# DEVELOPING A PERFORMANCE MEASUREMENT TOOL TO MONITOR THE PERFORMANCE OF A PUBLIC SECTOR AGENCY – A BALANCED SCORECARD APPROACH

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by

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All of this was made possible by the love of God, so glory to Him.

## Declaration

I, Ncedo Lisani, declare that this thesis is my own work and that all reference sources have been accurately acknowledged and documented. Further, this thesis in its entirety or in part has not previously been submitted to any University in order to obtain an academic qualification**.**

**Ncedo Lisani** **Date: November 2014**

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# Integrative Summary

The world has seen unparalleled pressure put on the public sector to improve the speed and quality of service delivery, whilst simultaneously employing measures to cut the costs. South Africa and the Eastern Cape have not been immune to this as there have been complaints and demonstrations from various national and provincial stakeholders demanding more and improved services.

The Department of Economic Development, Environmental Affairs and Tourism (DEDEAT) in particular has employed the services of public entities in its quest to realise government's socio-economic developmental objectives and ease some of the service delivery pressures. These agencies are unfortunately struggling to deliver and the Department is unable to play the oversight role it is legislatively mandated to carry out. The main reason for this seem to be the lack of the capacity to objectively track and measure the performance of these agencies. As they say "you cannot manage what you cannot measure". This is despite the fact that there is a shareholders' compact and many other measures in place to enable performance monitoring.

Also, the public sector is known to have inherent and unique performance management challenges like broad and vague objectives which lead to too many measurements, a propensity to focus on the "easy to measure" but often irrelevant indicators at the expense of critical outcomes and a short-term orientation that is usually fuelled by political expediency. Against this background, this study sought to make use of a comprehensive and dynamic performance monitoring framework, namely the Balanced Scorecard (BSC), to explore its potential use in assisting government to monitor the performance of public agencies, in particular the Development Finance Institutions (DFI) in South Africa. The proposed framework helps government to focus on the performance drivers of future value, and what decisions and actions are necessary to achieve critical outcomes.

The aim of the study therefore is to develop an adjusted BSC framework to monitor the activities of a public sector agency and thus demonstrate how a BSC framework could be used to monitor a public agency by the government department.

The study is evaluative in nature and is divided into three sections. Section one is presented as an **Evaluation Report**. It sets the scene, discusses briefly the key theoretical concepts, outlines the research methods used and presents the findings followed by a discussion and recommendations. Section two delves into the literature in more detail, providing a more extensive review of the literature that informed the investigation, whilst section three provides a more extensive description of the research methodology employed in the study.

To achieve the aims of the study, the research drew from the work of various authors in the field including that of Bigliardi, Dormio and Galati, 2011; Bititci, Garengo, Dörfler, and Nudurupati, 2012; Julyan, 2011; Kaplan and Norton, 1992, 1993, 1996, 2001, 2004 and 2006; Niven, 2003 and 2008 and Northcott and Taulapapa, 2012.

Also, five BSC perspectives - including the programme specific “equity” perspective - were used to develop an interview schedule. These were used to formulate the key performance objectives and indicators, based on the stakeholder’s responses. These respondents have experience within the programme as administrators, beneficiaries and funders. The research employed purposive sampling with semi-structured in-depth interviews and document analysis as primary and secondary instruments for data collection. In essence, five officials from the agency, one from DEDEAT and two co-operatives participated in the research.

The results indicate a general appreciation of and gravitation towards outcome based measures, even though the government culture of focusing on outputs is still prevalent. The results of the study indicated that, generally, a government - public agency BSC based performance monitoring framework would have the following features:

- Customer objectives and programme mission as the main goal and this will provides clarity at all levels on who the customers are and what are their primary requirements.
- Clear, visible and stringent financial controls as the agency is administering public resources.
- Few carefully selected processes and systems that have a direct and positive impact on the customer objectives.

- Deliberate and consistent efforts to promote the participation of designated groups in the economy of the country.
- Comprehensive indicators on capacity building as “mission based-organisations rely heavily on skills, dedication and alignment of staff”.

Overall, the study concludes that the make-up of the BSC is beneficial to the public sector and in monitoring the public sector agencies for the following reasons:

- It helps the agency to focus on customers and their needs.
- It forces the agency to engage and communicate strategic intention with both internal and external stakeholders and thus synchronize competing stakeholder needs.
- It forces the agency to limit the number of indicators and therefore select the few value adding measures that are aligned to customer outcomes.
- Through its cause and effect relationship, the agency is compelled to align all the resources, activities and processes to the main goal of the entity.

All these help to minimize the principal agent problem, as the use of the BSC can bring clarity on strategy and expectations, provided it is supported with regular communication.

## Section 1: Evaluation Report

### Executive Summary

This study developed the scorecard for government departments to monitor the performance of the public sector agencies tasked to finance developmental programmes (DFIs). The aim of the study therefore is to develop an adjusted Balanced Scorecard (BSC) framework to monitor the activities of a public sector agency and thus demonstrate how a BSC framework could be used to monitor a public agency by the government department.

To attain the objectives of the study, five BSC perspectives including the programme specific “equity” perspectives were used to extract the key performance objectives and indicators from the respondents who have adequate experience with the programme as administrators, beneficiaries and funders.

The results of the study indicated that, generally, a government - public agency BSC based performance monitoring framework would have the following features:

- Customer objectives and mission as the main goals to be achieved.
- Clear and thorough financial controls as the agency is administering public resources.
- Only few carefully selected processes and systems that have a direct and positive impact on the customer objectives.
- Deliberate and consistent efforts to promote the participation of designated groups in the economy of the country.
- Comprehensive indicators on capacity building as “mission based-organisations rely heavily on skills, dedication and alignment of staff”.

Overall, the study concludes that the make-up of an adjusted BSC is likely to be beneficial to the public sector and in monitoring the public sector agencies as it addresses the key performance management challenges in the sector. These are broad and vague objectives which lead to too many measures, propensity to focus on “easy to measure” but often irrelevant indicators at the expense of critical outcomes and short-termism that is usually fuelled by political expediency.

## 1.1 Introduction

The research is triggered by the displeasure demonstrated by the Department of Economic Development, Environmental Affairs and Tourism (DEDEAT) stakeholders on “the lack of delivery and poor quality of the limited services delivered” (DEDEAT, 2010:15). This is at the back of the increasing expectations and the demand for better services from various governments across the board. Bester (2007:1) confirms that the increasing demand for government services coupled with financial restraints worldwide highlight the need to maximise efficiency in the use of public sector resources.

Unfortunately, the public entities that ought to be supporting governments in attaining the country’s socio-economic developmental goals are themselves faced with significant operational weaknesses. This is exacerbated by the lack of capacity from the overseeing government departments to track and measure these entities performance. Consequently, the performance of these entities is prone to mismanagement and poor performance.

The BSC is one of the most comprehensive and widely used performance measures but less is documented on its applicability to the public sector (Northcott and Taulapapa, 2012:168). The disjuncture is even more acute in the developing countries and in monitoring the performance of a state owned agency by a government department.

The case study programme that has been selected to develop a monitoring tool, is called the Imvaba Eastern Cape Provincial Co-operative Development Fund (Imvaba ECPCDF). The Imvaba Unit within the Eastern Cape Development Corporation (ECDC) is responsible for administering this fund to all the Eastern Cape co-operatives. The study therefore hopes to contribute by developing a framework that can assist government departments to monitor the performance of the public agencies, in particular the Development Finance Institutions (DFIs) implementing government programmes.

## 1.2 Study Context

### 1.2.1 International and National

International experiences show that countries which have achieved economic development also have a vibrant and a dynamic co-operative sector, contributing substantially to the growth of their economies (DTI, 2012:18). According to the DTI (2012:18) in countries like Kenya, co-operatives contribute 45% of the Gross Domestic Product (GDP) and 31% of the total national savings and deposits. In New Zealand, 22% of the country's GDP is generated by co-operative enterprises (DTI, 2012:18).

The South African Government acknowledged co-operatives' potential benefits over other types of enterprises and begun to refocus its efforts on co-operative development (DTI, 2012:7). Informed by this, the Cabinet resolved to transfer the co-operatives programme from the Department of Agriculture to the Department of Trade and Industry (DTI), in order to ensure that co-operatives are given recognition and allowed to flourish in all sectors of the economy (DTI, 2012:7). This resulted in the development of the national strategy for co-operatives development, which is informed by the Co-operative Development Policy for South Africa, 2004; Co-operatives Act (Act No. 14 of 2005) amended in 2013; the Co-operative Regulations, 2007 and the Cooperatives Bank Act number 50 of 2007.

### 1.2.2 Provincial and Fund Establishment

Taking cue from the national government, the Eastern Cape Provincial Government developed the strategy and implementation plan for support and development of co-operatives in the province. Against this backdrop, "the province embarked on an ambitious initiative to encourage and develop co-operatives as an alternative form of enterprise and social organization that will gradually grow to become a significant component of the province's development programme" (ICD, 2010:2).

The section will not go into details of the pillars of the strategy but it should be noted that the second pillar, which is building the support infrastructure for co-operatives development, includes various elements and among these is the development of the co-operatives funding, financing mechanism and non-financial support. It is based on this that the Imvaba ECPCDF, referred to in this document as the Imvaba Fund was established.

DEDEAT, which funds the programme is mandated to instigate and lead inclusive and sustainable growth and development in the province (DEDEAT, 2010:8). To carry this vision through, the department is tactically divided into three key programmes with an array of structured sub-programmes and six public entities which the department oversees. The ECDC is one of the entities and is charged with the responsibility to implement the provincial economic development initiatives and Imvaba Fund is one of these.

### 1.2.3 The Eastern Cape Development Corporation (ECDC)

The ECDC is an economic development agency in the Eastern Cape formed in 1996 by an Act of the Eastern Cape Legislature to plan, finance, co-ordinate, market, promote and implement the development of the Eastern Cape Province and all its people (ECDC, 2012:13).

The ECDC is a DFI designed to "occupy the space" between public aid and private investment by providing finance to the private sector for investments that promote development (i.e. address market failures) (ECDC, 2012:17). Its core focus is to support existing business, create opportunities for new business, grow and sustain existing markets and develop new markets, improve access to enterprise finance and ensure skills, infrastructure and policies support business development (ECDC, 2012:25).

### 1.2.4 About the Imvaba Fund

The Imvaba is a ring-fenced fund for Eastern Cape co-operatives, administered by ECDC on behalf of DEDEAT. The fund is managed as a distinct product through ECDC and governed under the existing shareholders compact between the two organisations.

#### 1.2.4.1 The Structure of the Fund

Whilst it has been operating as a part grant – part loan, the fund was converted into a full grant in 2012/ 2013 (ECDC, 2012:3). The fund is allocated as follows:

- Imvaba Co-operative Incentive (non-repayable).
- Technical Skills Training.
- Product Quality and Standards Improvement [in line with South African Bureau of Standards (SABS) agreement].
- Governance and Compliance Assistance in line with Co-operatives Act of 2005.

#### 1.2.4.2 The rationale of the fund

According to ECDC (2012:4) the aim of the fund is to build institutional support to co-operatives of the province in order to:

- Mainstream co-operative enterprises within the provincial economy.
- Enhance self-employment creation opportunities.
- Contribute to poverty relief efforts through enterprise development.

#### 1.2.4.3 Target Market

The fund is available to all Eastern Cape co-operatives and the ECDC is expected to advance funding to co-operatives whose head offices and/ or the majority of the jobs created directly as the result of funding, fall within the provincial boundaries.

#### 1.2.4.4 Targeted Economic Sectors

According to ECDC (2012:5) the following sectors identified in the Provincial Industrial Development Strategy (PIDS) of 2009 are targeted: agriculture and agro-processing, manufacturing, tourism, the green economy, retail and business processing outsourcing.

## 1.3 Performance Measurement

Braz *et al.* (2011:752) define performance measurement as a process of quantifying efficiency and effectiveness. Gates (1999:4) states that a strategic performance measurement system translates business strategies into deliverable results, and combines financial, strategic and operating measures to gauge how well a company meets its targets. From a public sector viewpoint, Poister (2003:78) sees performance measurement as a process of defining, monitoring and using objective indicators of performance of organisations and programmes on a regular basis.

Franco-Santos *et al*. (2007:785) surmise that researchers are unlikely to agree on the definition of performance measurement as they are influenced by different disciplines.

### 1.3.1 Performance Measurement in the Public Sector

In acknowledging the fact that there are performance issues peculiar to the public sector, an attempt is made to seek a deeper appreciation of the concept within this specific sector.

The increasing demand for government services coupled with financial restraints highlight the need to use public sector resources efficiently (Bester, 2007:1). This is particularly true in South Africa (SA) where the public experienced service delivery setbacks which are largely attributed to ineffective and inefficient performance management.

To address this and augment their ability to match demand, governments have often turned to State Owned Enterprises (SOEs). Unfortunately, these entities have often been less productive than their private sector counterparts (PWC, 2012:11). They have also not been immune to the phenomena bedeviling governments like the 2008 global financial crisis, corruption scandals, waste of resources and bankruptcy (PWC, 2012:11).

Public sector organisations can therefore no longer be complacent and/ or abdicate their responsibilities. Halachmi (2005:503) agrees that the developments observed in the public sector call for more comprehensive performance measurement and reporting.

### 1.3.2 South African (SA) public service monitoring and evaluation (M&E) practices

#### 1.3.2.1 SA Government

In response to various global developments and associated demands discussed in this study, the South African government begun a steady transition towards the “outcomes” or “results based” approach which sought to institutionalize “Government-Wide Monitoring and Evaluation System” (GWMES) (The Presidency, 2011:12).

The GWMES is a mechanism for assembling and reporting information to stakeholders on the performance of programmes of government departments and other public bodies (The Presidency, 2007:1).

The Presidency (2007:11-12) identifies outcomes as the central elements of the new government approach. The Presidency (2007:15) established a number of mechanisms through which to ensure the rollout of the system. These include signing of performance agreements between:

- The President and each Minister.
- The Ministers and the Directors General (DG).
- The President and the Premiers.
- The Premier and Provincial Members of Executive (MECs).
- MECs and Head of Departments (HODs)

However Cloete (2009:22) had reservations with the approach arguing that the measures and targets are too broad with too many indicators, lacks focus on measuring the very outcomes it purports to prioritise, and has quarterly reports focusing exclusively on progress on activities rather than deliverables and thus is difficult to enforce.

#### 1.3.2.2 Public Enterprises Performance Evaluation

"A public enterprise is a juristic person under the ownership control of the national/ provincial executive; b) has been assigned financial and operational authority to carry on a business activity; c) as its principal business, provides goods or services in accordance with ordinary business principles; and d) is financed fully or substantially from sources other than-- i) the national revenue fund; or ii) by way of a tax, levy or other statutory money" (National Treasury, 2000:46).

According to PWC (2012:11) despite the clear rationale for the establishment of the SOEs and the few examples of well-performing SOEs, not many SOEs are well-run. There are a number of reasons given for this and chief among those is the lack of state capacity to monitor implementation and compliance to the legislation, misalignment of regulations, and corruption (PWC, 2012:11). The setting of performance indicators and measuring the performance of SOEs by the applicable line departments are often unclear, uncoordinated and vague (PWC, 2012:11). Capacity to monitor performance is more often than not lacking in the line departments (PWC, 2012:11).

