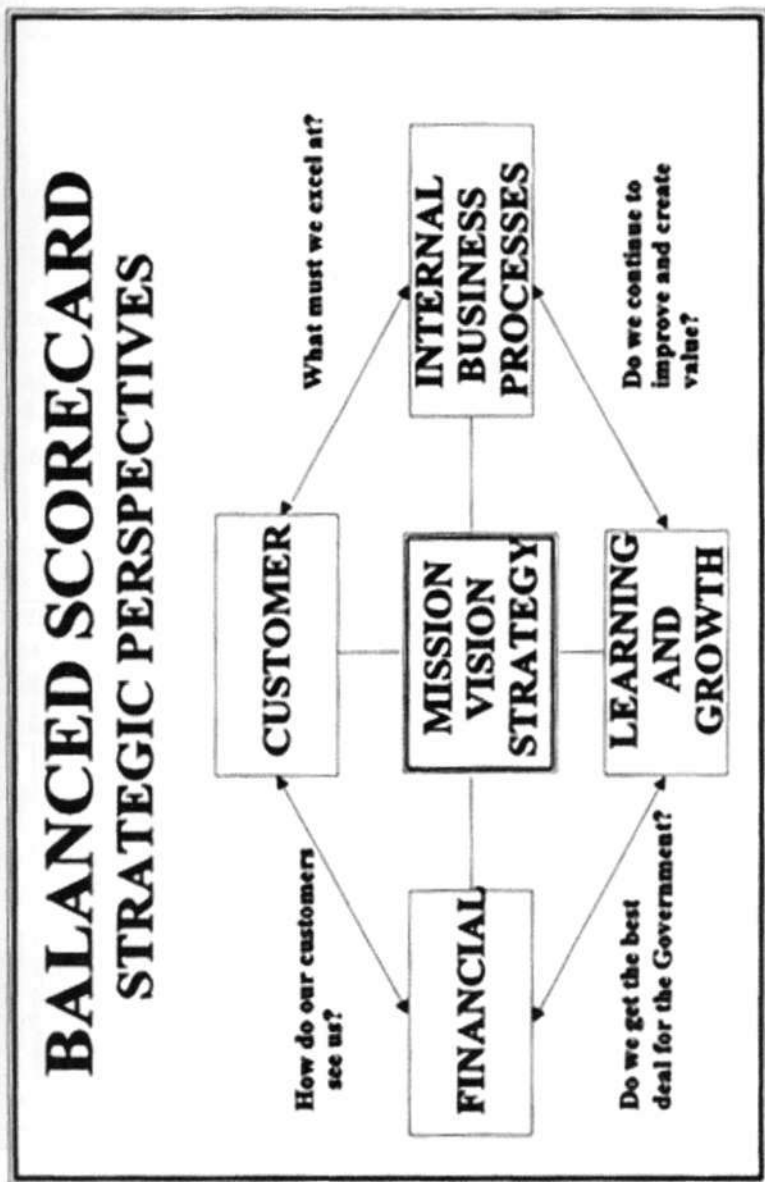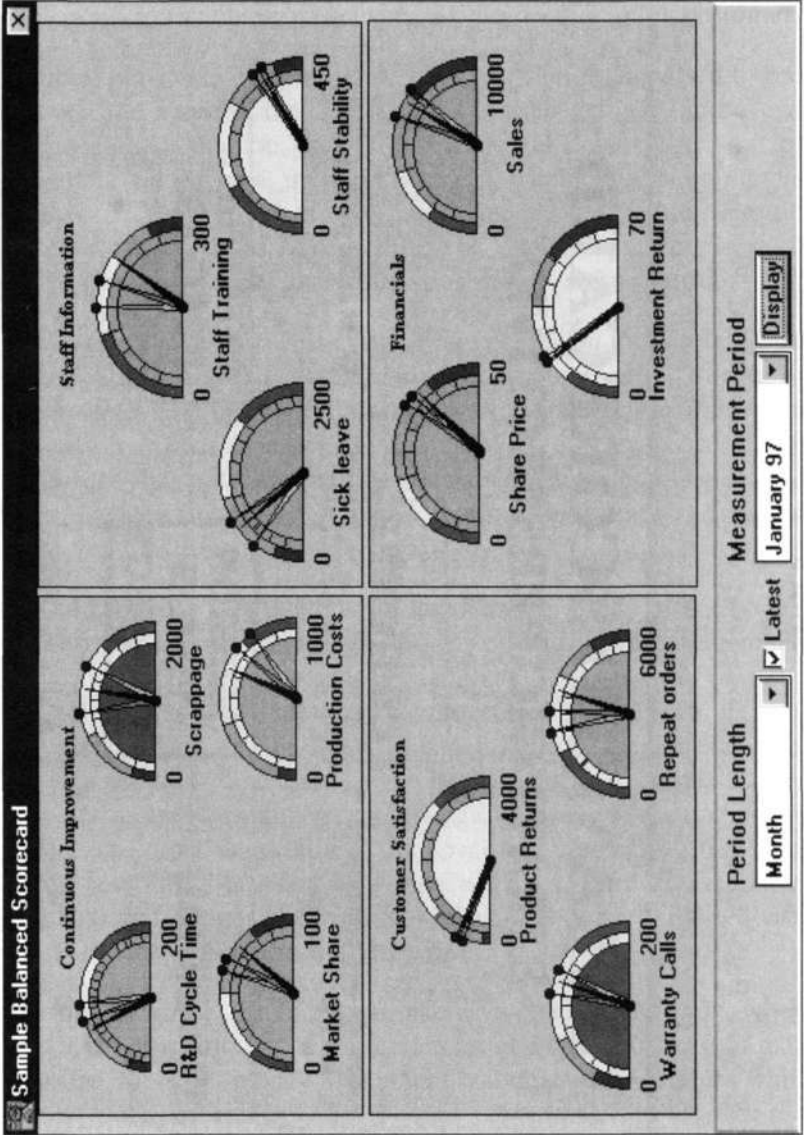BSC Strategic Perspectives (adapted from: Kaplan and Norton, 1992)



