The New Zealand Government is strongly focused on better, smarter, faster public services delivering what the customer needs. Significant change is occurring, including machinery of government changes. To support this, many departments are re-evaluating their strategies and their use of KPIs, benchmarking and the balanced scorecard. These tools, used appropriately, provide insight to track strategy and drive through the benefits of change. Without them – departments are running blind.

Strategic Performance Management is about implementing strategy. It’s about driving through strategy implementation to deliver value by delivering the desired outcomes. This will always be a challenge. It is particularly challenging for government where the outputs and levers for change are complex, stakeholders are legion and outcomes are only partially within government’s sphere of influence. Outcomes are also highly complex, typified for example by the need to reduce re-offending or deliver value from scientific research.

This paper sets out KPMG’s view on the principles and structures needed to enable government to steer through this minefield and avoid common pitfalls. This is based on what’s worked and, often more enlightening, what’s not worked. It draws on KPMG’s experience over the past ten years designing and implementing performance management frameworks and balanced scorecards ranging from security for the London 2012 Olympic Games, to reducing re-offending of ex-convicts to gaining value from investment in science.
Where to start
To find your way through the maze, you need to:
• Recognize this is all about strategy and strategic drivers, not measures. Measures, KPIs, metrics, scorecards and reporting systems are merely parts of the jigsaw. On their own they add no value. The foundation is to have a coherent and bought-in strategy that sets out how you intend to deliver your strategic objectives.
• Keep your eye on the end goal: delivering the strategic outcomes. These are delivered by driving through the monitoring of strategy and its implementation. If it was payment-by-results, nobody should get the prize for having the best scorecard or the prettiest traffic light report.

Failure to implement strategy:
• “Our strategy is merely a glossy document. It goes nowhere.” Or, “Great strategic thinking... shame nothing happened.”
• Lack of focus on the strategic objectives: “Everyone seems to be rushing around like headless chickens doing their own thing.”
• Joe or Jane Bloggs on the front line: “I’ve seen it all before, if we just keep our heads down... this will all blow over.” Business As Usual victorious once again.

Lack of clarity or thought on what success means: “I don’t know if we are successful. I’ve no means of knowing if we are successful.” CE Govt. Dept.

Excess measures: Lack of central or top level trust, often exhibited by a need to monitor and report on everything – “There’s no trust. How can we focus and get on with the job when we have hundreds of measures to report on?”

Lack of strategic alignment: Business units/agencies heading in their own direction – “I don’t know what they’re doing; we just get on with our job”.

Measurement:
• Over emphasis on measures. Seen as an end in itself: “Great, colourful traffic light reports – but do they actually change anything?”
• Seeking 100% accuracy or giving up: “You can’t measure that, it’s too difficult.”

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• Step back and consider the wider purpose of strategic performance management and the framework required to make it effective and sustainable. A common fault is to dive into the detail around measures and scorecards. This paper presents the overall framework for strategic performance management before discussing what the balanced scorecard is and how it needs to be applied. Finally, measurement is briefly discussed and advice given on how to avoid an excessive measurement burden.

The framework of strategic performance management: or, how it all fits together
This is the context for the balanced scorecard. A performance management framework consists of the set of interlinked processes, systems, tools and governance arrangements used by appropriately skilled and knowledgeable people who together drive strategy implementation. It is important to realise that strategy is only implemented when individuals actually change their decisions, actions and behaviours in line with the strategy. The diagram below identifies the key building blocks and illustrates how they fit together.

Strategy is the start. This is how you aim to deliver your strategic outcomes. The balanced scorecard is derived from this. The scorecard then drives people, organisational processes and reporting. Together these drive and change individual’s behaviours, decisions and actions. Its only when this is achieved that strategy is implemented and value gained.