The Presidency (2012:16) adds that SOEs, like any other public sector organisations are subject to tracking a large number of KPIs.

##### *1.3.2.2.1 Shareholders Compact*

According to the National Treasury (2000:36) the shareholder’s compact is the central measurement tool which represents an agreement between Executive Authority as the majority shareholder and the Accounting Authority of the public entity, with respect to performance expectations and parameters.

The challenge with Shareholders compact though as PWC (2012:11) asserts, is that it is not and cannot be programme-specific, but broadly covers the business of the entire entity. It is therefore difficult to detect and address deviations quicker using shareholders compact, especially at a programme or project level.

### 1.3.3 Balanced Scorecard

Niven (2003:10) indicates that large number of organisations are turning to the BSC to measure and manage intangible assets. The BSC was invented by the Nolan Norton Institute in the early 1990s (Wongrassamee *et al*., 2003:18). The tool has also attracted the attention of the public sector. Northcott and Taulapapa (2012:168) confirmed BSC’s usefulness in the public sector due to its multi-dimensionality in capturing the non-financial aspects of performance and its propensity to identify a limited number of key performance indicators (KPIs) that provide a clear focus for achieving organisational strategy, in spite of a complex operating environment. According to Niven (2008:21) public sector organisations often have broad and vague objectives, a tendency to focus on “easy to measure” but often irrelevant indicators and a short-term orientation that is usually fuelled by political expediency. Not surprisingly, government organisations often experience problems in defining their strategies (Kaplan and Norton, 2001:97–98).

According to Kaplan and Norton (1996:55) the BSC provides executives with a comprehensive framework that can translate a company's vision or strategy into a coherent and linked set of performance measures. Inamdar (2002:179) explains that the scorecard balances the outcomes the organisation wants to achieve (typically in the financial and customer perspectives) and the drivers of those outcomes (typically in the internal process and learning and growth perspectives). Another key feature of the framework is the cause and effect relationship between the drivers and desired outcomes.

According to Kaplan and Norton (1992:72) the BSC has four perspectives, where each perspective poses a question, the answer to which is a goal that is translated into a performance measure.

The four perspectives and questions are:

- Financial (How do we look to our shareholders?)
- Customer (How do customers see us?)
- Internal business (What must we excel at?)
- Innovation and learning perspectives (Can we continue to improve and create value?)

#### 1.3.3.1 Arguments against the BSC

Paranjape *et al*. (2006:5) caution of many practical difficulties and the high rate of failure associated with BSC implementation. Northcott and Taulapapa (2012:167) argue that researchers like Arnaboldi and Lapsley (2004) and Pidd (2005) among others, have expressed reservations about the efficacy of transplanting management tools like the BSC into complex public sector context.

Salem *et al*. (2012:6) add that the BSC encourages the focus on internal aspects and thus fails to evaluate the significant changes in external conditions. According to Salem *et al*. (2012:6) the advantage of checking "few" measures become a disadvantage when incorrect measures are selected.

#### 1.3.3.2 Adapting the BSC for the Public Sector

Kaplan and Norton (2001:361) recognised that the BSC for public sector organizations would not necessarily mirror that of the private companies. According to Kaplan and Norton (2001:362) government organizations would rarely place the financial perspective at the top of the hierarchy primarily because for them, the value creation process targeted public sector customers and taxpayers and fiduciary outcomes. An adapted public sector BSC framework developed by Niven (2003:32) and also used by Julyan (2011:161) was chosen because it is the most recent.

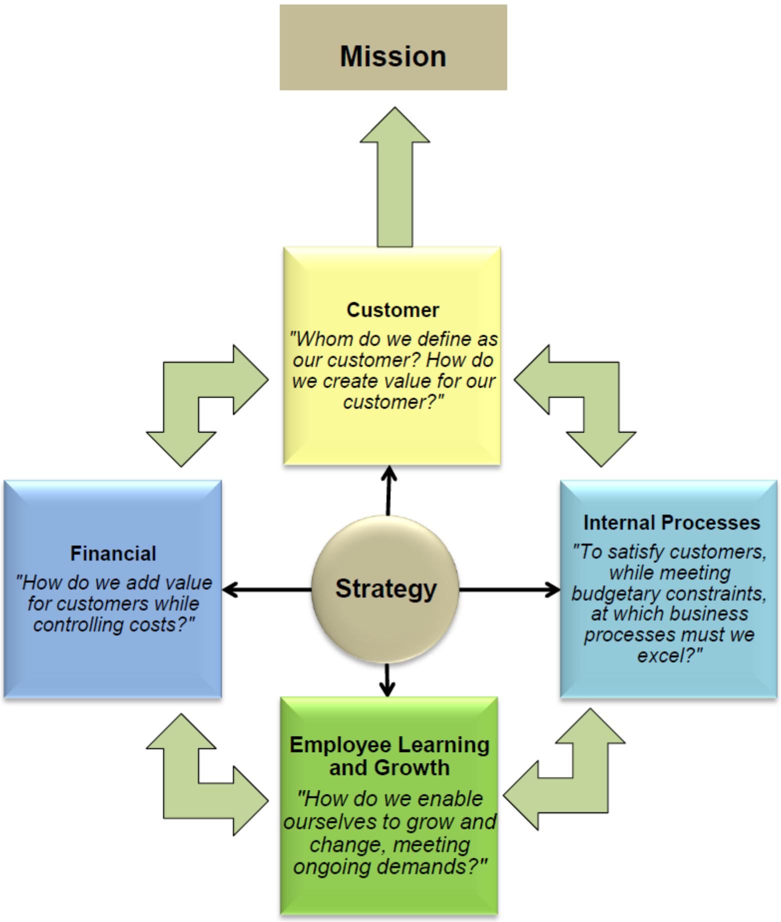


Figure 1.1 BSC framework for the public and non-profit sectors.

Source: Julyan (2011:164) adapted from Niven (2003:32).

The figure above illustrates that the mission of the public entity which is predominantly customer perspective driven should be at the top of the BSC, because that is typically the core aspiration that the entity is striving towards.

### 1.3.3.3 Public Sector BSC Perspectives

Based on the discussion above, this subsection describes the various perspectives making up the scorecard including the specific non-traditional equity perspective that was incorporated into this study.

##### *1.3.3.3.1 Customer Perspective*

Niven (2003:33-34) asserts that in the public sector, both the legislative body providing finance and the groups that are to be served are logical choices when identifying the customer. Niven (2008:30) argues that for the BSC implementation to succeed, all role players must know who they serve, what their requirements are and how such requirements can be best met.

##### *1.3.3.3.2 Financial Perspective*

Kaplan and Norton (2001:354) state that whereas the financial perspective provides a long-term objective in the private sector, it can be a constraint or an enabler in the public sector. According to Niven (2008:32) no organization can operate without financial resources and that financial control measures are consistent with the quality service delivery and achieving the mission.

##### *1.3.3.3.3 Internal Processes Perspective*

In developing this perspective, Julyan (2011:166) argues that the key internal processes at which the entity must excel in order to drive value for the customers must be determined. According to Niven (2003:35) the selected processes usually flow directly from the objectives and measures of the customer perspective and would be working towards the mission of the entity.

##### *1.3.3.3.4 Employee Learning and Growth Perspective*

The organisational structure and the skills, dedication and alignment of the staff are the main drivers of process improvements, operating in a fiscally responsible manner and meeting the needs of customer groups (Niven, 2003:35-36). The Centre for Corporate Governance in Africa (2012:17) adds that governments should continually invest for the future but are known to underfund the maintenance of capital, labour and processes, all of which are elements that continually need to be updated and upgraded.

##### *1.3.3.3.5 Equity Perspective*

A good performance measurement system will help officials demonstrate to the public and policy makers that services are delivered equitably and justly, thus building trust in the programme (Hatry, 2006:32). Any valid performance measurement system in the public sector will therefore seek to disaggregate the measures and outcome data by the features of the citizens targeted or affected.

Unfortunately, these indicators are often disregarded and missed for one or the other reason. The Presidency (2012:18) reveals that despite the transformation progress that has been made, the overall transformation targets of government continue to be missed.

#### 1.3.3.4 Strategy Mapping

While it is usually argued that "'you cannot manage what you cannot measure', it is equally true that "you cannot measure what you cannot describe" (Kaplan and Norton, 2006:xiii). According to Irwin (2002:642) the aim of strategy mapping is to show how a range of potentially disparate activities link together to enable an organisation to achieve its vision. Caudle (2008:4) views strategy mapping as an attempt to make explicit the cause-and-effect links by which initiatives and resources tangible and intangible create outcomes at the top of the scorecard. "The strategy map can be adjusted or updated as the need arises, bearing in mind that the aim is to keep it simple, but accurate" (Nair, 2004:26).

#### 1.3.3.5 BSC use in the Public Sector

According to Gomes and Liddle (2009:356) public sector organizations have increased their use of performance indicators as a tool for monitoring, managing and measuring performance, with the BSC being widely adopted by the various public enterprises around the world. Despite this, there is little empirical evidence reported in the literature of the application of the BSC (Gomes and Liddle, 2009:356). Clearly there is a disjuncture between the use of BSC in the public sector and the empirical literature supporting or proving the usefulness and success of the tool, particularly in developing countries.

More telling is the fact that, despite public enterprises having been key catalysts of growth in countries like China (The Presidency, 2013:5), there is even less empirical evidence reported in the literature suggesting that a tool as comprehensive as the BSC has been used by government to monitor public enterprises performance (Gomes and Liddle, 2009:357).

## 1.4 Goals of the research

The study seeks to establish what a BSC framework that can be used to monitor the activities of an agency by government department, could look like. This will be achieved by applying the BSC model to develop a scorecard that can be used to monitor the Imvaba Unit in its administration of the Imvaba Fund. The following objectives have been identified:

- To describe the key objectives and measures and classify them according to the amended BSC framework.
- To develop a public agency scorecard based on the amended BSC framework.
- To make recommendations regarding the use of the BSC to monitor a public sector agency.

## 1.5 Research Method

A qualitative case study research method was chosen as the study sought to discover "new" information, meaning and perceptions.

The researcher received permission from the Rhodes Business School and the DEDEAT Head of Department to conduct the research and these are attached as Annexures A and B.

### 1.5.1 Data Collection

Semi-structured in-depth interviews and document analysis were the primary and secondary instruments used to collect the data respectively. The interview schedule is attached as Annexure D. These instruments were chosen because the research method is qualitative and they allow the researcher to explore and probe issues without undue restriction.

In essence, six officials and two co-operatives participated in the research and were interviewed during July-August 2014. The Senior Manager: DEDEAT is responsible for co-operatives strategy development and oversees the implementation of the programme on behalf of the department. Issues of alignment, customer requirements, budget allocation and equity among others are addressed at this manager's level. The fund manager deals with the same activities listed above but is also responsible for managing programme implementation and ensuring that set objectives are attained. The staff contribute by advising the programme managers about contemporary programme threats, inefficiencies and opportunities. This include advising on key processes like application process and forms, rendering after-care support and addressing co-operatives challenges. These are captured under the customer and internal business processes perspectives. The interviewees from co-operatives responded specifically to the customer perspective questions even though they had opinions on the financial, staffing and equity issues.

A letter of consent was sent to all the participants and is attached as Annexure C. All interviews were digitally recorded and summaries were transcribed.

The researcher also requested and received relevant documents and these included the Cooperative Act 2005 of RSA; the 2004 Co-operative Development Policy for South Africa; the Eastern Cape Co-operatives Strategy; ECDC annual plans and quarterly reports; the 2012 ECDC Imvaba Fund Policy and Procedures; the Imvaba Fund Service Level Agreement; Imvaba Application Forms and Guidelines and a mock contract formulated between the ECDC and Co-operatives.

### 1.5.2 Data Analysis

In line with the interpretative approach adopted, the researcher tried to establish how participants make meaning of the specific phenomenon by analyzing perceptions, attitudes, understanding, knowledge, values, feelings and experiences in an attempt to approximate their construction of the phenomenon (Creswell *et al*., 2007:99). As indicated, a deductive approach has informed this research and so theory has provided a framework for the analysis of the data (Gray, 2004:124). In particular, the five perspectives of the BSC were used as categories to provide the framework for the analysis of the interview recordings and all the relevant documents acquired.

### 1.5.3 Framework for Analysis

The literature reviewed distinguished between the private and public sector performance measurement and made reference to the challenges inherent in monitoring the performance in the public sector. The main distinguishing factors include a shift of focus from the purely financial perspective to the mission and customer perspective, as well as the complex nature of government strategies that often result in difficulties in selecting critical indicators. Based on this, researchers and practitioners agree that the simple transposition of private sector performance models do not readily fit within a public sector (Kaplan and Norton, 2001:360-367 and Niven, 2003:32).

It is to be expected therefore that developing and adopting a BSC for an agency comprising a variety of complex and sometimes competing needs and interests will be challenging. However the ability of the BSC to compel managers to select and measure only the indicators which lead to improved customer outcomes (Bigliardi *et al*., 2011:4) helps to navigate these complexities. In this regard, the researcher requested the respondents to select only those indicators that would lead to customer value creation and also not only supply the list of these indicators but rate them in the order of priority. The full list of all the indicators identified by the respondents is not included in this thesis. The researcher only included those that were ranked the highest and these form part of the scorecard.

The causal effect between the BSC perspectives also came out both in the literature and the findings with each perspective deemed to be related to the other three (Kaplan and Norton, 1996:8). This analysis will also seek to identify and demonstrate the causal effect between the indicators of the agency scorecard.

It is important to highlight upfront that the research seeks to achieve the main objective of the study by developing the key performance indicators for the strategic objectives of each of the five perspectives. The study steers away from prescribing “appropriate” initiatives and targets to achieve these objectives. This is primarily because, typical of a public sector environment, there are various stakeholders involved with varying interests, who-through their engagement of one another - have to come to an agreement on these matters. As a result, consensus on targets was not possible to achieve in the scope of this study. Bigliardi *et al*. (2011:7) agree that in a public administration, changes require more time, due to the fact that there is not a single entity who can take a decision. Also, this study is not an end in itself but seeks to initiate a discussion on this subject that will provide a framework that will drive the agency towards the completion of a final scorecard.

## 1.6 Findings, Discussion and Recommendations

This sub-section will present the results of the interviews conducted and documents reviewed, discuss the findings, make management recommendations, and in so doing address the following objectives of the research:

- Describe the key objectives and measures and classify them according to the amended BSC framework.
- Develop a public agency scorecard based on the amended BSC framework.
- Make recommendations regarding the use of the BSC to monitor the performance of a public agency.

### 1.6.1 Findings

The findings are presented in a table format (scorecard) and are followed by explanatory notes that seek to address the contextual issues that arose. In other words, the explanatory notes will address two major questions, namely, which indicators are included and why?