# BALANCED SCORECARD
## STRATEGIC PERSPECTIVES

What must we excel at?

**INTERNAL BUSINESS PROCESSES**

Do we continue to improve and create value?

**CUSTOMER**

**MISSION VISION STRATEGY**

**LEARNING AND GROWTH**

How do our customers see us?

**FINANCIAL**

Do we get the best deal for the Government?

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FIGURE 1.1

Example of BSC Screens *(Source: http://www.ergometrics.com/balancedscorecard.htm)*

it's own panel and each panel has gauges representing *Key Performance Indicators.* Gauges have been selected depending on whether low values (Product Returns) or high values (Share Price) are being reported. Each gauge is divided into Performance Sectors (the outer rim) and also has a Trend Panel (the inner half circle).

The company sets the sensitivity of trend reporting. This allows fluctuations in performance to be reported specifically for each Key Performance area. The three needles indicate the latest three periods being reported. At any time the user can go back to previously reported periods by changing the date to be reported by simply selecting it from the Measurement Period dropdown box.

Overall, to realize the full benefits of the Balanced Scorecard, the Procurement Executives Association encourages the adoption of the Balanced Scorecard for all key agency functions.

## 6.  Why Organizations Use a Balanced Scorecard

For a number of years, various corporations had based their Performance Measurement Systems (PMS hereafter) on traditional approaches, such as the purely accounting one, all under the name of EVA - *Economic Value Added.* Return on Assets (ROA), Return on Equity (ROE), Return on Investment (ROI) and other similar methods of estimating the performance of a company have been widely used until today.  The basic notion underlying those was that the best way to monitor a company was to monitor all the tangible elements in the company.  Thus traditionally, performance measures have been primarily based on management accounting systems. This has resulted in most measures focusing on financial data (i.e. return on investment, return on sales, price variances, sales per employee, productivity and profit per unit production). However productivity has been considered the primary indicator of performance and various authors have emphasized the following four issues concerning the importance of measuring such productivity (Teague and Eilon, 1973; Skinner, 1986; Woods, 1989): *strategic* (i.e. comparison with competitors or related firms); *tactical* (i.e. management control of the performance of the *firm); planning* (i.e. comparison of the relative benefits from the use of different inputs); and *internal management* (i.e. collective bargaining with trade unions).

