

The Localized Application of BSC in China: Exploration and Practice of Qingdao Municipal Government

The Localized Application of BSC (Balanced Score Card) in China: Exploration and Practice of Qingdao Municipal Government

Hou Yongping

It is an inevitable selection for deepening administrative system reform, governmental function transition and reply to cutthroat competition by the local governments of China at present to refer to modern public management theory and apply advanced management instruments in governmental administration practice. Qingdao government is always dedicated to research and exploration of method and measurement for enhancement of governmental working efficiency and improvement of administrative effect. Since 1988, governmental instruction has been reinforced with outstanding achievement by successively introducing objective management, overall quality management, performance management and benchmarking management. In 2005, BSC, the Balanced Scorecard, the most developed strategic system for measurement and management conforming to scientific development concepts, was used to create high performance governmental work in Qingdao. We endeavor to the establishment of a governing mode as “low cost of administration, strong consciousness of the legal system, high efficiency management, and high quality service”, which has been fully affirmed and recognized by the Organization Department of the Central Committee of the Communist Party, China (CPC) and appraised as a model of reinforcing governmental construction in the new era by the Working Committee for Offices Directly under the Central Committee of the CPC and Working Committee for State Offices also directly under the Central Committee of the CPC, with promotion of sound and rapid development for economic society in Qingdao. In 2006, Qingdao was one of six cities awarded the title of “Golden City” for investment environment, governmental efficiency, indicators for harmonious society among 120 cities assessed by the World Bank.

1 Introduction of Balanced Scorecard Method

The balanced scorecard (BSC) method, originated by Kaplan and Norton,¹ is a strategic, goal-directed, and multi-dimensional model for performance measurement. Unlike traditional profit-driven performance measurement, the balanced scorecard method provides a management, learning and control framework that aligns activities to the goals and strategies of an organization, and translates the strategies into a coherent set of performance measures for the implementation of the strategies. The main limitation of the balanced scorecard is that it does not have an underlying scoring/index mechanism and thus is not readily applicable for direct

The author has Ph.D. in Business Administration and is the Deputy Secretary-General of Qingdao Municipal Committee of the CPC, Secretary of Working Committee for Offices Directly under Municipal Government.

¹ Kaplan, R. & Norton, D. “The balanced scorecard: Measures that drive performance”. *Harvard Business Review*, January-February, 71-79, 1992. Kaplan, R. & Norton, D. *The balanced scorecard: Translating strategy into action*. Boston: Harvard Business School Press, 1996.

comparison across organizations.² The balanced scorecard provides an integrated approach which presents many of the seemingly disparate elements of an organization's strategy in a single report context. The traditional balanced scorecard method comprises four perspectives – Financial, Customer, Internal Business Processes, and Learning and Growth. For each of the above perspectives, organization executives or managers set goals and stipulate specific measures to achieve each goal. In this manner, the balanced scorecard helps translate and implement strategy as high level goals cascade downwards into the organization through a process of tight specification and general consensus. The strategic linkages enable the balanced scorecard measures to be tied together in a series of cause and effect relationships. The balanced scorecard thus can be used not only to clarify and communicate strategy to employees and external stakeholders, but also to implement and manage strategy.

Initially developed for private for-profit businesses, the balanced scorecard method has been widely adapted for use with public and non-profit organizations, particularly after the initiation of the National Performance Review (NPR) in 1993 and the passage of the Government Performance and Results Act (GPRA) of 1993, both of which require governmental agencies to develop strategic plans and performance plans that evaluate the agencies' effectiveness and efficiency. Like for private for-profit companies, the balanced scorecard for government and non-profit organizations also contains Financial, Customer, Internal Business Processes, and Learning and Growth perspectives.³ But in the balanced scorecard for government and non-profit organizations, the Customer perspective, instead of financial profitability, becomes the top priority. This reflects the mission and nature of governments and non-profit organizations – that is, they strive to meet the needs of their customers, though the customers may be defined differently for various public and non-profit organizations.