#### 1.6.1.1 Public Agency Scorecard

Table 1.1 The Agency Scorecard

**MISSION**

**Building vibrant and independent co-operative sector in the EC province with co-operatives becoming a significant component of the province’s economic structure.**

| **Perspective** | **Strategic Objective** | **Indicators** | **Metrics definition** |
|---|---|---|---|
| **Customer Perspective** | Access to Market | ○ Products sold | total sales overtime |
| | Mentoring, Incubation and Training | ○ Capacity to produce quality produce and generate proper reports | % out of the total funded overtime |
| | Funding | ○ Capacity to produce quality produce at massive scale | % out of the total funded overtime |
| | Stakeholder relationship/ customer satisfaction | ○ Provincial reach | % per region out of the total funded overtime |
| | | ○ Turnaround times | Cycle time (days waiting for feedback) overtime |
| | | | customer satisfaction levels (survey) with turnaround times overtime |
| | | ○ Financial support | % funded out of the total applications overtime |
| **Financial Perspective** | To ensure proper financial management of the fund. | ○ Cost containment | Sum of deviation in spending against the budget overtime |
| | | | Variable costs of the activities against the number of beneficiaries. |
| | | ○ Allocation and utilization of resources | In line with SLA and other applicable prescript. |

| | | | |
|---|---|---|---|
| | | ○ Programme financial efficiency | % of total expenses spent directly to co-operatives |
| | | | Programme expenses growth overtime |
| | | | Programme output index (output versus expenses) overtime |
| | | | Productivity rate (outputs divided by inputs) overtime |
| **Internal Business Processes** | To drive value for the customers | ○ Management and operations processes | Total number of policies, plans and reports developed and/or implemented and/or reviewed overtime |
| | | | Total number of administrative procedures developed/implemented/reviewed overtime |
| | | | Total number of technical procedures developed/implemented/reviewed overtime |
| | | ○ Stakeholder consultation processes | Number and frequency of communiques over time |
| | | | Relevance of channels used |
| | | | Stakeholder satisfaction levels with access to information |
| | | ○ Partnerships formed with learning institutions and other relevant government agencies. | Number of agreements |
| | | ○ Capacity to manage finances and cash flow developed | Profile of the trainers |
| | | | Number of hours per co-operative member in financial training |

| | | | |
|---|---|---|---|
| | | | Quality of reports in line with shareholders compact and the contract between the agency and respective co-operatives |
| | | | Co-operatives success rate |
| | | ○ Cycle time in working days from period-end closure to the distribution of routine financial reports to the line (overseeing) department. | Submission of financial reports in line with government financial cycle |
| | | ○ Time and reports accounted for on site visits | Hours spent with customers |
| | | | Number of reports over time |
| | | | Quality of reports in line with the report requirements of the shareholders compact and PFMA |
| | | | Stakeholder satisfaction with aftercare (survey) |
| **Employee Growth and Learning** | Capable workforce that is in continuous learning mode | ○ Skills audit and key competencies matrix | Audit conducted and matrix developed |
| | | | Alignment to organisation/ unit mission |
| | | | Clear and appropriate competency profiles |
| | | | Clear and appropriate training needs assessment report |
| | | ○ Employees trained, with right experience and attitude | Number of hours per employee in training |
| | | | % of employees with relevant qualifications |
| | | | % of employees with relevant experience |
| | | | % of employees who have developed technical competences overtime. |

| | | | |
|---|---|---|---|
| | | | % of employees who developed strategic competences overtime |
| | | | % of employees promoted overtime |
| | | | Employee satisfaction levels overtime |
| | | | Organisational performance overtime |
| | | | Employee turnover overtime |
| | | ○ Proposals for new techniques and methodologies for programme implementation. | Number of proposals developed overtime |
| | | ○ Personal development plans | % in progress out of the total employees overtime |
| | | | % completed out of the total employees overtime |
| | | | % implemented out of the total employees overtime |
| **Equity Perspective** | Ensure that this service is delivered justly within the context of SA's history | ○ Operated and/or managed and/or owned by women. | % out of the total funded |
| | | ○ Operated and/or managed and/or owned by people with disability. | % out of the total funded |
| | | ○ Operated and/or managed and/or owned by youth | % out of the total funded |
| | | ○ Operated and/or managed and/or owned by people from rural communities. | % out of the total funded |

Source: The scorecard is based on the field work (interviews and documents analysed)

#### 1.6.1.2 Scorecard Notes

These notes are organized according to the five perspectives contained in the scorecard. Firstly, from the Customer Perspective, the literature reviewed indicated that under the customer perspective, the public sector entity must state its target market and how the needs of the customer can be best met (Julyan, 2011:164).

The key strategic objectives of the programme under the customer perspective were identified both in the Eastern Cape Socio-economic Consultative Council (ECSECC) baseline study report of 2008 and confirmed by the stakeholders as: access to market, provision of mentorship and training, access to production material and assets, and financial support. The stakeholders also added incubation and building stakeholder relationships as other critical strategic objectives for the implementing agency. The study which was commissioned by the DEDEAT sought to help the Department and various role players to understand co-operatives better, as well as the types of support that may have desired impact on co-operatives (ECSECC, 2008:10).

Based on the study and the experiences of the stakeholders, the indicators that were identified as critical in addressing customer needs are: the number of co-operative products sold, capacity to produce quality products and generate proper reports, equitable access to the fund by the co-operatives throughout the province and rapid turnaround times on the services provided by the agency to the co-operatives. An additional indicator demanded by the DEDEAT and Co-operatives is the number of co-operatives funded.

An observation made is that whilst all stakeholders have some level of understanding of the Imvaba Fund's customer's needs, the degree of understanding varies between various levels within and between the interviewed stakeholder organisations. For example, lower level employees within the Imvaba Unit had difficulties articulating the customer challenges and as such were limited in their contribution to the development of the indicators. Also, whilst the co-operatives articulate their challenges clearly, they struggled to provide indicators for some objectives, such as access to markets and mentoring. Consequently, the indicators in this perspective are largely influenced by the Imvaba Unit's middle to senior management and DEDEAT staff.

The issue of output versus outcome measures for the customer perspective was raised by Imvaba Unit employees. “Government is still fond of numbers as measurements, primarily because they are easy to measure, but we hold the view that outcomes are the key measures of success and we would like to steadily move towards this path” said the fund manager. He also added that the agency is happy with the introduction of the new outcomes based monitoring framework, GWMES. According to the City of Johannesburg (2012:12) the GWMES is adopted and used as the mechanism to ensure the rollout and delivery of government objectives on a national scale.

The second perspective to be examined is the Financial Perspective. The interviews conducted confirm Kaplan and Norton’s (2001:354) view that, for the public administration the financial outlook is no longer considered to be the primary aim, rather it is a means to achieve customer satisfaction. This means that the financial resources are an important enabler to achieve customer goals and all those entrusted with public finances are required to demonstrate fiscal prudence and accountability.

The stakeholders, led by DEDEAT advocated for indicators that would ensure cost containment, proper financial resource allocation and utilization, and financial efficiency of the programme. In this regard, there was an acknowledgement that there are financial practices in place including the Public Finance Management Act (PMFA) and the shareholders compact that provide for a number of checks and balances at various levels. Whilst these were in place, there was a concern that the reports that were provided as required by these regulations, were of poor quality. “Legally, we cannot keep on funding a programme if there is no adequate reporting on how the public money is used” stated a DEDEAT Manager. In terms of the quality and verification of performance information, the Auditor General often found that although the SOEs supplied the performance information including financial performance, it was not of an acceptable quality (Centre for Corporate Governance in Africa, 2012:17). Consequently, these indicators were included primarily because the stakeholders - including the agency staff - felt that for different reasons, the information supplied was often of poor quality.

The opinion therefore is that these measures will highlight the importance of these indicators and thus encourage the agency to pay special attention to them. The idea is that the agency must use the allocated budget to deliver on set objectives and put measures in place to avoid wastage. A case in point is that whilst DEDEAT expects the implementing agency to build administrative costs and charge those from the fund, the agency is required to spend 89% of the funds allocated on the programme's core business, namely, funding the critical operations of the programme.

Thirdly, from the Internal Business Processes Perspective, Kaplan and Norton (1996:62-63) assert that only the processes that would lead to improved outcomes for customers should be selected and measured and that these usually flow from the objectives and measures of the customer perspective (Niven, 2003:35).

The internal business processes are divided into management and operations processes. The view of the DEDEAT and Co-operatives is that there are many processes developed that do not necessarily add much value, primarily because there is not enough consultation. "As the funding department we expect to be consulted on the key practices employed to run the programme. For example, from where I stand the application forms can be made simpler and shorter" said DEDEAT manager. One of the key components of the BSC is strategy communication and this encompasses consultation. Consultation in this context would address the concerns of the DEDEAT manager and general stakeholder differences witnessed during the field work. Niven (2008:19) indicates that the BSC's communication element leads to more informed decision making that will be in tune with those who the actions will affect. It also provides an opportunity to explain to the stakeholders why certain decisions that they may not agree with are taken. The result of such consultation is a greater satisfaction with and ownership of the final product or outcome.

As an example, the funder and the co-operatives advocated for measures to streamline the current application process to circumvent unnecessary paperwork and curtail turnaround times. Their view is that this is the most critical performance area that directly influences the performance of the programme and thus customer satisfaction. "The time taken for the funding decision to be made ranges from three to six months if you are lucky, and such delays are costly", said one co-operative representative from Nelson Mandela Bay. "What is more concerning is that even when the funding is awarded, the agency takes forever to release the portions required to pay for material or other operations [costs]" said another respondent from a co-operative from Buffalo City Metropolitan Municipality. To ensure that this challenge is addressed permanently, the department and the co-operatives called for an indicator to measure the frequency of developing and reviewing processes.

The general challenge of poor reporting by public agencies briefly presented under financial perspective, is even greater with co-operatives reports. “We struggle to submit credible reports on time to the funding department because we have to wait for reports from the co-operatives but these are often not forthcoming, and when they do come they are usually of very poor quality” said the Fund Manager. This affects the reporting by the agency to the funding department and other legislative arms tasked with overseeing its activities. “We therefore need to agree that a long term solution to this problem is the training of co-operatives on basic financial and bookkeeping skills” added the Fund Manager. It is based on this that indicators to measure co-operative’s basic financial and bookkeeping skills are viewed as key to the success of the programme.

The stakeholders also raised the critical issue of monitoring co-operatives activities and progress after the funding, saying that indicators to measure whether and how often the funded co-operative’s activities are monitored are crucial. This is triggered by the realisation that whilst many co-operatives have already received funding from the agency, very few are operational and even more disconcerting was a DEDEAT respondent’s view that “the agency does not know the status of some co-operatives funded through the Imvaba Fund”. Capacity in terms of finances, the number of employees, along with their level of skills are identified as the main causes of this challenge but these are addressed in other perspectives of the scorecard, giving effect to the cause and effect relationship of the BSC.

The forth perspective to be discussed is the Employee Growth and Learning. The major function of this perspective is to construct a complete set of core techniques and abilities to promote the previous three perspectives (Chen, 2006:200).

All three sets of stakeholders agreed that building the agency’s staff capacity is indeed critical and a foundation for every other function of the agency. They confirmed that only the capable workforce can lead to the ultimate aim of a vibrant co-operative sector in the province. “The quality of support provided to the co-operatives is inextricably linked to the calibre of the workforce assembled by the agency" said the Fund Manager.

Various measures including the development of the mission aligned competency profiles, training needs analysis report were identified as key indicators for this perspective. Other measures were hours spent on training, the number of employees who have the relevant qualifications and experience, technical and strategic competencies. "These should all translate to internal employee growth and improved programme performance", commented the DEDEAT Manager, who went on to state that an "Innovative workforce is also key to achieving the objectives of the organization especially when working in a programme as unique as co-operative development". According to the DEDEAT Manager such innovation would be demonstrated through the number and frequency of proposals for new techniques and methodologies related to programme implementation.

The general view was that having the right skills, experiences and attitude is fundamental to organizational performance. Based on this, there was a general agreement that acquiring vision and mission linked skills and competencies should be prioritised.

"I am saying if we are to attract, keep and develop skills we simply need to invest in them, put more money and create a stable labour environment" said the fund manager. Whilst DEDEAT respondent agreed in principle with the notion that investing in skills is key, he cautions against investing in personnel who do not have the relevant educational background and the right attitude.

The fifth and very important measure and outcome for a public sector programme as Hatry (2006:31) attests and especially within the South African context is the equity perspective.

The general indicators identified by the DEDEAT Manager and Co-operatives are related to the participation of women, youth and people with disabilities in the programme. The Department and the unit also identified rural participation as another critical indicator to the success of the programme whilst acknowledging that this indicator has been somewhat neglected. The disbursement report to date confirms this, as the majority of the beneficiaries are coming from the urban areas and mainly from the two provincial metropolitan municipalities. The provincial co-operatives strategy also identifies these four as key indicators that must be used to measure co-operative programme performance.

The fund manager said it is generally difficult to prescribe to the community what the demographic make-up of their co-operatives should be. “What we would prefer to do for example is to communicate the performance of women led co-operatives as they are generally doing well, otherwise you can’t dictate the co-operative make up to the community” said the Fund Manager.

There is however an appreciation from all the respondents that the “designated groups must be catered for as this forms part of the developmental agenda of the country” observed a DEDEAT respondent. The implementing agency staff also acknowledged that the Provincial Co-operatives Strategy requires of them to respond to the challenge of promoting these groups, including prioritising rural communities.

### 1.6.2 Discussion

The stakeholders presented numerous indicators that they believe are important and as recommended by the literature, stakeholders were requested to identify only those that will lead to customer value creation and rank them in their order of importance. Northcott and Taulapapa (2012:168) confirm that the BSC allows for identification of a limited number of KPIs that provide clear focus for achieving the organisational strategy in spite of a complex operating environment. Kaplan and Norton (2001:97-98) made reference to the complexity of strategy development in the public sector and how they often struggle to narrow down their key performance objectives. This sub-section is organized in the same manner as the explanatory notes, which is according to the five perspectives contained in the scorecard.

Firstly, from the customer perspective the documents analysed, along with the interviews conducted, confirm that the customer perspective and thus the mission of the programme is indeed the main goal the programme seeks to achieve and not the financial objectives that are usually pursued by the profit organization. Kaplan and Norton (2001:361) confirm that public sector agencies operate as mission-based organizations. They prioritise the mission which is predominantly focusing on customer requirements because that is the core aspiration that the entity is striving towards.

Even though the respondents identified their customers as paramount in their organization, it became apparent that the current workplace culture and attitude was not in tandem with this view. The findings demonstrate that some of the staff, particularly the lower level employees are not clear on what their customer's needs are. Niven (2008:30) agrees that for the BSC implementation to succeed, all role players must know who they serve, what their requirements are and how such requirements can be best met. Niven (2003:38-39) further argues that the BSC can also address the misalignment between the strategy that top management believe is being executed and the actions being performed at lower levels in the organization.

The scorecard therefore is a quick reference that allows the agency's staff and the line department to have common understanding of their customers and their requirements. This mutual understanding helps the agency to deliver customer value, whilst also allowing the line department to easily detect poor service delivery.

The measures under the customer perspective are predominantly outcomes based and interestingly DEDEAT still insist on numbers (outputs) as the primary indicators of performance. The predominant use of outputs by DEDEAT is especially concerning if one considers the fact that the country adopted the outcome based GWMES in 2010. Clearly, the framework is yet to take effect on the ground and this confirms Cloete's (2009:22) criticism that the framework is too broad, lacks focus and thus difficult to enforce.