The above and other traditional performance measures have had many limitations that can be classified into two categories: *general limitations* due to the overall characteristics and *limitations specific to certain traditional performance measures* such as productivity or cost. Both of these types of limitations make

traditional performance measures less applicable in today's competitive market. Following, we present some of the most commonly cited limitations (Teague & Eilon, 1973; Kaplan, 1983; Woods, 1989; Eccles, 1991; Fisher, 1992; Ghalayini and Noble, 1996; Pollalis & Koliousis, 2003):

Thus, it is obvious from the previous discussion, that there is a need for new performance measures that can overcome the above described limitations. Kaplan (1990) states that *"Traditional summary measures of local performance - purchase price variances, direct labor and machine efficiencies, ratios of indirect to direct labor, absorption, and volume variances - are harmful and should be eliminated, since they conflict with attempts to improve quality, reduce inventories and increase flexibility. Direct measurement is needed for quality, process time, delivery performance, and any other operating performance criterion that needs to be improved"*.

Therefore an enterprise performance measurement system should at least include a set of well-defined and measurable criteria, standards of performance for each criteria, routines to measure each criteria, procedures to compare actual performance to standards and plans and procedures for dealing with discrepancies between actual and desired performance (Ghalayini and Noble, 1996; Pollalis & Koliousis, 2003). Table 1 sums up the limitations of traditional PMSs.

Overall, the Balanced Scorecard methodology converts an organization's value drivers - such as customer service, innovation, operational efficiency and financial performance - to a series of defined metrics. Companies record and analyze these metrics to help determine if they're achieving strategic goals. A fully implemented Scorecard cascades from the top levels of a company all the way down. Ultimately, each member of the organization works off a personal Scorecard, striving to achieve personal objectives based on measurements directly linked to the corporate strategy.

The potential benefits of a Balanced Scorecard are dependent on what it is to be used for. Simply having a Balanced Scorecard is not enough - the scorecard will only be useful if it is correctly applied. Although there are very many different firms using Balanced Scorecard, in many different formats, there are two distinct applications. Although visually similar, these two applications of Balanced Scorecard require substantially different design and development processes, and provide different benefits to a management team.

**TABLE 1**

Traditional vs. Non traditional PMS
*(Source:* "Changing basis of performance measurement",
Ghalayini and Noble, 1996)

| *Traditional performance measures* | *Non- traditional performance measures* |
|---|---|
| • Based on out dated traditional accounting system | • Based on company strategy |
| • Mainly financial measures | • Mainly non-financial measures |
| • Intended for middle and high managers | • Intended for all employees |
| • Lagging metrics (weekly or monthly) | • On time metrics (hourly, or daily) |
| • Difficult, confusing and misleading | • Simple, accurate and easy to use |
| • Lead to employee frustration | • Lead to employee satisfaction |
| • Have a fixed format | • Have no fixed format (depends on needs) |
| • Do not vary between locations | • Vary between locations |
| • Do not change over time | • Change over time |
| • Intended mainly for monitoring performance | • Intended to improve performance |
| • Hiders continuous improvement | • Help in achieving continuous improvement |

Implementing the Balanced Scorecard agency-wide can provide: (1) a common methodology and coordinated framework for all agency performance measurement efforts; (2) a common "language" for agency managers; (3) a common basis for understanding measurement results; and (4) an integrated picture of the agency overall.