2 Background and motivation of BSC implementation in Qingdao

Qingdao is located in the south of Shandong Peninsula and the Yellow Sea shore, with an area of 10,654 km² and a population of 7,409,000. As the most important seashore open city, economic center, and independent unit for allocation and distribution of materials and funds under state plans, a city at vice provincial level, it governs seven districts and five cities (counties), in which the urban area is 1,159 km² and the population is 2,654,000. The sailing competition of the 2008 Olympic Games is to be held here. Qingdao is hereby called “a city of sailing”. In 2006, with all-round progress in respective social causes, it achieved gross value of production of RMB320.658 billion (standing in tenth position among domestic big cities), increasing by 15.7% compared with the corresponding period and fiscal budget revenue for local government of RMB22.577 billion, increasing by 28% compared with the corresponding period. These achievements are closely tied up with continuous reinforcement of governmental

² Jensen, M. “Value maximization, stakeholder theory, and the corporate objective function”. *Business Ethics Quarterly*, 12(2), 235-256, 2002.

³ Beiman, I. & Sun, Y. *Balanced scorecard and strategy execution applications in China* (in Chinese). Beijing: China Machine Press, 2004. Drucker, P. *Management challenges for the 21st century* (in Chinese). Beijing: China Machine Press, 2006. Niven, P. *Balanced scorecard: Step by step for government and nonprofit agencies* (in Chinese). Beijing: China Financial and Economic Publishing House, 2004. Popovich, M. *Creating high-performance government organizations* (in Chinese). China Renmin University Press, 2002.

construction, innovative introduction of advanced management concepts and the good combination of measurement with practice for many years.

Qingdao started to carry out objective management in 1988, and sought an internal mechanism for reinforcing governmental construction and promoting harmonious development of an economic society. In 2000, “five-key point project” of “function transition, approval and examination normalization, government affairs being brought into the open, and administration by law and efficiency supervision” was implemented. It was required to learn from large successful enterprises such as Haier and introduce all-around quality management and benchmarking management to our governmental administration. In 2002, deepening the “five-key point project” was proposed to establish “an organ of four types” – learning type, innovation type, competition type and service type, BSC application in governmental departments was also learned and researched. In 2003, objective management was expanded into objective performance management, with attention to result-orientation and deepened performance implications. These have laid a good foundation for BSC introduction.

At the beginning of 2005, the strategic objective for urban development in Qingdao was readjusted to determine the governmental construction objective of “establishing high efficiency government and becoming satisfactory civil servants to the people” accordingly. The previous management instrument looked under-developed for ensuring realization of strategic objectives for the urban development and governmental construction objective. Therefore, based on a years’ research, exploration on BSC application was started with issuance of an official document in the name of the Qingdao Municipal Committee of the CPC and Qingdao Municipal Government. BSC application was thus brought into practical government management.

BSC application in Qingdao is based on its recognition of science and effectiveness. BSC was developed jointly by Professor Kaplan and President Norton. It fulfils separation and balancing among four dimensions, namely finance, customer, internal business process and study and growth, based on mission, vision, strategy and core values determined by the organization. As a comprehensive strategic system of “transit of strategy to action” for measurement and management, it realizes a balance between finance and non-finance, a balance between inside organization and outside groups, a balance between a pre-posed indicator and post-positioned indicator and balance between long-term objectives and short-term objectives. BSC is currently an advanced management technology widely adopted throughout the world. It is selected as one of the most effective management instruments of the last 75 years by *Harvard Business Review*. According to the statistical data, BSC is introduced to the 500 top enterprises of the world. Many local governments in developed countries like the USA and Canada adopted management systems mainly containing BSC.

Charlotte, NC in the USA provides us with the best practical model. This management instrument adapts to the essential spirit of scientific development and may help the urban strategy objective to take root. Robert S. Kaplan once said, although the primal focus and application of BSC were for improving management of profit-making enterprises, it has a better effect on improving management of government departments and non-profit organizations.