Also, the measures about the cycle times and customer satisfaction index help the line department to independently monitor the performance of its agency with relative ease.

The second perspective discussed is the financial perspective. Any scorecard for an agency funded through the public purse must have clear and measurable indicators that give unambiguous account on how the funds are used and whether the value for money is realised on not. Marr and Creelman (2011:5) highlighted the importance of value for money, particularly in the current era of financial constraints in the public sector, so there is definitely value in managing costs and ensuring prudence when employing public resources. Stakeholders demand responsible and efficient resource utilization as the needs grow against the shrinking fiscus (Bester, 2007:1). The line department must be able to tell whether the funds are used according to the plans and whether value for money is derived.

An important message coming out of the findings under the financial perspective is the emphasis put on financial prudence and accountability by the stakeholders. This confirms Niven's (2008:32) submission that financial control measures are not inconsistent with good service delivery and achieving the mission. The opposite is in fact true in that when services are performed at least cost, or with great efficiency, the agency will likely attract more attention and warrant even greater investment from the funders (Niven, 2008:32). This point explains an observation made from the field work that the challenges with funding are linked partly to the perception of the line department that there is lack of accountability from the agency's side. This scorecard helps to demystify the ambiguity around financial measures and therefore eliminates uncertainty around funding public agencies.

Internal business processes perspective is the third perspective to be discussed. The literature and interviews conducted confirm that only effective, efficient and economical processes and systems will lead to good financial management and customer value addition. One key process highlighted by all stakeholders is the fund application process, which is used to identify those co-operatives with greater potential. "While all organisations will have documented processes, only the processes that could lead to improved outcomes for customers should be selected and measured for the BSC" (Kaplan and Norton, 1996:62-63). Niven (2003:35) adds that the processes chosen would usually flow directly from the objectives and measures of the customer perspective and would be working towards the mission of the entity.

The agencies often have capacity shortfalls (PWC, 2012:11) and partnership with other institutions usually augment their efforts to meet customer requirements. The demand by the DEDEAT Manager that the agency be measured on partnerships formed is not unique to the case study agency. Government demands that its agencies be able to mobilise resources from various sources including international institutions to drive service delivery (The Presidency, 2012:1). The primary objective is to tap into the resources of these institutions including funding, skills and the general infrastructure. Whilst this was done as an auxiliary responsibility within the case study agency, the development of this scorecard will assists both the agencies and the principals to share the thinking around this activity. However, the expectation is now clear, that the service level agreements with "compatible institutions" will demonstrate performance in this objective.

Marr (2008:5) claims that only 15% of government officials feel that all their indicators are linked to the strategy of the organization. To address the challenge of numerous and sometimes irrelevant indicators prevalent in the public sector organisation's processes, this scorecard included only those process indicators that are linked to the customer objectives and thus the mission. For example, manuals are linked to application and adjudication processes, consultation process is linked to awareness, access, ownership/ partnership and improving application processes, partnerships are linked to the increase of resources and increasing capacity and reports will ensure customer aftercare.

The forth perspective discussed is the Employee Growth and Learning and according to Niven (2008:37) employees and the organizational infrastructure represent the thread that weaves through the rest of the BSC. The measures listed under the learning and growth perspective like hours spent on relevant training, acquired relevant qualifications, skills and experiences are the leading indicators that will help the unit manage processes innovatively, use resources efficiently, meet customer requirements and thus realize the mission of the agency.

The question of the turnaround times on processes and inequitable distribution of the fund that was discussed under the customer perspective is directly linked to the question of capacity and the will of the unit to provide the required support. Niven (2003:37) claims that capacity building is especially important for the mission-based organizations as they rely heavily on the skills, dedication, and alignment of their staff to achieve their socially important goals.

The principal-agent problem as explained by Ortmann and King (2007:54) is likely to be playing a role in the "dispute" over investments related to the employee growth and learning perspective. According to The Presidency (2012:1) an SOE/ Public Entity is, by definition, run by managers who do not own the organization. That is, given the self-seeking nature of humans, no SOE manager will run the entity as efficiently as an owner-manager would run his own firm. However, the literature also reveals that governments in general and those in Africa in particular, have a tendency to limit funding to the underlying infrastructure and somewhat unrealistically, hope that objectives will still be achieved. The Centre for Corporate Governance in Africa (2012:17) indicates that governments are notorious for underfunding the maintenance of capital. With this conundrum, the BSC can be very useful in curtailing the principal-agent problem as the indicators are inherently simple, aligned, few in number and easy to measure, making expectations clear and amenable.

The fifth and last perspective to be discussed is the Equity Perspective. Whilst the stakeholders appreciate the importance of addressing equity issues when implementing this programme, none of them seem enthusiastic about setting the targets (except for women co-operatives). The Presidency (2012:18) reveals that despite the transformation progress that has been made, the overall transformation targets of government continue to be missed. “There are a number of reasons given for missing the targets including, inter alia, legislation that is not enforceable, lack of state capacity to monitor compliance to the legislation, legislation that did not provide for penalties in the event of non-compliance, misalignment of regulations, and corruption” (The Presidency, 2012:18). Once again fewer and more focused indicators of the BSC make it easy to objectively measure performance. The BSC also addresses issues like capacity building and alignment through the cause and effect relationship that is inherent in the scorecard.

The equity perspective is critical in South Africa as government strives to achieve the vision of an adaptive economy characterised by growth, employment and equity. Hatry (2006:31) confirms that equity is a crucial measure and outcome for public sector programmes that is often neglected in performance measurement.

One difficulty observed from both the agency and the department around this equity perspective is the fear of getting hamstrung by the equity targets and not meeting the “main” Imvaba co-operatives fund targets. This is generally the case amongst many managers, as they view this as “hindrance” to performance and thus their individual performance. However, Hatry (2006:32) asserts that a good public sector performance measurement system should help officials demonstrate to the public and policy makers that services are delivered justly, thus building trust in the programme. The public agency scorecard therefore comprises measures that seek to evaluate the extent to which the designated groups participate in government programmes.

### 1.6.3 Recommendations

The scorecard for monitoring the development finance agencies should always view meeting customer requirements and by implication, mission of the programme, as the first prize, but should do so in a financially responsible and efficient manner. Niven (2008:32) confirms that the reason for putting the customer perspective at the top, is that anything and everything done regarding financials, processes and employees is there to support customers.

The customer perspective is enabled by financial and lead (processes and employees) indicators. These lead indicators like process mapping and management and skills development, force the overseeing departments to abandon the short term measures that usually come with political expediency, and instead to focus on the performance drivers of future value, and what decisions and actions are necessary to achieve those outcomes. Niven (2008:21) argues that rather than linking incentives and rewards to the achievement of short-term financial targets, the public sector programme - through the BSC - now have the opportunity to tie rewards directly to the areas in which they can exert influence.

Generally, public agencies seem to be at odds with the funding departments over the amount of funding to advance for a variety of reasons, chief among these is financial reporting and transparency. This has also been observed in the case study. The lesson therefore for the agencies is that beyond the fact that strong financial measures are consistent with the good service delivery, they in turn attract more support (financial or otherwise) from various institutions including principal departments. Therefore the agencies need to take deliberate steps to demonstrate transparency in this regard and a willingness to be accountable through the BSC indicators.

#### 1.6.3.1 Specific recommendations

Firstly, there needs to be further engagements between relevant stakeholders, including the employees of the agency, on the strategy and this scorecard. This is especially so if one considers that by its nature the public sector has multiplicity of stakeholders with various and often competing needs and interests. The purpose of such engagements will be to create clarity and ensure focus on what is most important for successful execution of the strategy. Folan and Browne (2005:668) did confirm that the BSC is designed to enable communication and articulation of strategy at various levels. Kaplan and Norton (1996:56) also declare that the measures on the BSC are mainly used to express and communicate the strategy of the organisation and then to align individual, cross-departmental and organisational initiatives to achieve a common goal. This also addresses the concerns raised that there are discrepancies within and between stakeholder organizations in understanding the customer requirements. This is also important, considering the well documented complexity of public sector strategy planning process (Kaplan and Norton, 2001:360-367 and Niven, 2003:32).

The stakeholders can use the outcomes of the engagements recommended above to complete the work started in this thesis by refining the indicators and measures and thus strengthening the scorecard. The stakeholders should not try to figure out which measures to select and use to monitor public sector agencies, but should be asking what the co-operative strategy should be, and linking that to the value proposition and objectives. It is based on these that measures can be derived. Niven (2008:43) agrees that the strategy and objectives should not be built up from measures that already exist by moving from the detail (measures) to the big picture (strategy).

The scorecard must be made available to all the stakeholders as a quick point of reference for all interested parties including those who do not have a formal responsibility to monitor and measure the performance of these agencies. This once again addresses the difference in understanding the mission and the strategy employed by the government to attain the co-operatives development vision. Folan and Browne (2005:668) confirm that BSC's "translating the vision" step is concerned with clarifying and gaining consensus over a version of the firm's strategic vision that is operational upon all levels of the organisation (i.e. from the top level down to local level). This also helps the stakeholders to understand the objectives of the implementing agencies and empowers them to hold them to account (the principal agency problem is thus minimized).

The line departments must use the scorecard to monitor the agencies with the full support of and buy-in from all relevant stakeholders. The BSC protagonists are very clear that even the BSC will quickly become irrelevant and counterproductive if it is not periodically reviewed. Such review and continuous engagement is particularly beneficial for the public sector organisations as it also assists in addressing the inherent public sector challenge of varying interests. Bigliardi *et al*. (2011:7) claim that due to the fact that there is not a single entity who can take a decision in the public sector changes require more time to effect.

The literature also reveals that “mission based” organisations rely on skilled and dedicated employees more than any other organizations (Niven, 2003:37). The public sector organisations on the other hand, are accused of failing to invest in these critical enablers and this was also observed in this research. Based on this, line departments are advised to provide the necessary resources to capacitate the agencies, including their staff. Only adequately resourced organisations are able to perform and meet objectives.

The South African government is determined to address the imbalances of the past (The Presidency, 2012:9). The public sector organisations are expected to continue leading in this regard. The principal departments working with the agencies need to set and agree on targets to include designated groups. This should be given high importance when discussing the strategy and objectives of the agencies.

Overall, and based on its cause and effect demeanor, the scorecard will offer the overseeing departments and the implementing agencies clear and manageable, but simplified strategic objectives, better communication of strategic intent, improved resource allocation, mutual understanding of expectations and greater accountability, better decision making, and enhanced capability and readiness. This linkage of learning, process, financial and customer objectives must be central to implementation of the scorecard. The scorecard should also be the central organizing framework and system for creating focus and alignment within the agencies that are usually challenged by conflicting stakeholder needs. “SOEs, in particular, are subject to tracking a large number of KPIs and this arises because of government ownership or regulations” (The Presidency, 2012:16).

## 1.7 Conclusion

The study reveals some of the main challenges faced by public sector organizations in delivering the services to various stakeholders within the province, nationally and across the world. Whilst a shortage of resources in the midst of the ever increasing demands plays a part, it is clear that management of available resources through the application of appropriate management principles like performance monitoring, plays a major role.

It is based on this that the study holds the view that conventional and compliance based performance management measures can no longer be sufficient. It is only those measures that are designed to directly address these and other unique complexities discussed in this study that can add value and help these government organizations to respond adequately to public demands.

Specifically, this evaluative report focused on the development of the BSC model for government departments exercising oversight over DFIs. As indicated in the literature, while numerous studies about the theory as well as application of BSC have been conducted, there is little documented theory on the application in the public sector, let alone as a tool to monitor an external, autonomous entity.

The study established that the design of BSC scorecard with its cause and effect relationship will complement the customer and financial measures of past performance with operational measures that drive future performance. This results in a clear link between the agencies mission and strategy and lead objectives and measures. This is the synergy that is largely absent in the application of monitoring measures in the public sector setting currently.

The study therefore established that the use of balance scorecard in monitoring the performance of the agencies assists in limiting the performance measures to be in line with identified perspectives. This in turn, minimizes the amount of information that the agencies have to collect, review, and report. The current measures require collecting too much information, much of which is often not important and therefore remain unused.

Also, the apparent “principal-agent” dynamics are addressed by BSC approach as it can curtail sub-optimisation (Marr, 2008:5). The literature reveals that merely having a set of performance objectives often leads to a decrease in performance with perverse and dysfunctional behaviors such as sub-optimization (Marr, 2008:5). Part of the reason for such misrepresentation is the fear of retribution, but also the absence of a clearly mapped-out strategy.

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## Section 2: Literature Review

### 2.1 Introduction

This research falls within the performance management realm and as such concepts like performance, performance management and performance measurement are explored. The research focuses primarily on developing a performance measuring/ monitoring tool for a government department that has appointed an implementing agency to execute its programme. Bourne *et al*. (2003:15) agree that there is a growing concern in performance measurement that measuring performance is not enough. Measurement has to lead to insight, insight to action.

The Balanced Scorecard (BSC) is also defined and discussed in general and specifically as a strategic performance measurement tool that can be used within the public sector context.

Typically, performance and performance measurement concepts have been extensively studied and reported on. It has to be noted that in this review, the focus is on performance measurement within the public sector, and as such consistent reference to the sector is made to contextualise the deliberations and capture this focus.

### 2.2 Performance and Performance Management Overview

A performing organisation is the one that achieves objectives set and according to Lebas (1995:30) a conceptual definition for performance is always preferred since performance cannot be defined objectively.

“The objectives any performing organisation achieves contain (1) targets to be reached, as well as, (2) elements of time at which the target or milestones to that aim are reached and (3) rules about a preference ordering about the ways to get there” (Lebas, 1995:30). Ketelaar (2007:2) adds that setting clear targets and performance indicators for organisations could improve their effectiveness or at the very least provide further insights into outputs.

Mayne and Zapico-Goni (2009:viii) argue that the performance of a programme will be found in the network of inputs, activities, outputs and outcomes that are most important from the perspective of the programme stakeholders. This means that performance can be relative, which is why Mayne and Zapico-Goni (2009:viii) argue further that the organisations must work with key stakeholders to define performance. Braz *et al*. (2011:752) define performance as the efficiency and effectiveness of actions within an organisational context.

Performance is in actual fact the outcome of a performance management process. The process of defining, planning and measuring performance within a particular organisational or programme context falls under the performance management umbrella. Nel *et al*. (2008:236) state that the performance management process includes performance planning, performance measurement and evaluation and performance feedback. This research will not dwell much on various definitions of performance management as this is not the focus of the study, instead a more appropriate definition shall be selected and used to form the conceptual bases for developing the performance monitoring tool. Accordingly the study will use the definition of Nel *et al.* (2008:492), where they see performance management as a holistic approach and process towards the effective management of individuals and groups to ensure that shared goals, as well as the organisational strategic objectives are achieved.

## 2.3 Evolution of Performance Measurement

Bititci *et al*. (2012:308) claim that the origins of performance measurement lie in the double entry bookkeeping that emerged in the late 13$^{th}$ century and remained unchanged until the Industrial Revolution. Bourne and Neely (2003:4) quote Johnson (1981:513) who referred to Medici accounts as the shining example of how the pre-industrial organisations maintained good accounts of their businesses without recourse to higher-level techniques. In other words, these measures were effective during this period, as they were adequately measuring business transactions of the time.