While implementing the acquisition Balanced Scorecard is an important first step, helping agencies to develop Balanced Scorecards for additional functions (e.g., program, human resources, finance, IT) will strengthen the link among the acquisition system, those additional functions, and agency missions and goals. This will highlight how performance improvement initiatives in one area positively or negatively affect performance in another area. Also, this will promote cross-functional coordination of improvement efforts and help break down "stovepipes" in the agency.

Acquisition executives may serve as advocates to promote the benefits of Balanced Scorecard agency-wide by advertising successful improvement efforts, and

by discussing the Balanced Scorecard methodology in meetings with the Secretary, Administrator, or senior-level managers in other functional areas.

The Balanced Scorecard provides sound data on which to base business decisions, from allocation of available resources to future direction. This enables the agency to manage its activities and its resources more effectively. For example, the Balanced Scorecard could form a common basis to support a business case for more resources.

## 7.  Information Technology Impact on BSC's Implementation

It is ideal to implement the Balanced Scorecard throughout the enterprise because that framework can help foster strategic alignment between business and IT plans (Kaplan and Norton, 1996; King & Pollalis, 2001; Pollalis & Koliousis, 2003). Still, the concept can work within an IT organization specifically. The key difference when the Scorecard is implemented within IT as opposed to the entire company, says Norton, is that the "customer" is a user within the corporation, not an external consumer.

Because the Balanced Scorecard requires every action to answer to established corporate goals, using the Scorecard within IT can still help promote alignment and eliminate projects that contribute little or no strategic value. "It really changes the conversation between IT and business," says Linda Bankston, CIO of DuPont Engineering Polymers, a $2.5 billion division of DuPont Chemicals in Wilmington, Delaware. "The conversation is around strategy and impact, rather than just whether you can or can't do something." (CIO Magazine, 2002).

Nevertheless, installing the Balanced Scorecard within IT is a challenge. It changes the job approach of all employees — not to mention how they're evaluated. CIOs need to take a number of necessary steps to properly lay the groundwork for a successful implementation.

• Prepare the organization for change.

• Devise the right metrics.

• Get buy-in at all levels.

• Plan to follow through to completion.

Before jumping in and developing all sorts of metrics, Norton suggests "sitting down with the rest of the leadership team and define the overall strategy". Four or five value drivers, or broad strategic goals, for the organization, typically articulate strategy. The Hilton Hotel Corp., for example, gears its strategy and framework around financial performance, customer service, efficient business processes, innovation, learning and growth.

It's also critical to designate a Scorecard champion, says Norton. When implementing the Scorecard within an IT department, that champion should be someone other than the CIO. "The CIO is responsible for using and driving the Scorecard," says Norton. "But you need an individual from within IT—maybe who ever's responsible for planning within IT, or someone responsible for preparing your finance or budgeting system—to be assigned responsibility [for the Scorecard]" (CIO Magazine, 2002).

## 8. Applications of the Balanced Scorecard Methodology in the Public Sector

*Mission (Department of Defense, United States of America): "Provide responsive, professional finance and accounting services for the people who defend America. "*

The Defense Finance and Accounting Service (DFAS) was established in 1991 under Title 10, United States Code, pursuant to the authority of the Secretary of Defense (Guidebook 2002). DFAS is responsible for several finance and accounting management services in support of military customer requirements. Payments are processed to military and civilian personnel, retirees, annuitants, and contractors. DFAS accountants record, accumulate and report financial activity. The organizational structure establishes of corps leaders, called Client Executives, who provide single points of contact for services provided. Working in conjunction with the Client Executives are three Business Line Executives: Military and Civilian Pay Services, Commercial Pay Services and Accounting Services. Internal service organizations ensure that the business lines are supported (Figure 2).