Therefore, Qingdao decided to introduce BSC based on the above practice base and rational knowledge and cognition, to help the urban strategic objective with separation to the

respective department, so as to realize balanced, unified and harmonious development, and solve short-sighted problems such as finance-only or GDP-only, taking short term views without considering long-term interests, and views of industry of own without concern for the harmony of society and nature. We decided to improve the management method, enhance the administrative efficiency, reduce administrative costs, for the sake of establishing a high performance government with low cost of administration, strong consciousness of the legal system, high efficiency management, and high quality service, and for the sake of enhancing core competitive power and contributing greatly to the development of economic society in Qingdao.

3 General framework of BSC in Qingdao

According to the requirements of scientific development values and construction of harmonious society, we have designed BSC at the municipal level and created a separated BSC for municipal departments and BSC for the internal business sections (unit) in Qingdao. In order to promote BSC and achieve the effect hereby, we have conducted a three-year training of MPA core courses for all the leaders at all levels since 2005 and have held BSC lectures and recommended a series of books such as *Creation of High Performance Governmental Organization*, *BSC - Transit of Strategy to Action*, *Strategy-center Type Organization*, *BSC for Governmental and Nonprofit Organizations*, *BSC - Strategy Practice in China*, to citywide civil servants. At present, officials in respective municipal departments are learning how to use BSC for optimized management. The four departments, namely, the Working Committee for Offices Directly under the Qingdao Municipal Committee of the CPC, the Municipal Economy and Trade Committee, the Municipal Bureau for Letters and Calls, the Municipal Statistical Bureau have conducted practice by taking a leading position and have realized online BSC by determining 26 key departments as experimental units for online administration. Municipal BSC is an emphasis in this text with introduction of BSC for departments and BSC for business sections (unit) by taking examples of the Working Committee for Offices Directly under the Qingdao Municipal Committee of the CPC.

2.1 BSC at municipal level in Qingdao

We base ourselves upon the urban development strategy and have created a “BSC Map for creating high performance government in Qingdao” by interpreting, transmitting and implementing the mission, values, vision and strategy for it. (the diagram of BSC Map is omitted)

2.1.1 Mission, core values and vision for creating high performance government

Mission: To realize sound and rapid development of Qingdao by leading citizens to practice innovation according to the requirement of “three things ahead” by the central government.

Vision: To adhere to the scientific development concept for comprehensive promotion of economic construction, political construction, cultural construction, social construction and unceasing Party construction, so as to establish Qingdao as a rich, civilized, harmonious and modern metropolis.

Core values: Scientific development, harmonious development, human orientation, priority of people's livelihood, prosperity and fortune.

Strategic emphasis: To practically convert the method of economic growth, enhance the development quality and level; to enhance the capability of self-innovation for establishing a modern city; to coordinate the urban and rural development for accelerating construction of a socialistic new countryside; to further deepen the reform for enhancing the level of opening; to insist on a human oriented policy for active construction of socialistic harmonious society; to reinforce the power of the Party to hold the rein for preserving progression forever.

2.1.2 Omnidirectional establishment of high performance government in four dimensions

We have innovated and developed the four dimensions of BSC by combining practical conditions and situations of the state of Qingdao by using it, to conduct balanced separation on the service (customer) dimension, working performance (finance) dimension, business process dimension and study and growth dimension. Thus the community services and social administration functions of the government departments are emphasized and highlighted for the sake of omnidirectional establishment of a high performance government

Service dimension: To constantly enhance satisfaction of the service objective by improving the efficiency and quality of community services. The service objective for the government is mainly grass roots, and enterprises. The major approach to enhance satisfaction of service is: to simplify documents and conferences, to simplify projects to be examined and approved, to improve "direct service" systems for large enterprises, to improve the administrative efficiency; to perfect and improve systems related to significant hearings and consultation, to improve supervision mechanisms for administration. Starting from 2006, the Social Facts & Public Opinion Survey Center conducted a social comment on key departments by adopting Computer Assisted Telephone Interviewing System (CATI) and random interviews of citizens and service objectives.