In the 19th century, the industrial age, characterized by the rise of mass manufacturing and specialization marked the beginning of the end of the sole use of accounting measures as the only measures of business performance. Bourne and Neely (2003:4) confirm that as organizations began to introduce complex and encompassing systems like wage management, diversified operations and conglomerates, the rudimentary accounting measures became irrelevant. Bititci *et al*. (2012:308) claim that it is during this time and through the early stages of globalization that productivity management systems were required. These included quality control, efficiency, standardization and rationalization of operations. Bititci *et al.* (2012:308) acknowledge though that efficiencies in operations during this phase were achieved at the expense of stakeholder satisfaction.

The impact of globalization and the shift in economic forces from supply to demand side also elevated the importance of understanding and addressing the customer needs. This further necessitated the shift in the focus of measures of performance. Bititci *et al.* (2012:308) agree that dimensions such as product/ service standards, time, flexibility and customer satisfaction became critical elements of performance measures. This led to the emergence of what Bititci *et al.* (2012:308) refer to as the integrated and balanced performance measurement approaches that recognized performance measurement as a multidimensional field.

It is at this point that the "performance measurement literature began to converge with earlier work of strategic control where the focus is on whether the strategy is being implemented as planned and whether outcomes are those intended" (Bititci *et al*., 2012:308). The result was greater emphasis being placed on what to measure and how such measures lead to strategic alignment. According to Bititci *et al.* (2012:308) this led to the development of performance measurement models that sought to facilitate alignment between performance measures and business strategy. Bititci *et al*. (2012:308) surmise that the fundamental question then became not only what but also how performance measures should be used to manage performance. This led to the development of the concept of performance management process.

It is evident from this sub-section that the evolution of the performance measurement literature is inextricably linked to business and global developments. Bititci *et al*.

(2012:308) confirm that integrated performance measurement and management are now common practice in all sectors, including the public sector.

## 2.4 Performance Measurement/ Monitoring

Performance measurement is a broad, fluid and ever evolving subject, which must be understood within the context of time, the environment and global and business developments if it is to be managed properly. Any examination of the field that fails to factor these in will lead to wrong indicators, measures and conclusions. Hatry (2006:240) declares that if the right things are not measured, or measured inaccurately those using the data will be misled and bad decisions are likely to follow.

This section looks at the performance measurement concept in the present-day, including its definition and elements, and actively seeks to locate the concept within the public sector context. Performance measurement and monitoring concepts are used interchangeably in this research.

Performance measurement systems have been increasingly considered as effective means for implementing organizational strategies and ensuring alignment between strategy and action in both private and public organisations. Bititci *et al.* (2012:305) claim that the release of Johnson and Kaplan's seminal book entitled Relevance Lost-The Rise and Fall of Management Accounting led to increased interest in the performance measurement field. Paranjape *et al*. (2006:11) confirm that academics from different disciplines continue to publish articles on performance measurement. According to Neely (1998:207) between 1994 and 1996, some 3,615 articles on performance measurement were published. Bourne *et al*. (2003:18) purport that management interest can also be seen from the high attendance figures at many industrial conferences held on the subject.

Various fields have been identified as key contributors to the performance measurement literature. Franco-Santos *et al*. (2007:784) argue that strategy management, operations management, human resources, organisational behaviour, information systems, marketing and management accounting and control have all contributed to the field. Franco-Santos *et al*. (2007:785) surmise that researchers are unlikely to agree on the definition of performance measurement as they are influenced by different disciplines. This sometimes curtails the generalisability and comparability of research in this area.

In trying to define performance measurement, Braz *et al.* (2011:752) state that it is a process of quantifying efficiency and effectiveness. Neely (1999:205) adds that performance measures are used to quantify the efficiency and/or effectiveness of actions of part or of an entire process or a system in relation to and against the target.

Gates (1999:4) argues that a strategic performance measurement system translates business strategies into deliverable results, and combines financial, strategic and operating measures to gauge how well a company meets its targets.

From a public sector viewpoint, Poister (2003:78) sees performance measurement as a process of defining, monitoring and using objective indicators of performance of organisations and programmes on a regular basis. A critical point made by Poister (2003:78) is that performance measurement systems are usually not independent systems but part of the structures essential to support or operationalise other management decision making processes such as planning, budgeting, performance management, process improvement and comparative benchmarking.

Parhizgaria and Gilbert (2003:222) rightfully observed that attempts to break down the performance measurement concept are further complicated by the general lack of a "valid" set of performance measures, hence they agreed with Lebas (1995:30) who identifies the lack of consensus in defining and measuring organisational performance as the major detractor to successful performance.

According to Hatry (2006:29) performance information is very useful in establishing accountability to assist citizens, elected officials and managers to assess what programmes have achieved with the funds that they were provided.

The study shall use the BSC as a tool to monitor performance. It therefore follows that the BSC concept will be studied and analysed to understand the performance measurement from the BSC's perspective. This discussion will be explored in detail under the BSC sub-section.

## 2.5 Performance Measurement in the Public Sector

Whilst the basic principles of the performance measurement concept remain the same, this research cannot ignore the fact that there are performance issues peculiar to the public sector that require tailored responses.

This section will therefore seek to get a deeper appreciation of the concept within the public sector by looking at the distinctive underlying performance issues in governments worldwide, South Africa and State Owned Enterprises (SOEs).

Bester (2007:1) asserts that worldwide the increasing demand for government services coupled with financial constraints highlight the need for maximising efficiency in the use of public sector resources. Jones and Kettl (2003:1) add that hostility is growing against governments amid allegations that they are inefficient, ineffective, self-serving, unresponsive to public needs and failing in the provision of the quality and quantity of services deserved by the taxpaying public.

The South African (SA) public sector is no exception, and added to this are the service delivery setbacks suffered by SA, which are largely attributed to ineffective and inefficient performance management. For example, The Presidency (2011:17) states that the quality and speed of service delivery is often below standard and uneven, even though the country has seen substantial increases in expenditure since democracy.

Governments have often turned to SOEs in cases where the pressure to deliver is not matched by the capacity of the state. However, in many cases these organs do not inspire much confident as they are often less productive than companies in the private sector (PWC, 2012:11). Likewise, in South Africa the SOEs performance has been questioned, hence the formulation of the Presidential Review Committee on SOEs (The Presidency, 2011:17).

The Presidency (2013:13) indicates that there is strong pressure to improve the performance and quality of services delivered by SOEs, with government prioritising the review of the current regime of these organs. PWC (2012:11) adds that SOEs have also been affected by phenomena like global financial crises, high-profile corruption scandals, waste of resources and bankruptcy.

The outcome was a renewed focus on the public sector by both practitioners in government and researchers. Thiel and Leeuw (2002:268) claim that such attention led to the rise of administrative reforms resulting in the introduction of New Public Management (NPM). Jarrar and Schiuma (2007:4) argue that NPM inspired the emergence of networked, efficient and responsive government.

Clearly, public sector organisations can no longer be complacent and/ or abdicate their responsibilities to track and monitor their performance and the performance of those contracted to deliver services on their behalf. Halachmi (2005:503) agrees that the developments observed in the public sector call for more comprehensive performance measurement and reporting. Jarrar and Schiuma (2007:4) add that under current conditions greater attention must be given to target, measurement and accountability, productivity gains, and the continued relevance and value of specific activities and programmes.

In introducing these measures, it is important to note as Bigliardi *et al.* (2011:7) indicate that generally in a public sector, any suggested changes require more time than in private companies, due to the fact that there is not a single entity who can take a decision.

## 2.6 SA public service monitoring and evaluation (M&E) practices

### 2.6.1 SA Government

Globally, various approaches to M & E have been implemented in the public sector in the interest of supporting state delivery on strategic projects and programmes (The Presidency, 2011:7).

In the SA context, the gravitation towards M & E adoption is informed by various factors discussed in this thesis like government inefficiencies, stakeholder complaints and financial restraints.

The SA Government is also responding to Constitutional obligations (section 195), which mandates that the following principles of public administration be upheld:

- Efficient, economic and effective use of resources;

- Public administration must be development-oriented;
- Public administration must be accountable;
- Transparency must be fostered by providing the public with timely, accessible and accurate information.

In this regard, SA has begun a steady transition towards the "outcomes" or "results" based approach which sought to institutionalize Government-Wide Monitoring and Evaluation System (GWMES) (The Presidency, 2011:12). This led to the formation of the Monitoring and Evaluation Ministry in The Presidency in 2009 which has recently been fused with the Planning Commission. According to the City of Johannesburg (2012:12) SA recently chose to adopt an outcomes based approach using GWMES as the mechanism through which to ensure the rollout of delivery objectives on a national scale. This is a relatively new path for the country with formal implementation only initiated at the level of national government in 2010 (Hirschowitz and Orkin, 2009:2).

The GWMES is a system developed by government clusters for tracking the performance of government programmes. It is a mechanism for assembling and reporting information to stakeholders on the performance of programmes of government departments and other public bodies with the aim to improve governance (The Presidency, 2007:1).

According to The Presidency (2012:7) the guide sets out government's approach to M & E which focuses on 12 outcomes and the management of each of the outcomes that, if achieved, would collectively address government's ten strategic priorities.

The Presidency (2007:11-12) identifies the outcomes as the central elements of the new government outcomes approach. In terms of the outcomes approach, The Presidency (2007:15) has established a number of mechanisms through which to ensure rollout of the system.

These are as follows:

- At a national level, Performance Agreements signed between the President and each Minister;
- Each Minister is then required to sign an Administrative Performance Agreement with his or her Director General (DG) – with focus placed on alignment with the primary Performance Agreements.
- Outcomes are also cascaded to provincial heads, through Intergovernmental Protocols signed between the President and each Premier.

Some of the key shortfalls of this approach are that the measures and targets are too broad with too many indicators, a lack of focus on measurement of impact, with some quarterly reports focusing exclusively on the progress of activities, making it difficult to enforce (Cloete, 2009:22).

### 2.6.2 Public Enterprises Performance Evaluation

All Government spheres (with the exception of local government) have the power to create statutes, and it is through these statutes that most of these institutions have established public entities/ SOEs through which some of the programmes of these Government institutions are driven (The Presidency, 2012:14). These statutes are referred to as founding Acts/ legislations of these public entities/ SOEs.

“A public enterprise is a juristic person under the ownership control of the national/ provincial executive; b) has been assigned financial and operational authority to carry on a business activity; c) as its principal business, provides goods or services in accordance with ordinary business principles; and d) is financed fully or substantially from sources other than-- i) the national revenue fund; or ii) by way of a tax, levy or other statutory money” (The National Treasury, 2000:46).

According to PWC (2012:11) despite the clear rationale for the establishment of the SOEs and the few examples of well-performing SOEs, not many SOEs are well-run. There are a number of reasons given for this and chief among those is the lack of state capacity to monitor implementation and compliance to the legislation, misalignment of regulations, and corruption (PWC, 2012:11). The setting of performance indicators and measuring the performance of SOEs by the applicable line departments are often unclear, uncoordinated and vague (PWC, 2012:11). Capacity to monitor performance is more often than not, lacking in the line departments (PWC, 2012:11).

Also, in terms of the quality and verification of performance information, the Auditor General often found that although the SOEs supplied the performance information, it was not of an acceptable quality (Centre for Corporate Governance in Africa, 2012:17). This problem would be significantly minimized if executives and the citizens, who are the owners (principals) of SOEs, can effectively monitor the SOE managers (their agents) (The Presidency, 2013:16).

#### 2.6.2.1 Shareholders' Compact

Government as a shareholder and policymaker is concerned with obtaining a suitable return on investments, ensuring the financial viability of the agency, and monitoring the policy implementation and service delivery of the agency. According to Bronstein and Olivier (2009:42) the shareholder's compact is the central measurement tool which represents an agreement between the Executive Authority as the majority shareholder and the Accounting Authority of the public entity, with respect to performance expectations and parameters.

The Executive Authority is the governing body that is responsible for the effective and efficient delivery of the service delivery requirements identified and also exercises shareholder oversight (National Treasury, 2000:11). This oversight role is done in accordance with Section 52 of the Public Finance Management Act, which deals with annual budgets and corporate plans.

According to The Presidency (2012:16) the shareholder's compact must document the mandated key procedures for quarterly reporting to the Executive Authority in order to facilitate effective performance monitoring, evaluation and corrective action.

The challenge with Shareholders compact though as PWC (2012:11) declares, is that it is not and cannot be programme-specific, but broadly covers the business of the entire entity. It is therefore difficult to detect and address deviations quicker using shareholders compact, especially at a programme or project level.

## 2.7 Performance Measurement Models

Various authors have developed performance measurement models to address "key performance indicators" they perceive critical at the particular point in time. In other words performance measurement theory of models has largely been impacted upon by time, global and business developments and have therefore evolved.

Logically, the evolution of performance measurement models is linked to the performance measurement literature discussed in the above two sections with three major transition phases identified as key milestones marking the evolution. Yadav *et al*. (2013:951) argue that the three transition phases - that is, the management accounting perspective, financial perspective and integrative perspective - are important milestones of the revolution of performance measurement frameworks. Based on this, it is possible to consider some generalisations about the evolution of performance measurement models from a chronological perspective.

### 2.7.1 Management Accounting Perspective

#### 2.7.1.1 Du Pont Pyramid of Financial Measures

In the late nineteenth century, traditional management accounting-based performance and cost accounting measures were considered to be the key measures of performance. Yadav *et al*. (2013:950) claim that early in the twentieth century, Du Pont Corporation introduced the accounting based performance measures that led to the pyramid of financial ratios. According to Lisiecka and Czyz-Gwiazda (2013:4) these models, which were developed by the Du Pont brothers included ratios like Return on Investment (ROI), Return on Equity (ROE), and Return on Capital Expenditure (ROCE). Yadav *et al.* (2013:950) add that they are still extensively used as diagnostic tools for the measurement of the financial health of an enterprise.

However such measures were severely criticized with Kennerly and Neely (2002:1223) arguing that they are unsystematic, focus internally and on the past and consequently lack strategic focus. Brignall and Modell (2008:285) add that among other concerns, management accounting measures have been criticized in that they are not only too late and too aggregated, but also poor proxies for aspects that matter to customers, such as quality and delivery speed. Bititci *et al.* (2012:315) add to these criticisms, noting that cost management practices provided inadequate and misleading information as they did not trace the cost of products, activities, processes and cost of quality, and instead focused on controlling processes in an isolated manner.

### 2.7.2 Financial Perspective

#### 2.7.2.1 Tableau de Bord

Epstein and Manzon (1997:3) state that the “Tableau de Bord” is a "dashboard", such as the one on which plane pilots and car drivers can observe the speed at which they are going, how many miles they have covered so far, and how much fuel they are consuming and emerged in France in the turn of 20th century. Epstein and Manzon (1997:3) claim that it was developed by process engineers who were looking for ways to improve their production process by better understanding cause-effect relationships.

Yadav *et al.* (2013:950) add that the model emphasized a marriage between financial and non-financial measures, thereby taking more care of daily operations and less of strategic issues.

Although this model is similar to Kaplan and Norton's BSC from a conceptual point of view, Epstein and Manzon (1997:3) suggest that in practice it tend to overemphasize financial measures and to contain few non-financial measures.