Key building blocks of a strategic performance management framework

Source: KPMG (2007)
communicating externally. The right information must be made available to the right people at the right time and in the right format to drive decisions, actions and behaviours. Data sources need to be clean and complete to ensure ‘one version of the truth’. A pitfall some organisations fall into is to take the IT system as the starting point. At worst, this can lead to measures selected simply because the system produces them.

**Behaviours, decisions and actions driving value:** The people processes, information systems and reporting and organisational processes collectively drive the required decisions, actions and behaviours necessary to implement the strategy.

**Value:** This is created when progress is made against the strategic objectives.

**The Balanced Scorecard**

The Balanced Scorecard is a one page, high level strategic report, typically using four quadrants to report performance. It presents both the results of the organisation, for the private sector these would be predominantly financial, and the non-financial enablers or drivers of the results, typically grouped under Customers & Stakeholders; Internal Processes; and People & Information as illustrated below:


To understand the role of the scorecard, it’s worth going back to why it was first invented. What was the problem it aimed to address? The problem was first felt in the private sector. Organisations measured and reported predominantly financial information i.e. their results. However, these are lagging measures. The levers or drivers of change, as identified in strategy were not commonly reported. Thus reports were entirely historical and backward looking. No insight was given to likely future performance.

**Marks & Spencer case study**

The experience of the major UK retailer, Marks & Spencer, in 1999 illustrates the issues. They were making annual profits of over £1Bn and their share price was close to an all time high. They had an air of indestructibility or even arrogance. But within a year, profits had slumped, their share price had collapsed and takeovers were mooted. Why didn’t they see it coming? They were unaware that they were rushing towards a cliff.

The problem was that while revenues and profits were at an all time high, these were the product of past decisions and efforts. They were lagging measures. Over the previous two to three years, M&S had been falling behind in many areas, which over time, finally affected their bottom line. Thus they were changing their clothing ranges twice yearly while their up-and-coming competitors such as Next were changing theirs quarterly or monthly. Relationships with suppliers were poor and logistics inadequate. Information on customers was also poor, despite being one of the earliest organisations to have their own store card – however, they’d never analysed the data effectively. And staff were demotivated. As their Finance Director Alison Read said at the time; “If we’d had a balanced scorecard, the results quadrant would have been green, but all the other quadrants, [Customer, Process and People], would have been red. It would have given us early warning”.

The other way of looking at the balanced scorecard is it finally dawns on the Finance Director as to why the HR Director exists.

The figure below indicates the shift from monitoring and reporting solely results to presenting a fuller picture of performance through the balanced scorecard. The left hand graph shows results emerging but only after significant delay. This is because it takes time for strategy to work through the system. If the strategy is right, results will eventually be delivered. In the meantime, those awaiting the results will just have to have faith - “Trust me”. On the right hand side a scorecard is used. Information is reported across the three enabler quadrants that will indicate if strategy is working and provide confidence to those using or relying upon the results that the outcomes will be delivered.

**Is the scorecard a fad?**

When the balanced scorecard was first introduced, the sweet shop mentality took over in many quarters – “I want one of those”. Now, nearly twenty years on, it’s been around a while. There is now a danger of the scorecard being seen as either yesterday’s plaything or straightforward. But, the underlying issues that led to the development of the scorecard have not gone away and nor have the challenges to get it right. If properly designed and applied, scorecards have successfully addressed many of these issues. However, they are not a panacea. They do not let the board and management off the hook from their role of driving strategy delivery. It’s just a tool.
Key principles for an effective scorecard

To ensure a scorecard is designed effectively, and tailored to an organisation's requirements, key principles are:

1. **Agree governance upfront.** Whose performance is being reported? Who is accountable? What Board leads this area or organisation and therefore needs to own the scorecard? What processes are established to enable this team to use the scorecard and maximise the value?

2. **Derive measures from strategy.** Measures need to be explicitly linked to and drawn from strategy. If not, they will cause behaviours and actions that will not drive the strategy.