Working performance dimension: Mainly to enhance the development achievement on self-innovation, circulatory economy, new energy, modern servicing industry, new countryside and social causes, to promote a harmonious and coordinative development in Qingdao. Simultaneously, to provide and maintain fixed quantity and quality of public products or services under conditions of reducing labor power, material and financial resources, by complying with the economical principle. To establish consciousness of cost, resource and environment, to economize on energy, reduce pollution discharge, to protect the environment, reduce the administrative cost, save expenditures, to establish an environmentally-friendly society with economized resources, so as to realize harmony between people and the ecology.

Business process dimension: To use the reconstruction experience by developed countries and advanced management by large successful enterprises for reference, to optimize organizational structure and work flow, to extend performance management to each section and office and each official; to insist on a system of first-inquiring responsibility, service promise, self-inspection and self-correction, for the sake of normalization complete coverage of rules and regulations; to implement BSC to the business section (unit), to make the tasks assumed by each official measurable and realizable. In the meantime, to establish perfect electronic government

affairs technical support system, to promote conversion of governmental management, service and working methods by using informatization.

Study and growth dimension: To arm our head with scientific development concepts and other theories, to heighten our thought and political accomplishment; to adhere to the principles of human orientation, opening and communication, participation by the entire personnel, persistent innovation, to construct the core values of socialism; to create a system of management culture, execution culture, communication culture, activation culture, harmony culture, to build up a visible and touchable cultural atmosphere; to strengthen brand culture and enhance its popularity, reputation, degree of credit and faithfulness; to strengthen innovation culture, to initiate innovative activities, create such circumstance and atmosphere for innovation; to reinforce education and training for section chiefs, improve each official's ability on study, research, combination, execution, innovation, coordination, communication, writing and speech, to establish a civil servant group with firm quality, exquisite skill, superhard style and satisfaction by the people. The domestic *Comity for Organ and Official Business* was firstly compiled and published in Qingdao in 2006.

2.2 BSC for municipal departments and business section (unit)

Under a general framework of BSC for high performance organs at municipal level, we have conducted separation for BSC and researched and developed part of BSC for municipal departments and achieved online administration. Now a major example is supposed to be taken - the BSC system for the Working Committee for Offices Directly under Qingdao Municipal Committee of the CPC and BSC for one business section (unit).

2.2.1 Strategy map of the Working Committee for Offices Directly under Qingdao Municipal Committee of the CPC

The Working Committee for Offices Directly under Qingdao Municipal Committee of the CPC is an independent working department under Qingdao Municipal Committee of the CPC, whose main function is to control 93 direct-governed units and 12 districts. At the beginning of 2005, the departmental function was greatly adjusted with wide investigate, survey and argumentation, in order to further enhance working performance, and the vision of "high efficiency organ set up by taking the leading position" was also determined. Deep discussion on such vision was conducted with a consensus and the strategy map (the diagram of Strategic map is omitted).

Major content:

Mission: To create a high performance organ with satisfactory civil servants, to contribute to nationwide organ construction and to the global management theory and practice.

Vision: To fulfill the governing mode of "low cost of administration, strong consciousness of legal system, high efficiency management, and high quality service" and set up a high performance organ by taking the leading position.

Core values: To insist on values of justice (fairness), efficiency (effectiveness), benefit (effect), economy (cost), for unceasing innovation and top class.

Strategy plan: To comprehensively promote the construction of high performance organ by taking the construction of reinforcing the power of the Party to hold the rein and progressive construction as the fundamental focus, the administrative system reform as a motive, deepening of performance management as a key, the organ culture construction as a foundation, strengthening of section and office construction as emphases, and informatization construction as support.