### 2.7.3 Integrative Perspective

#### 2.7.3.1 Quality Award & Business Excellence Model (QA & BE)

As a key part of development from financial to integrative perspective, the model according to McAdam and Welsh (2000:119) belongs to the total quality management (TQM) strand of the broad quality improvement and therefore gives greater weight in its application to organisational culture and values. McAdam and Welsh (2000:120) believe that the re-discovery of the central role of customer/stakeholder is one of the most significant features brought about by TQM models.

Dror (2008:585) claims that the model belongs to the category of frameworks such as the Malcolm Baldrige National Quality Award (MBNQA) and the European Foundation for Quality Management (EFQM). These were introduced in 1987 and 1988 respectively, and are based on two evaluation dimensions, namely process and results (Dror, 2008:586).

According to Dror (2008:587) QA & BE is a viable tool that can be used to self-measure, benchmark performance and identify areas for improvement. Dror (2008:587) adds that it can also be used to synchronize organizational thinking and as a structure for an organisational management system. Dror (2008:590) concedes though, that the excellence models do not offer any suggestion regarding the long-term programmes an organization should adopt to achieve continuous improvement.

## 2.8 Balanced Scorecard

Whilst QA & BE model addressed most challenges of the previous regimes (accounting and financial perspectives), it still lacked in critical areas. Wongrassamee *et al*. (2003:12) confirm that the model failed to provide progressive objectives, to direct long-term programmes and offer the capability to select relevant performance measures based on actual data.

Nair (2004:18) expresses discontent with the dominant use of tangible assets to measure performance, despite clear evidence pointing to intangible assets as key determinants to how the future of the organisation can be sustained. This is especially so if one considers the effects of globalisation and the advent of the information age. Accordingly, Kaplan and Norton (1996:2-3) and Nair (2004:18) who are also staunch critics of the traditional financial measurements, instigated a shift in emphasis from the use of tangible assets for competitive success to the ability of an organisation to mobilise and manage its intangible assets.

Kaplan and Norton (1996:2-3) contend that the mobilisation and management of intangible assets empower an organisation to develop customer relationships that retain loyalty; introduce new products and services; produce high quality, customised products at low cost with short lead times; mobilise employee skills and motivation to continuously improve processes, quality and response time; and utilise information technology, databases and systems.

According to Wongrassamee *et al*. (2003:18) the Nolan Norton Institute sponsored a study in measuring the performance in the organisation of the future in the early 1990s. The study group came out with a comprehensive framework, named the "Balanced Scorecard" in which the organisation's mission and strategic objectives can be translated into a set of performance measures. Kaplan and Norton (1996:vii) argue that the institute sought to prove that performance measurement systems relying only on financial measures were obsolete and limiting opportunities to create future economic value.

Whitaker and Wilson (2007:59) assert that traditional measurement ignored people, innovation, leadership and service excellence, core elements of a competitive advantage with Ghalayini and Noble (1996:65) agreeing that financial results are in fact the results of past decisions which are too old to use for operational purposes and "are not suitable for decision-making purposes" (Weinstein, 2009:46). A typical example is that of Enron which according to Meyer (2002:xi-xii) was earning pre-tax profits of $1,5 billion from the third quarter of 2000 to the third quarter of 2001, but filed for bankruptcy in the fourth quarter of 2001. This indicated that performance measurement had become more complex and was no longer simply about measuring profit.

Smith (2007:8-12) also argues that the knowledge and experience of existing staff can no longer be relied on as before, and as such it has become crucial that all processes should be documented and followed to ensure consistency with an ever-changing workforce and management team rapid technological changes and global expansion. Niven (2003:9) states that the change in value creation from physical to intangible assets demands more from measurement systems, which must be equipped to identify, describe, monitor and provide feedback on the intangible assets driving organisational success. According to Niven (2003:10) it is for this reason that a large number of organisations are turning to the BSC to measure and manage intangible assets.

Northcott and Taulapapa (2012:168) confirm BSC's usefulness in the public sector due to its multi-dimensionality in capturing the non-financial aspects of performance and its identification of a limited number of KPIs that provide a clear focus for achieving organisational strategy in spite of a complex operating environment.

Kaplan and Norton (2001:97-98) claim that government organisations experience problems in defining their strategies, sometimes producing piles of documents which do not even state the outcomes they are trying to achieve. Niven (2008:21) warns that public sector organisations often have broad and vague objectives, a propensity to focus on "easy to measure" but often irrelevant indicators and short-termism that is usually fuelled by political expediency. The fact is that the goals of government organizations are often broad and vague and Drury's (2008:576) claim that the BSC can clarify, communicate and manage the implementation of the strategies of the organisation makes the framework more appropriate for the sector.

Whittaker and Wilson (2007:64) add that the BSC will be used more and more in the public sector as it provides a good view of what should be done to ensure successful operations. Bigliardi *et al*. (2011:4) conclude that the BSC's ability to force managers to select and measure only the indicators which lead to improved customer outcomes makes it particularly beneficial for public sector organisation. This is particularly important if one considers Marr's (2008:5) claim that only 15% government officials feel that all their indicators are linked to the strategy of the organization, and even less (6%) believe that all their performance indicators are relevant and meaningful – perhaps not surprising, given that 16% of organizations expressly feel that their objectives are not clearly articulated.

There have been many examples that illustrated the successful implementation of the BSC in the public sector with the "City of Charlotte in North Carolina widely considered to be the best example of the application of the BSC in the public sector" (Niven, 2003:271). Bolivar *et al*. (2010:117) confirm that the BSC approach can be an invaluable tool for governmental administrators in transforming their organizations and those whose organizations have implemented it believe that its benefits outweigh the costs.

Correia *et al*. (2008:664) add that traditional performance measurement based on financial measures is not always suitable for public organisations because the emphasis usually falls on social factors and costs rather than on profit. Griffiths (2003:71) is also of the opinion that the BSC provides governments with an opportunity to demonstrate value for money and recognises the multiple dimensions of value.

Interviewing nine healthcare providers that implemented the BSC, Inamdar (2002:184) asked specifically about the value of the framework in comparison with other models experienced. According to Inamdar (2002:184) the participants felt that most measurement systems serve a narrow regulatory, clinical or diagnostic function and are not designed to tell the story of an organisation's strategy and to guide implementation as the BSC does.

Kaplan and Norton (1996:55) assert that the BSC provides executives with a comprehensive framework that can translate a company's vision or strategy into a coherent and linked set of performance measures. The definition explains the modus operandi of this framework in that the organisation's mission and strategy are translated into strategic objectives and measures, based on four perspectives (i.e. financial, customer, internal and learning and growth). Inamdar (2002:179) explains that the scorecard balances the outcomes the organisation wants to achieve (typically in the financial and customer perspectives) and the drivers of those outcomes (typically in the internal process and learning and growth perspectives). Another key feature of the framework is the cause and effect relationship between the drivers and desired outcomes. Inamdar (2002:179) adds that BSC is intended not only as a strategic measurement system but also as a strategic control system which aligns departmental and personal goals to overall strategy.

In the first version of the BSC, Kaplan and Norton (1992:72) included four perspectives, where each perspective posed a question, the answer to which was a goal that was translated into a performance measure. According to Kaplan and Norton (1992:72) all four perspectives were linked to each other. The four perspectives and questions were:

- Financial (How do we look to our shareholders?)
- Customer (How do customers see us?)
- Internal business (What must we excel at?)

- Innovation and learning perspectives (Can we continue to improve and create value?)

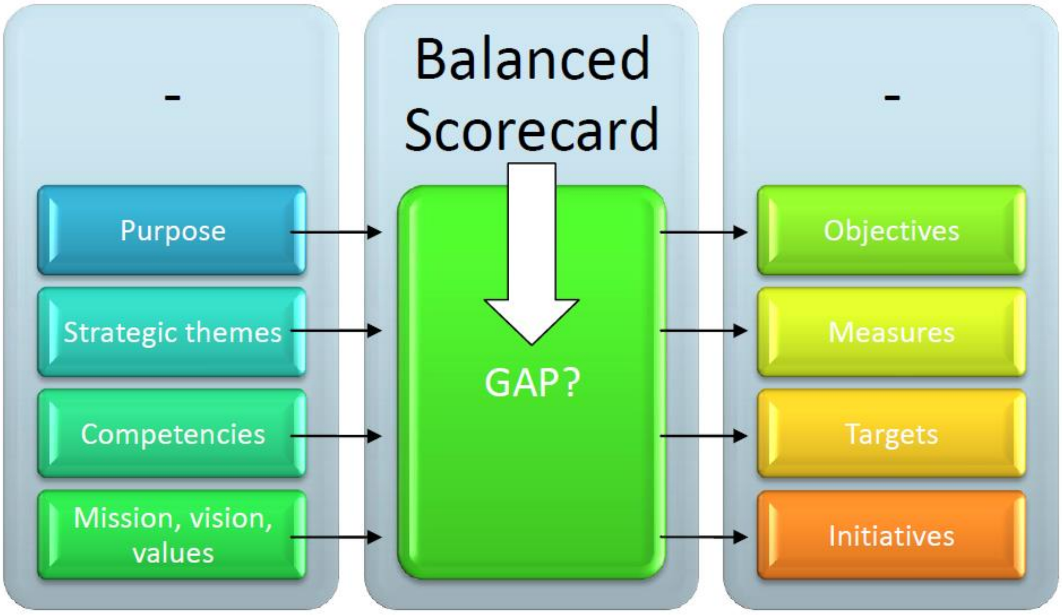


Figure 2.1 BSC Fit within the organization.

Source: Julyan (2011:146) obtained from Nair (2004:5).

As illustrated in Figure 2.1, Julyan (2011:146) argues that the BSC can align objectives, measures, targets and initiatives to the strategies. The BSC can therefore solve not only the difficulty of crystalizing the strategy, but as Niven (2003:38-39) argues, it can also address the misalignment between the strategy that top management believe is being executed and the actions being performed at lower levels in the organisation.

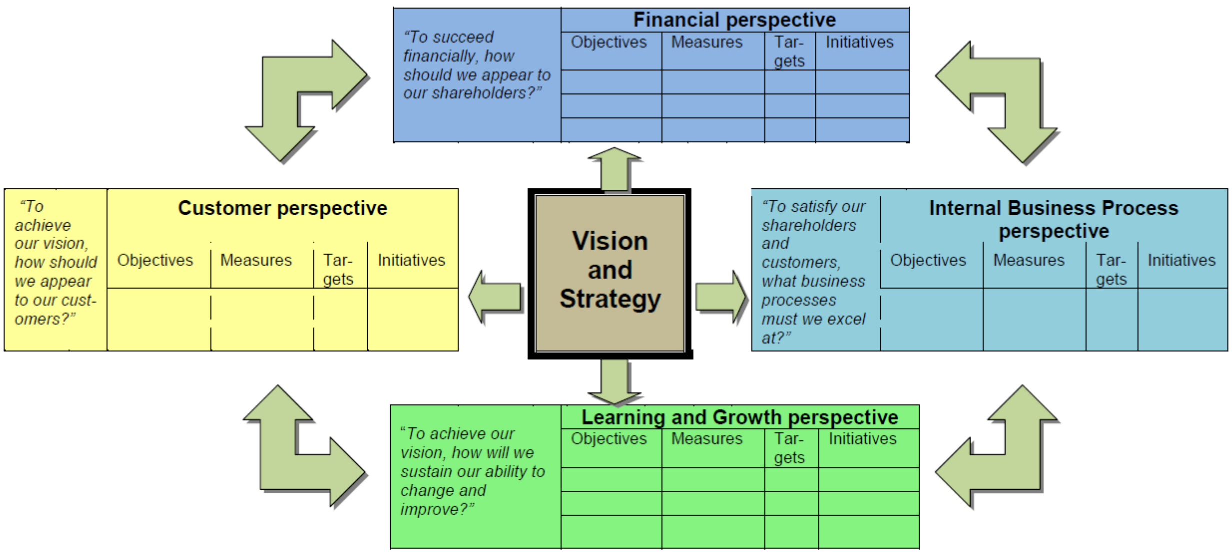


Figure 2.2 The Balanced Scorecard framework to translate strategy into operational terms.

Source: Kaplan and Norton (1996b:76).

In their scorecard, Kaplan and Norton (1996:8) recognise the need for the financial and non-financial measures to be applied to employees at all levels of the organization, not just top management. Julyan (2011:160) adds that employees need to grasp that the vision and strategy of the organisation have, via the BSC, been translated into tangible measures and objectives that have been pitched at the level at which they are operating in the organisation.

The process of implementing the BSC has four stages:

- ''Translating the vision'' is concerned with clarifying and gaining consensus over a version of the firm's strategic vision that is operational upon all levels of the organisation (i.e. from the top level down to the local level).
- ''Communicating and linking'' is the process by which managers communicate their strategy up and down the organisation and link it to departmental and individual objectives.
- ''Business planning'' is the process by which companies integrate their business and financial plans.

- ‘‘Feedback and learning’’ gives companies the capacity for strategic learning; existing processes review whether individual and departmental financial goals have been achieved, while the balanced scorecard enables a company to monitor short-term results for its three additional perspectives.

### 2.8.1 Further arguments for the BSC

Kaplan and Norton (1992:72-73) note that the BSC helps to reduce performance measures forcing managers to select only a handful of the most critical measures and thus “helping to focus attention and actions on the strategic vision” (Kaplan and Norton, 1993:134).

The creation of the integrated performance management approach through BSC “leads executives of information-age organisations to measure: how value is created for current and future customers, how they should enhance internal capabilities and how to invest in employees, processes, technology and innovation” (Kaplan and Norton, 1996:8).

While many people think of measurement as a tool to control behaviour, Kaplan and Norton (1996:56) assert that the measures on the BSC are mainly used to express and communicate the strategy of the organisation and then to align individual, cross-departmental and organisational initiatives to achieve a common goal.

In summarising the benefits of using the BSC, De Geuser *et al.* (2009:93,102) state that the framework improves translation of the strategy into operational terms, ensures that strategising became a continual process and promotes alignment between processes, services, competencies and units of the organisation.

### 2.8.2 Arguments against the BSC

Whilst many arguments have been advanced in favour of using the BSC, it has to be noted that it is certainly not the panacea to all the problems bedeviling performance measurement and management. Paranjape *et al*. (2006:5) caution of many practical difficulties and the high rate of failure associated with its implementation. According to Paranjape *et al*. (2006:6) many are advocating against its use whilst others are calling for more scientific evidence that proves that BSC implementation does in fact deliver improved organisational performance.

Northcott and Taulapapa (2012:167) indicate that researchers like Arnaboldi and Lapsley (2004) and Pidd (2005) among others have expressed reservations about the efficacy of transplanting management tools like the BSC into complex public sector contexts. Sharma and Gadenne (2011:170) add that there are significant challenges in transposing the BSC principles to public sector organisations, which give rise to the need for adjustments in both BSC design and implementation.

Sharma and Gadenne (2011:170) further claim that the BSC drew a lot of criticism concerning the lack of cause-and-effect relationships, a lack of clarity, and a failure to consider some types of stakeholders. Salem *et al*. (2012:6) add that the causal relationships between the areas of measurement in the BSC are unidirectional and too simplistic. In this regard they are suggesting that there is no scientific evidence to show that the objectives, initiatives and measures in four BSC perspectives are always linked.