**FIGURE 2**

DFAS Organizational Structure

(*Source: Defense Finance and Accounting Service, 2001* (http//www.dfas.mil/DFASannualREPORT2001.pdf)
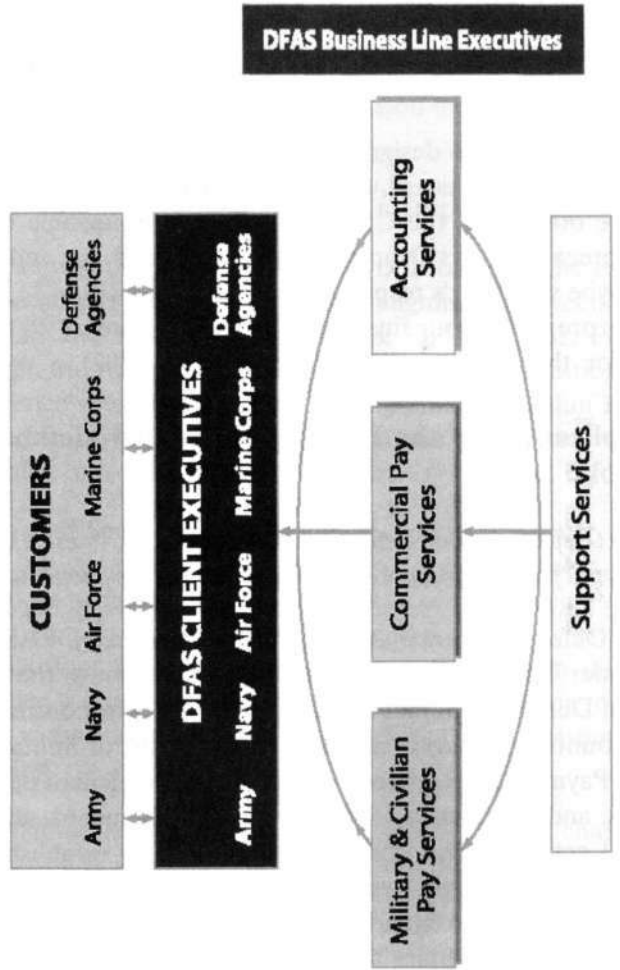
DFAS is a Working Capital Fund activity, which means it is not funded by direct appropriations. Rather, it operates on revenue received by charging customers for services provided. The military services and defense agencies contract out their finance and accounting work to DFAS. Since inception, DFAS has consolidated over 300 installation-level finance and accounting offices into 26, and trimmed the work force from over 27,000 to just over 17,000 (DFAS Annual Report, 2001).

## 8.1 DFAS Vision and Strategy

The DFAS community embraces a vision to be the

- World-class provider of finance and accounting services

- One organization, one identity

- Trusted, innovative financial partner

- Employer of choice, providing a progressive and professional work environment (Guidebook 2002)

**The Defense Finance and Accounting Service (DFAS) organization of the United States' Department of Defense, has established the following major goals toward the realization of this vision**

- World-class provider of finance and accounting services

  ➢ Fully satisfy customer requirements and aggressively resolve problems to deliver best value services

  ➢ Use performance metrics to drive best business practices and achieve high quality results

  ➢ Optimize the mix of military, civilian, and contractor workforce to achieve competitive advantage

- One organization, one identity

  ➢ Ensure everyone is working toward the same vision and can connect what they are doing to make the vision a reality

- Trusted, innovative financial partner

  ➢ Establish consultative relationships with leaders

➢ Deliver business intelligence to drive better decisions

• Employer of choice, providing a progressive and professional work environment

➢ Embrace continuous learning for the workforce to ensure critical, high quality skill sets

➢ Develop the next generation of DFAS leadership (Guidebook 2002)

Strategy is an integral part of daily activities within the operational levels of the organization. Customers, quality, systems and processes, and people are the four areas of focus.

• Customers: Remain the trusted agent and best value for customers in providing innovative solutions and in delivery of products and services

• Quality: Focus workforce on building quality into all products and services

• Systems and Processes: Deliver the right business solutions on time and within budget

• People: Transition DFAS to a team-based, multi-skilled workforce (Guidebook 2002)

8.1.1 The Customer Perspective

What customer needs must DFAS serve to achieve its strategy? The Customer perspective focuses on customer requirements.