Key indicators are determined in BSC for the Working Committee for Offices Directly under Qingdao Municipal Committee of the CPC, in four dimensions, service objective, work performance, business process, study and growth to ensure realization of strategic objective. As to the dimension of service objective, satisfaction indicator is set up with regard to superior leader, social comment, units directly under the municipal government, the working committee of district and municipal, internal section and office; as to dimension of work performance, for key indicators for work performance, finance support, cost for administration and assets management are set up; as to dimension of business process, six key indicators of selecting excellent chief and excellent fruit, selecting organ brand, Party work construction and clean government building, conference and official affairs, organ construction website maintenance; as to dimension of study and growth, five key indicators of public objective, knowledge training and updating, enhancement of nine abilities, innovative suggestion and fruit, article publishing and experience exchange are set up accordingly.

2.2.2 BSC for business section (unit)

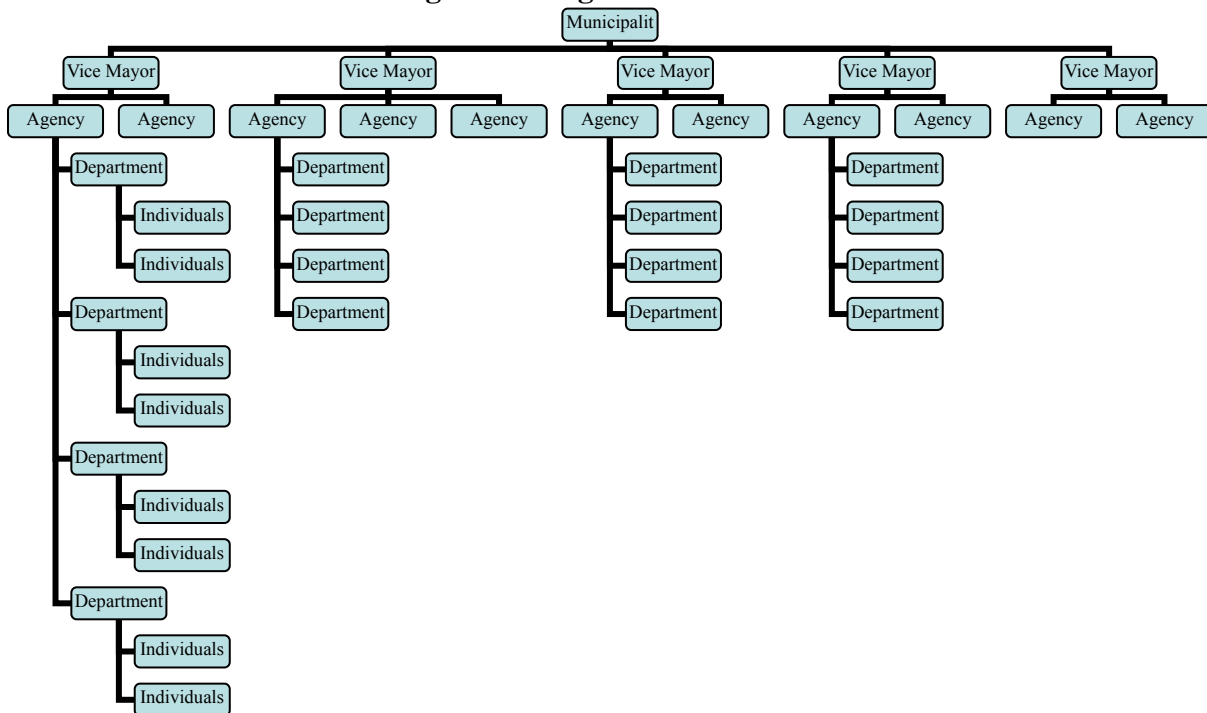
Under the BSC framework of the Working Committee for Offices Directly under Qingdao Municipal Committee of the CPC, BSC has been created for the respective nine functional sections and offices inside with listed objectives, indicators, and target values for general strategy of service (See Diagram 1 for an organizational chart).