Salem *et al*. (2012:6) add that the BSC encourages the focus on internal aspects and thus fails to evaluate the significant changes in external conditions. Salem *et al*. (2012:6) claim that the BSC neglects the time dimension, in that it does not explain the role of time in its cause-and-effect relationships. According to Salem *et al*. (2012:6) the advantage of checking “few” measures become a disadvantage when incorrect measures are selected.

### 2.8.3 Adapting the BSC for Public Sector

Kaplan and Norton (2001:360-367) and Niven (2003:32) agree that for the BSC to be used in the public sector, it needs to be adapted to comply with the sector’s best practices. An adapted public sector BSC framework developed by Niven (2003:32) and also used by Julyan (2011:161) was chosen because it is the most recent. According to Kaplan and Norton (2001:361) an adapted public sector BSC must put the mission which is largely customer driven at the top because that is the core aspiration that the entity is striving towards. It retains the strategy at the core of the BSC and four perspectives used for the private sector BSC are also retained.

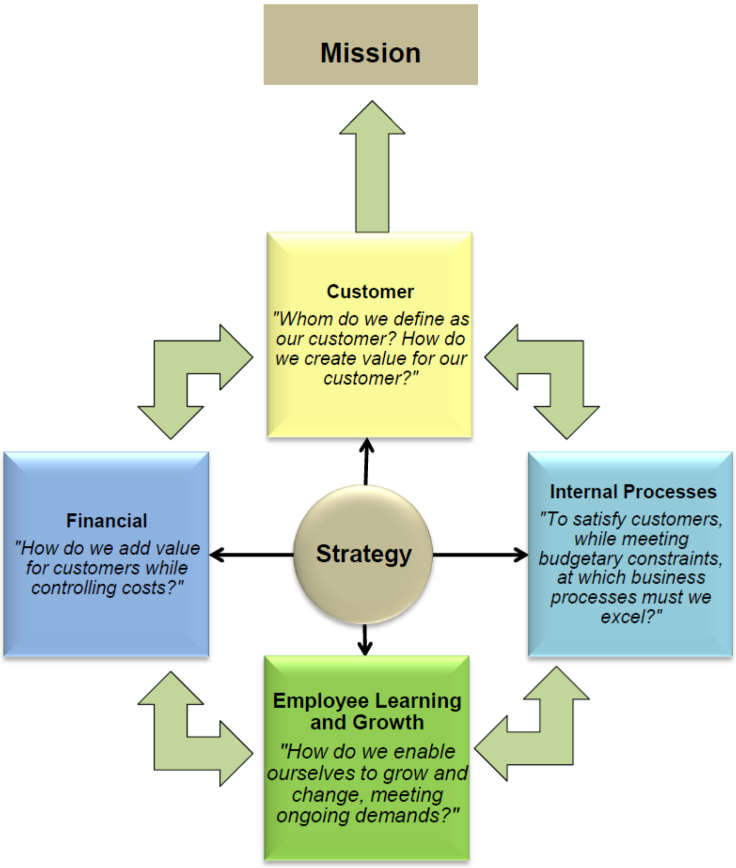


Figure 2.3 BSC framework for the public and non-profit sectors.

Source: Julyan (2011:164) obtained from Niven (2003:32).

Figure 2.3 confirms that the mission of the public entity should be at the top of the BSC, because that is the core aspiration that the entity is striving towards. "Adapting the BSC by moving the mission to the top of the BSC, and moving the Financial Perspective down, has become a common practice for a public sector BSC" (Kaplan and Norton, 2001:368-369).

### 2.8.4 BSC Perspectives

This research seeks to implement the BSC in the public sector and will therefore discuss the BSC perspectives in the context of this sector. Also, the perspectives have been adjusted not only to suit the generic public sector conditions as discussed in above sub-section but also to suit the specific needs of the case study programme. In this regard, while the traditional BSC contains four categories, Kaplan and Norton (1996:34) intended for the number of categories in the BSC to be discretionary, stating that, “depending on industry circumstances and a business unit’s strategy, one or more additional perspectives may be added. Maltz *et al*. (2003:190) concedes that despite the broad usage, the BSC has shown to be inadequate in various circumstances and across differing organisational types. Epstein and Wisner (2001:5) argue that although many companies include social and environmental responsibility as key performance indicators in each of the four perspectives of the scorecard, some opt to create a fifth BSC perspective. Whilst adding the fifth non-traditional perspective remain the choice of the manager concerned, it is critical to note that research suggests that when such a perspective is added, the importance of the perspective is elevated to be equivalent to that of the other four perspectives. Kaplan and Wisner (2009:37) confirm that such inclusion enhances management communications about a specific non-traditional perspective, resulting in greater emphasis on the relevant information about the perspective.

#### 2.8.4.1 Public Sector BSC Perspectives

Based on the discussion above, the subsection will discuss the perspectives including the specific non-traditional programme-specific perspective.

##### 2.8.4.1.1 Customer Perspective

As can be observed in Figure 2.3 the customer perspective of the public sector BSC flows from and into the mission, which is at the top of the framework. According to Julyan (2011:164) to achieve its mission, the public sector entity must determine which group of customers it aims to serve and how the needs of this group can best be met.

Niven (2008:30) agrees that for the BSC implementation to succeed, all role players must know who they serve, what their requirements are and how such requirements can be best met. Niven (2003:33-34) asserts that in the public sector, both the legislative body providing finance and the groups that are to be served, are logical choices when identifying the customer.

#### 2.8.4.1.2 Financial Perspective

Kaplan and Norton (2001:354) are of the view that whereas the financial perspective provides a long-term objective in the private sector, it is either an enabler or a constraint in the public sector with “the mission which is in most cases not the financial goal, being the overruling target of the Financial Perspective” (Nair, 2004:21). Niven (2008:30) adds that no organization, regardless of its status can successfully operate and meet customer requirements without financial resources.

As Bester (2007:1) suggested, with the scarcity of, and competition for resources, governments are forced to exercise restraint and prudence in handling public investment. Kaplan and Norton (2001:353) highlight the importance of including the Financial Perspective as part of the public sector BSC. Niven (2008:32) went further to argue that in fact financial control measures are consistent with the quality service delivery and achieving the mission. According to Niven (2008:32) when services are performed at the least cost, or with great efficiency, the programme is likely attract more attention and warrant even greater investment from funders.

#### 2.8.4.1.3 Internal Processes Perspective

Niven (2003:35) claims that the Internal-Business-Process Perspective is rephrased as the Internal Processes Perspective for the public sector BSC. In developing this perspective, Julyan (2011:166) argues that the key internal processes at which the entity must excel in order to drive value for the customers must be determined. “While all organisations will have documented processes, only the processes that could lead to improved outcomes for customers should be selected and measured for the BSC”

(Kaplan and Norton, 1996:62-63). Niven (2003:35) adds that the processes chosen would usually flow directly from the objectives and measures of the customer perspective and would be working towards the mission of the entity.

#### 2.8.4.1.4 Employee Learning and Growth Perspective

Niven (2003:35-36,164) claims that the Learning and Growth Perspective of the private sector BSC is rephrased to the Employee Learning and Growth Perspective for the public sector BSC. According to Niven (2003:35-36) the organisational structure and the skills, dedication and alignment of the staff are the main drivers of process improvements, operating in a fiscally responsible manner and meeting the needs of customer groups. The Centre for Corporate Governance in Africa (2012:17) adds that governments should continually invest for the future but are known to underfund the maintenance of capital, labour and processes, all elements which continually need to be updated and upgraded. According to the Centre for Corporate Governance in Africa (2012:17) this perspective emphasises that the development of successful new programmes is dependent on skilled professionals with the time available to create the programmes.

#### 2.8.4.1.5 Equity Perspective

Hatry (2006:31) asserts that equity is a crucial measure and outcome for public sector programmes that is often neglected in performance measurement. "A good performance measurement system will help officials demonstrate to the public and policy makers that services are delivered justly thus building trust in the programme" (Hatry, 2006:32). Any valid performance measurement system in the public sector will therefore seek to disaggregate the measures and outcome data by the features of the citizens targeted or affected.

Unfortunately, these indicators are often disregarded and missed for one or the other reason. The Presidency (2012:18) reveals that despite the transformation progress that has been made, the overall transformation targets of government continue to be missed.

### 2.8.5 Strategy Mapping

While it is usually argued that "'you cannot manage what you cannot measure', it is equally true that 'you cannot measure what you cannot describe'" (Kaplan and Norton, 2006:xiii).

Key to the successful implementation of the BSC is strategy mapping. According to Irwin (2002:642) the aim is to show how a range of potentially disparate activities link together to enable an organisation to achieve its vision. As portrayed in table 2.1 below, the main vision is to build a vibrant and independent co-operative sector in the Eastern Cape with co-operatives playing a major role in the provincial economic development. Kaplan and Norton (2001:90) declare that the strategy map is built from the top down, with the routes required to arrive at the destination entered afterwards.

Caudle (2008:4) views strategy mapping as an attempt to make explicit the cause-and-effect links by which initiatives and resources tangible and intangible create outcomes at the top of the scorecard. Kaplan and Norton (2004:xii-xiii) concur that strategy mapping describes and visualises the strategy of the organisation through explicit cause-and-effect relationships between the objectives in the four BSC perspectives. In this context, the agency responsible for co-operatives development ought to understand and address co-operatives needs. When these co-operatives are adequately supported they are most likely to thrive and thus create more employment opportunities and reduce poverty and unemployment.

The critical landmarks that should be attained to address the customer requirements mentioned above include ensuring that financial and other resources that are largely scarce are maximised and used sparingly. As demonstrated in Table 2.1 part of this resource maximization includes aligning distribution to co-operative policy imperatives including equitable distribution. This can only be achieved when the agency/ fund structures, processes and systems including those for resource disbursement are aligned and responsive to the primary policy and programme objectives. As such, an ongoing review of the processes and procedures is paramount. All these are made possible by the consistent availability of the competent and skilled personnel with the right attitude.

Niven (2003:169) argues that a strategy map is a clear and concise one-page document outlining what is believed to be the most critical landmarks in executing the strategy of the organisation and that performance objectives serve as these landmarks. “The test of a good strategy map is the point at which the strategy can be understood by looking only at the BSC and the strategy map” (Kaplan and Norton, 2001:97).

The strategy map can be adjusted or updated as the need arises, bearing in mind that the aim is to keep it simple, but accurate (Nair, 2004:26). Niven (2003:170-173) states that it is crucial that all BSC team members, whom would normally do the strategy mapping, are provided with the latest mission, values, vision and strategy.

Table 2.1 A typical public Agency (DFI) Strategy Map

| VISION: VIBRANT, INDEPENDENT COOPERATIVE SECTOR IN THE EASTERN CAPE WITH COOPERATIVES BECOMING A SIGNIFICANT COMPONENT OF THE PROVINCE'S ECONOMIC STRUCTURE | | | | |
|---|---|---|---|---|
| **CUSTOMER/ COMMUNITY/ STAKEHOLDER PERSPECTIVE** | Meet customer expectations (time, quality and cost) | Develop and maintain customer relations | Decrease in poverty, unemployment and inequality in the EC Province | Increase the number of thriving beneficiaries |
| | | **Sound Financial Practices** | | |
| **FINANCIAL PERSPECTIVE** | Value for money | Maximise resources use | Standardize practices and systems | Maintain effective management system (PFMA) |
| | | **Maximise Policy Impact** | | |
| **POLICY AND EQUITY PERSPECTIVE** | Solicit in-depth policy position and objectives regarding the programme | Clear equity targets aligned to strategy goals | Groups from the Eastern Cape | Women and Youth and rural communities |
| | | **High Performance** | | |
| **INTERNAL PROCESSES PERSPECTIVE** | Review, develop/ improve and implement internal processes | Review, develop/ improve and implement processes to mobilise stakeholders including the principal | Review, improve and implement monitoring processes | Improve employee/ co-operatives ratios |
| | | **Capacity Building** | | |
| **EMPLOYEE LEARNING AND GROWTH PERSPECTIVE** | Recruit and retain suitable staff | Training and development | initiatives and innovations implemented and encouraged | Organizational values and culture inculcated |

Source: Adapted from Irwin (2002: 643) and Kloot and Martin (2000: 238-244).

### 2.8.6 BSC use in the Public Sector

This section looks at the research conducted in the public sector, including the empirical studies conducted as they are likely to set the base for the study. The section will also reveal the intended contribution of this research.

According to Gomes and Liddle (2009:356) public sector organizations have increased their use of performance indicators as a tool for monitoring, managing and measuring performance, with the BSC being widely adopted by the various public enterprises around the world. Bigliardi *et al*. (2011:3) argue that the adoption and implementation of balanced approaches to performance management has been popular for several years, yet empirical evidence from the manufacturing and industrial sectors appears to far out-weigh that from public service environments. Gomes and Liddle (2009:356) further argue that despite the widespread use of the tool globally, including in developing countries, there is little empirical evidence reported in the literature of the application of the BSC in developing countries.

Clearly there is a disjuncture between the use of BSC in the public sector and the empirical literature supporting or proving the usefulness and success of the tool. This is more so in the category of developing countries within which South Africa falls. More telling is the fact that, despite public enterprises having been key catalysts of growth in countries like China (The Presidency, 2013:5), there is even less empirical evidence reported in the literature suggesting that a tool as comprehensive as the BSC has been used by government to monitor public enterprises performance (Gomes and Liddle, 2009:357). This is despite the fact that “South Africa is grappling with how it can maximise extensive resources invested in these enterprises” (The Presidency, 2013:5).

The contribution of this study will therefore be to develop an empirical study of the BSC use in a public sector context. In particular, it will develop a performance monitoring tool that a government department will use to monitor its implementing agency. Unlike the BSC based self-monitoring tools developed by various public organisation, this study will grapple with the dynamics of monitoring an autonomous agency, chief among those is the principal-agent problem. This problem manifests whenever an individual or organization (the agent) acts on behalf of another (the principal). According to Ortmann and King (2007:54) principal-agent problem arises because the objectives of the agent are usually not the same as those of the principal, and thus the agent may not always best represent the interests of the principal. Ortmann and King (2007:54) referred to Royer (1999: 50) who argued that because contracts (where terms are typically defined) are generally incomplete, there are opportunities for shirking due to moral hazard and imperfect observability. Hence the main focus of the agency theory is on incentives and targets measurement, but the risk-sharing implications of incentive contracts are also crucial (Ortmann and King, 2007:54).

## 2.9 Conclusion

This section sought to broadly explore the performance management field, with the sole purpose of understanding the theoretical context within which performance measurement exists. Performance measurement was discussed more extensively, where a number of frameworks and their approaches to measuring performance were outlined.

The suitability of the BSC for the public sector performance monitoring was also demonstrated. Northcott and Taulapapa (2012:168) agree that the BSC's multi-dimensional nature makes it very appropriate for the public sector as it captures the financial and all important non-financial aspects of public sector performance. Its ability to help identify a limited number of the most important KPIs also provides a clear focus for achieving organisational strategy, especially given the complex nature of the operating environment of government. It has been confirmed by Kaplan and Norton (2001:97-98) that public sector organisations generally experience problems in defining and crystalising their strategies. The BSC has the potential to help many public sector organisations to "clarify, communicate and manage the implementation of their strategies" (Drury, 2008:576) and this makes the framework appropriate for the sector. In other words, this tool helps compartmentalize government operations that are otherwise complex and sometimes incoherent by their nature.