• Information accuracy

• Data Integrity

• Quality customer service

• Delivering product in timely manner

• Knowing your customer (i.e. Rome, NY Field Site serves the U.S. Army)

• Travel vouchers; military pay

• Provided customers with online resources/forms- Information Technology

**8.1.2 The Financial Perspective**

What financial objectives must DFAS accomplish to satisfy customers and other stakeholders? The Financial perspective targets cost reduction for both the customer and service provider.

• Reduce cost to customer

• Develop most efficient, cost effective method to complete work

• Downsizing/Reorganization of sections/departments

**8.1.3** The Business **Process** Perspective

In which internal business processes must DFAS excel to satisfy stakeholders and customers? The Business Process perspective focuses on quality, innovation, and system solutions.

• Improve quality, efficiency

• Encourage innovation

• Eliminate rework (i.e. incorrect processing codes inputted by either customer or DFAS)

**8.1.4 The Learning and Growth Perspective**

How must DFAS organization learn and innovate to achieve its goals? The Learning and Growth perspective targets employee competence and satisfaction, succession planning, and fostering a climate of action.

• Invest in employee education and training to increase employee competency

• Provide excellent benefits and incentives to increase employee satisfaction

• Conduct onsite visit to customer - put a face to the voice

• Enhance Information Technology and Information Systems

**8.2 Balanced Scorecard Results for DFAS**

DFAS must stay competitive with the private sector, which remains a constant threat to the organization. The Balanced Scorecard is a strategy implementation tool. The Balanced Scorecard was implemented in order to ensure

that DFAS is a strategy-based and customer-focused organization, continually creating value for their stakeholders. DFAS has an overall Corporate Balanced Scorecard and individual scorecards for each Business Line (3) and each Support Services area (8) (See Figure 3). For FY 2002, the Business line Balanced Scorecard will replace the Performance Contract for that Business Line Executive (Guidebook 2002).
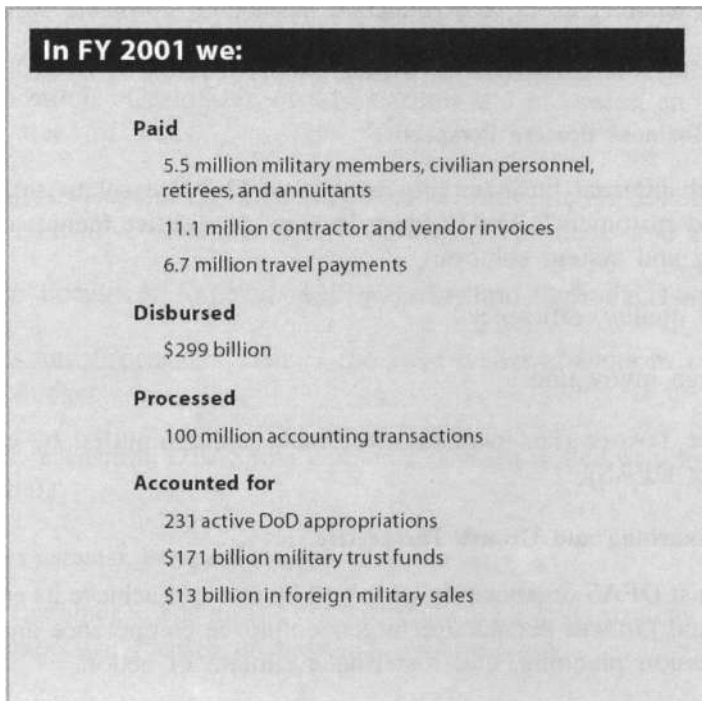
## In FY 2001 we:

**Paid**

5.5 million military members, civilian personnel, retirees, and annuitants

11.1 million contractor and vendor invoices

6.7 million travel payments

**Disbursed**

$299 billion

**Processed**

100 million accounting transactions

**Accounted for**

231 active DoD appropriations

$171 billion military trust funds

$13 billion in foreign military sales

FIGURE 3

Measurement of Performance
*(Source: Defense Finance and Accounting Service, 2001*
*http://www.dfas.mil/DFASannualREPORT2001.pdf)*

DFAS incorporates performance measurement and feedback (from both customer and employee) in its structured approach to the Balanced Scorecard. Direct Billable Hours (DBH) of each employee is closely monitored. Customers are charged according to a code that corresponds with the particular service they receive. This includes the rework code, which tracks mistaken in-

puts of either the employee or the client. Customer feedback surveys are administered and executive site visits to client bases are both integral in sustaining and surpassing customer satisfaction.

DFAS benefits from the application of the balanced scorecard in several ways. The balanced scorecard puts the strategic plan into practice. It helps to align objectives and measures and provides structure for coordinating multiple initiatives. The capital and resource allocation process is further driven. The balanced scorecard also keeps the teams and individuals focused on strategic priorities. The balanced scorecard has given DFAS clarification and consensus about exactly what the strategy is and how it can be achieved (Figure 4).

## 9. Conclusion and Implications

The Balanced Scorecard approach offers a useful methodology for developing performance measures for public agencies. The approach is basically the same as the approach applied to private sector organizations by Kaplan and Norton (1992; 1996). The public sector balanced scorecard includes the following four perspectives

- Operational efficiency

- Customer

- Mission accomplishment

- Organizational learning

The only difference between the private sector and the public sector balanced scorecard is that the public sector approach includes the mission accomplishment perspective and does not include the internal perspective. The change reflects the fact that a public agency's mission is often unrelated to financial success or meeting customer needs, as is the case with private organizations.

A major benefit of this approach is that it prevents organizations from choosing one set of measures that when pursued, result in negative, unintended consequences. Secondly, by putting boundaries on the number and types of measures, the balanced scorecard approach gives managers the confidence that they are measuring enough of the "right" things while not creating a massive paper intensive process that is likely to fall by its own weight. These two benefits can help managers implement measurement systems that over-

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# FIGURE 4

## DFAS Causal Relationships

(*Source: Defense Finance and Accounting Service, 2001* http://www.dfas.mil/DFASannualREPORT2001.pdf)
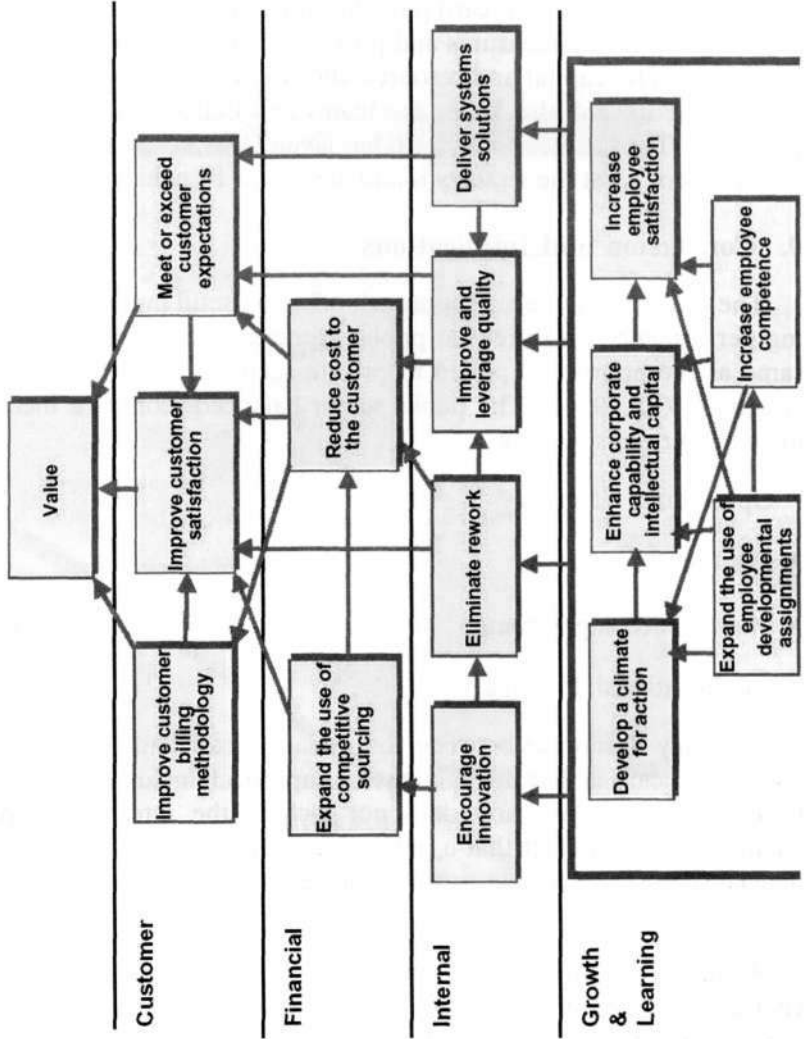
come common problems with previous efforts to measure government performance.