Each of the missions is ensured to be carried out in practice through supervision and examination mechanism by using electronic log, weekly regular meeting, monthly summary, and quarterly examination. Here one functional section (business unit) is taken as an example - BSC for leader education office (see Diagram 2 below).

2.3 BSC technical support in Qingdao

Consultation and technical support provided by many senior and professional service institutes such as eGate, Chinese branch of Balanced Scorecard Collaborative (BSCol), Singapore Service Quality (SQ) Centre Pte Ltd, and BSC Institute of China, is now introduced in Qingdao, to ensure feasibility, scientific methods and practicability of research and development projects. In the meanwhile, E-government Research Center of Tsinghua University and the Chinese branch of Nimbus UK (Nimbus Partners China Ltd.) have jointly researched and developed BSC information network platform for establishing high performance government in Qingdao - High Performance Management Platform to realize online BSC management and provide technical support for successful promotion of BSC.

Diagram 1: Organizational Chart



4 Preliminary effect on BSC implementation in Qingdao

Two years' exploration of BSC implementation in Qingdao has played an important role in promoting sound and rapid development of economic society. BSC introduced into governmental management practice has improved the management system and operating mechanism inside the government, and has promoted standardization, scientificity, normalization of government work, and more conversion of governmental function, reduced the cost for administration, enhanced work performance, helped comprehensive and harmonious sustainable development of economic and social causes, and formed a significant promoter to enhance a core competitiveness for urban development. It has played a positive role in realizing the objective of making Qingdao a rich, civilized, harmonious and modern metropolis. In 2006, Qingdao's GDP rose to the fourth position among vice provincial cities, and to the third position for industrial value-added, to the eighth position in retail rates of consumer goods. Its five counties in the outskirts are listed among the top 100 of nationwide domestic counties with increasing economic gross output in successive years. It is ranked among the top ten of domestic cities with 25 grand awards and honors at the national level. Its urban living quality is ranked as the second among 287 cities at the municipal level. It is also entitled "the Golden City" by the World Bank with its investment environment.

Diagram 2: BSC for leader education office

| Dimension | KPI | Class A (5 scores) | Class B (3 scores) | Data source | Assessment basis | Exam frequency | Exam feature |
|-------------------|---|--|---|------------------------------------|----------------------------------|------------------|----------------------------------|
| Service objective | Satisfaction of superior leader | Satisfaction≥90% | Satisfaction≥70% | Democratic comment | Log/routine performance | Quarterly | Inside the Committee |
| | Satisfaction of section of the Working Committee | Satisfaction≥ 90% | Satisfaction≥70% | Democratic comment | Routine performance | Quarterly | Inside the Committee |
| | Satisfaction of external customer | Satisfaction≥90% | Satisfaction≥70% | Democratic comment, outside review | Routine performance | Annual | Outside the Committee |
| Business | Leader education training | E.g. passing percentage of trained Party members≥95% | E.g. passing percentage of trained Party members≥90%. | Outside review | Questionnaire | Quarterly/annual | Inside the Committee |
| | Website construction and organ website maintenance and administration | E.g. visit time of organ construction website≥8000 person-time/month | E.g. visit time of organ construction website≥6000 person-time/month | Democratic comment, outside review | Log/work sum/routine performance | Quarterly/annual | Inside and outside the Committee |
| | Internal management | E.g. insisting on weekly regular meeting with minutes | E.g. weekly regular meeting | Democratic comment | Log/work sum | Quarterly/annual | Inside the Committee |
| Study and growth | Enhancement of eight abilities | E.g. achieving middle level in the year | E.g. achieving primary level in the year | Outside review | Log/routine performance | Quarterly/annual | Inside the Committee |
| | Innovative suggestion and fruit | E.g. 1-2 innovative suggestions adopted by leaders of the Committee in the year. | E.g. 1-2 innovative suggestions adopted by department leaders in the year. | Democratic comment | Log/work sum/routine performance | Quarterly/annual | Inside the Committee |
| Financial support | Administrative cost | E.g. annual cost for administration lower than fiscal budget by the department | E.g. annual cost for administration equals to fiscal budget by the department | Inside and outside review | Financial statement | Quarterly/annual | Inside and outside |
| | Note consistence | E.g. Note and bill error time is zero. | E.g. Note and bill error amount is less than RMB1,000. | Inside and outside review | Note and bill | Quarterly/annual | Inside and outside |