3. **Measure what counts... rather than count what’s easiest to measure.** What counts are the set of strategic drivers identified in your strategy that will best deliver your strategic objectives.

4. **Understand cause and effect.** The scorecard must be based on an analysis and understanding of the relationships between those factors that fundamentally affect the success of the organisation - the causes or drivers, and the key outputs and outcomes that define success - the effects. This understanding is at the heart of the scorecard.

5. **Ensure measures are inside your sphere of influence.** Then drive accountability. The key factors or drivers to be measured must be broadly within the organisation's ability to influence. If not, how can you be held accountable?

6. **Align measures/scorecards and create a line-of-sight.** Measures at different levels in the organisation need to be aligned to the top strategic objectives. This is particularly important when there are a set of agencies or public bodies that together contribute to the overall objective. All staff and agencies that contribute need to understand the strategy and the part they play. They need to understand how what they do affects the top level measures and hence how they contribute towards the strategic goals.

How would you feel linking half your salary to your scorecard? – The final test

If all these principles are applied, then a good scorecard for a Board/management team is one they should feel comfortable linking half their salary to. This approach was adopted by Marks & Spencer. This is not a recommendation, although it might have some merit, but it is a test. If not comfortable with this... Why not?

In addition to the six principles identified above, it’s important not to get hung up on the four quadrants of the scorecard. They are simply a convenient way of grouping the set of drivers or enablers of strategy. The only split that is important is between results - what you aim to achieve and should be held accountable for and the enablers or drivers of strategy - how you aim to deliver your results. The four quadrants illustrated on the previous page work well for government but can be amended if preferred.

A final consideration is how the above principles are applied. It’s important to get the scorecard right and ensure buy-in. At all stages of the process the analysis has to be right, but the hearts and minds of the key stakeholders must be explicitly engaged and won over. Stakeholder management is vital. Often, this soft side is glossed over. The scorecard must be developed with the team that is to own it. Management boards usually push back on this.

Measurement: Aim for ‘fit-for-purpose’; avoid creating an industry

Finally, let’s turn to measures. As described above, for an effective scorecard this should be the last consideration, not the first. Our principle of, ‘Measure what counts rather than count what’s easiest to measure’, assumes you can measure anything. This is broadly true. It is more a case that some things are inherently challenging and hence costly to measure while other things are easy and so cheap to measure. But if you have decided they are key strategic drivers, you have got to measure them. When investing in measure definitions, the starting point should be to identify the need. It is rare for statistically significant 95% confidence to be required. Typically, an indication of performance or a broad picture is sufficient. A spectrum exists in terms of measurement accuracy. At the one end is a subjective judgement or gut feel. This is a good place to start. It’s cheap and quick. In the middle might be proxy measures. At the other end is a statistically significant sample with a 95% confidence interval. This will only be required in a small number of cases.

Take Quality of Leadership as an example. A subjective view could be obtained by asking all board members to rate the quality of leadership out of 10. A proxy measure, such as attendance at a leadership training could be used. If time and funds are available and the issue is sufficient to justify the investment, a 360 degree feedback system can be set up. A common default view is that extreme accuracy and confidence is required in all cases. This can lead to excessive measurement costs and burden. In practice, measurement needs to be only sufficiently accurate so that it gives an indication to management that there may be a problem. If the measurement area is ‘Red’, then it may be worth investing to dig down to produce harder evidence to analyse the root cause and identify the actions.

Conclusion

Achieving and maintaining effective strategic performance management is challenging, especially in the public sector. There is no quick fix. However, a concerted and sustained effort by senior managers combined with a coherent overall Performance Management framework, with the balanced scorecard at its heart, goes a long way to help ensure strategy is driven through the organisation and the strategic objectives delivered.

The energy and importance given to strategy implementation needs to match the energy and importance given to deriving the right strategy. It’s less glamorous but equally important. A good strategy is necessary, but not, on its own, sufficient.

To discuss this further, please contact:

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