Susan Dallas, research director at Gartner in Stamford, Conn., says the best way to tell if the Balanced Scorecard is working for an organization is if you set higher measurement goals every year and continue to meet them. Obviously, it takes time to make this type of assessment. In the short term, however, you should be able to see anecdotal evidence that the approach is working, such as whether or not the organization is meeting budgetary and project goals.

By implementing a Balanced Scorecard methodology, federal agencies have the opportunity to align their performance with the key strategies and mission of the organization. This in turn will result in a government that works better and costs less, resulting in greater value for the taxpaying customers. However, implementing the Balanced Scorecard presents some challenges for the public sector. Using the DFAS model will provide a benchmark as well as best practices that can be utilized by other agencies interested in adopting the Balanced Scorecard approach.

Finally, there are a variety of factors to keep in mind when migrating to a performance based methodology and any agency implementing the Balanced Scorecard should realize that they must not focus on outcome measures alone, but rather focus to the future and develop a consolidated set of measures that communicate future strategy throughout the organization and identify the ways to achieve the results (Pollalis, 1996; Pollalis & Koliousis, 2003).

## Notes

1. Government Computer News, 5/27/02.

2. Testimony before the Subcommittee on Government Management, Information and Technology, Committee on Government Reform, House of Representatives - J. Christopher Mihm, July 20, 2000.

3. Guide to a Balanced Scorecard: Performance Management Methodology, The Procurement Executives Association, July 8, 2002.

4. © Paul Arveson 1998.

## Appendix A

### Top Ten Reasons for a Performance Measurement Systeml

1. It improves the bottom line by reducing process cost and improving productivity and mission effectiveness.

2. A performance measurement system such as the Balanced Scorecard allows an agency to align its strategic activities to the strategic plan. It permits — often for the first time — real deployment and implementation of the strategy on a continuous basis. With it, an agency can get feedback needed to guide the planning efforts. Without it, an agency is 'flying blind'.

3. Measurement of process efficiency provides a rational basis for selecting what business process improvements to make first.

4. It allows managers to identify best practices in an organization and expand their usage elsewhere.

5. The visibility provided by a measurement system supports better and faster budget decisions and control of processes in the organization. This means it can reduce risk.

6. Visibility provides accountability and incentives based on real data, not anecdotes and subjective judgments. This serves for reinforcement and the motivation that comes from competition.

7. It permits benchmarking of process performance against outside organizations.

8. Collection of process cost data for many past projects allows us to learn how to estimate costs more accurately for future projects.

9. If you are in a US Federal agency, it's the law. The Government Performance and Results Act of 1993 require a strategic plan, and a method of measuring the performance of strategic initiatives.

10. It can raise you agency's Baldridge score, which can serve to increase its long-term chances of survival.

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