Currently, BSC is used to create high performance government in Qingdao and has drawn much concern and high attention with applause from experts, scholars at home and abroad,

governmental officials and entrepreneurs. It has obtained great affirmation and support by famous experts and scholars from Peking University, Tsinghua University, Renmin University of China and China National School of Administration. At the Asia-Pacific Summit of BSCol held in 2006, we had an amiable contact with Dr. Kaplan from Harvard Business School, the founder of BSC. Professor Kaplan had given a good opinion. Media such as *People's Daily*, *Internal Reference of Xinhua News Agency*, the homepage of *The Central People's Government*, *Chinese Public Administration*, *Party Construction for the Central Committee of CPC*, and *Purple Light Pavilion* and the third Sino-US International Conference for Public Administration have offered broad propaganda and reportage to the achievement in Qingdao. Recently, the Working Committee for Offices Directly under Qingdao Municipal Committee of the CPC has been successfully selected into 2007 China Hall of Fame (CHoF) for Strategy Focused Organizations™ and is now applied for the global BSC Hall of Fame.

5 Inspiration and prospect

Seeing the exploration practice in Qingdao, the introduction of advanced management technology has constantly enhanced the performance management level, and played a significant role in promoting governmental administration, innovative level, sound and rapid development of economic society and strengthening the core of the city. The main inspiration is as follows:

a. Leaders in charge of the local government at all levels and respective unit are the key factor for success of BSC introduction into governmental construction and management with actual effect and substantial result. Also it is the first driving force for it.

b. BSC design should be combined with practice of local city and department to greatly promote comprehensive, harmonious and sustainable development of local economic society.

c. Performance management at a high level is favorable to promotion of administrative system reform. It strengthens activation and has a strict system of holding responsibility for inaction or negative action and non-effective action. Thus the governmental departments may fully understand their own function with clear division of labor, ceaselessly improve management modes, enhanced working efficiency, and fulfill their due responsibility.

d. Transition in five aspects related to governmental performance management is brought by BSC application, which is in favor of accelerating strategic objective of urban development realization. These five aspects are: from attention to listing performance indicators to attention to process optimization, with higher attention to internal logical relation of indicator setting and strengthening of concepts in connection with balance, coordination and unified plan; from pursuing process control to attention to result and then process, with higher attention to satisfaction of service objective; from stress on performance examination to stress on performance improvement, with more stress on performance enhancement, instead of mere examination; from concern about individual behavior and attitude of one civil servant to concern about general power to hold the rein and achievement of the government; from sole management technology to comprehensive governing with greater attention on integrated application of management technology.

The Localized Application of BSC in China: Exploration and Practice of Qingdao Municipal Government

Qingdao is the first practitioner to apply BSC to governmental management in a city at the vice provincial level in China. Such exploration is the first positive trial of innovation for local government management. It is still in a phase of application exploration and experimental promotion presently. Its imperfection is inevitable. I hereby ask for the advice or comments from experts and scholars for correction. Promotion will be conducted to the respective municipal department on the basis of successful trial and experiment in Qingdao, so as to create an internal operational mechanism to ensure the urban development strategy penetrating into each level of department. BSC application will certainly accelerate sustainable, rapid and sound development of economic society in Qingdao.