This review helped to explain not only the performance measurement concept but it also dealt with the added complexities of measuring performance in the public sector. It also unearthed the complexities and dynamics of the principal–agent relationship and how this should be addressed.

It is also evident from the review that private sector management tools cannot be simply imported and plugged into public sector operations, but need to be adjusted to suit the unique nature of the sector.

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## Section 3: Research Methodology

### 3.1 Introduction

According to Remenyi (1996:22) there are three major philosophical questions that should be addressed at the outset of research, namely why research, what and how to research? This section discusses the third question which is the research methodology that has been employed to answer the research question.

This section sets out the main purpose and objectives of the research. It describes the methodology followed to undertake the study and achieve its objectives. It also looks at the method elected and why, the paradigm informing the research, the data collection instruments used and techniques employed to analyse such data. Other critical issues addressed include quality assurance measures and ethical considerations.

### 3.2 Research Purpose and Objectives.

This was an evaluation report set to develop a suitable tool to monitor the performance of an agency implementing a programme on behalf of the Eastern Cape Provincial Department. An adjusted Balanced Scorecard (BSC) framework was preferred as the base to develop this tool.

The objectives of this study were:

- To describe the key objectives and measures and classify them according to the amended BSC framework.
- To develop a public agency scorecard based on the amended BSC framework.
- To make recommendations regarding the use of the BSC to monitor a public sector agency.

## 3.3 Research Questions.

Based on the research objectives outlined above, the study therefore sought to answer the following questions:

- What are the typical objectives and measures of an adjusted public sector BSC framework?
- How would a public agency scorecard based on the amended BSC framework look like?
- What would be the recommendations regarding the use of the BSC to monitor a public sector agency?

## 3.4 Research Method and Paradigm

A qualitative case study research method was utilised as the study sought to discover "new" information, meaning and perceptions (Babbie, 2011:376,378). According to Babbie *et al*. (2007:282) a qualitative case study approach provides an opportunity for the researcher to explore the research question in a more focused way, from the perspective of the insider, within their specific context and generating rich or thick descriptions. Winegardner (2001:7) suggests that the qualitative case study enhances the reader's understanding, brings the discovery of new meaning, extends the reader's experience or confirms what the reader already knows.

Creswell *et al*. (2007:51) argue that qualitative research studies people or systems by interacting with and observing the participants in their natural environments and focus on their meanings and interpretations. In developing the monitoring tool, the study relies partly on the wisdom and experiences of the employees and beneficiaries of the programme. "The emphasis is on the quality and depth of information and not on the scope or breadth of the information provided as in quantitative research" (Creswell *et al*., 2007:51).

Creswell *et al*. (2007:75) also argue that the typical characteristic of case studies is that they strive towards a comprehensive (holistic) understanding of how participants relate and interact with each other in a specific situation and how they make meaning of a phenomenon under study. Creswell *et al*. (2007:75) argue that case studies have predominantly been used for many years to answer "how" and "why" question. This study seeks to establish how the BSC can be used to monitor the performance of a programme.

The paradigm within which this research is situated is an interpretivist approach with a relativist ontology (Guba and Lincoln, 1994:110). The epistemology was transactional and subjectivist as the researcher saw knowledge as something that is open to different interpretations (Guba and Lincoln, 1994:111). According to Angen (2000:380) this paradigm assumes that the reality is constructed inter-subjectively through the meanings and understandings developed socially and experientially and that people cannot separate themselves from what they know. In this regard, the researcher acknowledged and sought to minimize the potential impact of his own inherent values, beliefs and prejudices at all research stages.

Angen (2000:380) suggests that fostering a dialogue between researchers and respondents is critical as it is through this dialectical process that a more informed and sophisticated understanding of the social world can be created. In recognition of the impact of such mutual relationship, the researcher actively sought to develop a rapport with the respondents and demonstrated interest throughout the interview processes.

In addition, a deductive research approach was followed, with the theory structuring the research, informing the data collection and providing the framework for analysis (Babbie *et al.*, 2007: 282).

## 3.5 Case Study Population and Sampling

The research employs purposive sampling where "participants are selected because of some defining characteristic that make them the holders of the data needed for the study" (Creswell *et al*., 2007:75).

The Department of Economic Development, Environmental Affairs and Tourism's (DEDEAT) Enterprise Development Unit is responsible for various business development programmes including the Eastern Cape Provincial Co-operatives Development. For this programme, the unit's primary responsibility is to oversee and monitor the implementation. This responsibility is carried out by the Senior Manager and is deemed critical to the programme hence the inclusion in the sample.

The Eastern Cape Development Corporation's (ECDC) Imvaba Fund Unit is responsible for administering the fund and has about five employees, all based in Head Office, East London. The unit has the fund manager, quality assurer, person responsible for monitoring, assistant account manager and an administrator. They are also responsible for the fund disbursement, providing non-financial support to co-operatives and managing processes related to this function. These are the key respondents and all form part of the sample.

Two co-operatives were included in the sample as they determine the quality of the service and thus set the barometer.

All the respondents were identified in consultation with the Senior Manager: Enterprise Development Unit and the Fund Manager except for the two co-operatives. The researcher requested the funded co-operatives database and purposefully chose the respondents from various regions.

Whilst the original plan was to interview the two managers and account managers from each region, it emerged that the regions do not have dedicated employees (account managers) for this programme and those who work part-time on the fund are not intimately involved and would therefore not offer valuable information. It transpired that the officials at the head office do most of the work in the regions where there is no dedicated account manager. It is for this reason that only employees at the head office were interviewed. The change in sample will not have any impact on the quality of information sourced as the staff interviewed do all the work that should be done by the account managers in all the regions.

## 3.6 Data Collection

The semi-structured in-depth interviews and document analysis were the primary instruments used to collect data. The use of in-depth semi-structured interview technique was chosen because the research method is qualitative and this instrument allows the researcher to explore and probe issues without undue restriction. Whilst prepared questions form the basis of semi-structured interviews, interviewers are free to deviate from these and to probe the answers given by interviewees (Berg, 1998: 61).

The researcher received a permission from the Head of Department (DEDEAT) and was later introduced to the officials of the Imvaba Unit. From there on an email requesting access to the relevant documents and potential interviewees was sent to the Fund Unit Manager.

In essence, six officials and two co-operatives participated in the research and were interviewed during June-July 2014. Prior to the interviews, letters of consent (see annexure C) were sent to all the interviewees giving them an opportunity to familiarize themselves with the study objectives and identify areas of concern or requiring further clarification. This also made it easy for the interviewees to sign the form on the day of the interview.

The interviews took a total of six hours and forty five minutes, with the length of individual interviews varying between forty five minutes and an hour. All interviews were digitally recorded and summaries were transcribed. All interviews were voluntary and held at times and venues convenient to the interviewees. This was done to ensure that interviewees were comfortable, ready and willing to take part as the “nature of the social dynamic of the interview can shape the nature of the knowledge generated” (Fontana and Frey, 2000:647). Interview questions were circulated in advance and the researcher took the interviewees through the background and the purpose of the research prior to the commencement of the interview. All interviewees received the optimum attention from the researcher, sympathy and interest was demonstrated at all times by probing and gesturing among others.

The researcher also requested and received relevant documents and these included the Co-operative Act 2005 of RSA; the 2004 Co-operative Development Policy for South Africa; the Eastern Cape Co-operatives Strategy; ECDC annual plans and quarterly reports; the 2012 ECDC Imvaba Fund Policy and Procedures; the Imvaba Fund Service Level Agreement; Imvaba Application Forms and Guidelines and a mock contract formulated between the ECDC and Co-operatives.

Other documents requested and received include the unit's annual and operational plans.

Other sources of data collected were policy speeches, media statements and coverage, ECDC and DEDEAT websites. In this regard, the researcher duly acknowledged and embraced the duty to evaluate the authenticity and the accuracy of the secondary documents.

## 3.7 Data Analysis

Generally, the researcher subscribed to the notion that qualitative data analysis is a continuous and iterative process. Creswell *et al*. (2007:100) agree that data collection, processing, analysis and reporting are interwoven and not merely a number of successive steps.

As Creswell *et al.* (2007:99) suggest, in analyzing the data, the researcher seeks to establish explanation, understanding and interpretation of the data collected. In line with the interpretative approach adopted, the researcher tried to establish how participants make meaning of the specific phenomenon by analyzing perceptions, attitudes, understanding, knowledge, values, feelings and experiences in an attempt to approximate their construction of the phenomenon (Creswell *et al*., 2007:99). As indicated, a deductive approach has informed this research and has provided a framework for the analysis of the data (Gray, 2004:124). In this regard, the five perspectives of the adjusted BSC provide the framework and form the key categories of the information sought from the data. Yin (2003:111) and Gray (2004:139) highlight the value of using “theoretical propositions” for the selection and analysis of data. This is referred to as priori coding and Creswell *et al*. (2007:106) claim that such categories act as collection points for the critical and relevant data; or serve as pointers to the way that the researcher rationalises and continues making discoveries about deeper realities in the data.

These perspectives provided the framework for the analysis of the interview transcripts and all the relevant documents acquired and accessed. The researcher also tried to justly reflect the respondents' opinions, context, meanings and intentions within the BSC framework and in keeping with the qualitative approach (Winegardner, 2001:6).

## 3.8 Internal and External Validity and Confirmability

To increase the internal validity of the study, the researcher used multiple sources of data. This as Leedy and Ormrod (2013:103) suggest can be determined if all the sources of data collected converge in support of a particular theory. This is referred to as triangulation.

Conclusions were drawn that may have implications beyond the specific case studied. According to Leedy and Ormrod (2013:103) a research that is conducted and located in its natural setting may be more valid in the sense that it yields results with broader applicability to other real world contexts.

To increase confirmability, the researcher explained the methods and procedures followed, and the context of the study including the background. Confirmability is increased by ensuring that data interpretation is undertaken in a “logical and unprejudiced manner” (Riege, 2003:81).

## 3.9 Ethical Considerations

The researcher took all possible steps to ensure that this research is conducted in an ethical way. Care was taken to ensure that among others all sources of literature are acknowledged, that data was collected and processed fairly. Permission for the research was sought and granted by the Rhodes Higher Degrees Committee and DEDEAT as represented by the Head of Department. All respondents participated voluntarily in the interviews and with full knowledge of the purpose of the research. Confidentiality is granted to all those who requested accordingly.

## 3.10 Conclusion

This chapter has described the methodology used to undertake this research and achieve the aim and objectives of the study.

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ANNEXURE A

**Research Approval Letter from the Rhodes Business School**

To whom it may concern

**Research Approval: Mr N Lisani (Student Number 12l6983)**

This letter serves to confirm that Mr Ncedo Lisani (Student Number 12l6983) is a registered student at Rhodes University, where he is studying towards Masters of Business Administration (MBA) degree within the Rhodes Business School.

The proposal of his research to be submitted in partial fulfilment of the requirements of the degree has been approved by the Commerce Faculty's Higher Degrees Committee. The provisional title is "Developing a performance measurement tool to monitor the performance of a public sector agency – a Balanced Scorecard approach".

The research will take place under my supervision. If you have any further queries relating to the research, please feel free to contact me at N.Pearse@ru.ac.za or at 046 603 8617/8963.

Yours Faithfully

……………………………..

Professor Noel Pearse

RHODES BUSINESS SCHOOL

ANNEXURE B

**Letter requesting permission to conduct the research from DEDEAT**

**TO : Mr Bongani Gxilishe**
**The Head of Department**

**FROM : Ncedo Lisani**
**Communications**

**SUBJECT : Request for permission to conduct a research**

**DATE : 02 June 2014**

**REF : 02/06/14**

Dear Mr Gxilishe

Please receive a letter seeking an approval to conduct a research on the Eastern Cape Provincial Co-operatives Programme implemented by the Eastern Cape Development Corporation (ECDC) on behalf of the Department of Economic Development, Environmental Affairs and Tourism (DEDEAT). In particular the research will focus on the Eastern Cape Provincial Co-operative Development Fund known as Imvaba fund.

The purpose is to develop a performance monitoring tool using an adjusted Balanced Scorecard (BSC) framework to monitor the performance for the fund. The reviewed theory and stakeholder insights will be used to co-create the key performance indicators of the tool. In other words the tool (its key performance indicators) will be informed by the tested theory from the literature reviewed by the researcher, the funder/ legislated authority (DEDEAT), implementing arm (ECDC) and customer (Co-operatives) insights. The envisaged outcome is a performance monitoring tool that is based on stakeholder experiences and collective insight and thus broad ownership of the final product.

As part of the study, I also request access to relevant documents, reports and employees mindful of the fact that some of the material may be confidential. In this regard, I commit to guarantee confidentiality and comply with agreed upon agreements as and when they are made.

A letter confirming that I am a registered student at Rhodes University, where I am studying towards Masters of Business Administration (MBA) degree within the Rhodes Business School is attached. This research will be submitted in partial fulfilment of the requirements of the degree.

The provisional title is “Developing a performance measurement tool to monitor the performance of a public sector agency – a Balanced Scorecard approach”.

Upon completion of the study, I undertake to provide the DEDEAT and ECDC with a copy of the full research report.

**APPROVED / NOT APPROVED**

**…………………………………………………………**

**Mr B Gxilishe** **DATE**

**Head of Department**

**DEDEAT**

ANNEXURE C

**Letter of consent to the respondents**

1. Description of the research

You are invited to participate in a research study conducted by Mr Ncedo Lisani. You have been chosen because you are either working for the Department of Economic Development, Environmental Affairs and Tourism (DEDEAT) or the Eastern Cape Development Corporation (ECDC) or a registered active co-operative within the Eastern Cape Province. You are also involved in the case study programme at one level or the other. In particular you are either involved in conceptualisation, planning, funding, implementation or monitoring programme progress.

The purpose of this study is to develop a performance measuring tool using the Balanced Scorecard (BSC) to monitor the performance of the Public Agency. The Eastern Cape Provincial Co-operative Development Fund, which is being implemented by ECDC on behalf of the DEDEAT is the case study programme.

This study seeks to answer this question by applying the BSC to a public sector agency responsible for administering the fund.

2. Participation

Your participation in the study is voluntary and you can discontinue at any time during the research without having to explain why, and without penalty. Your participation entails being interviewed for not more than an hour by the researcher.

3. Risks, discomforts and Confidentiality

There are no known risks associated with this research. However confidentiality will be granted at the request of the respondent.

4. Potential benefits

The final copy of the research will be shared with you and your section/ organisation. It will contribute in developing a performance monitoring tool based on stakeholder collaboration and collective insight and thus broad ownership.

5. Biographic details:

5.1 Gender

| | |
|---|---|
| Male | |
| Female | |

5.2 Race

| | |
|---|---|
| African | |
| Indian | |
| Coloured | |
| White | |

5.3 Age

| | |
|---|---|
| -25 | |
| 26-35 | |
| 36-45 | |
| 45+ | |

5.4 Organisation

| | |
|---|---|
| DEDEAT | |
| ECDC | |
| CO-OP | |

5.5 Length of time in the organization

| | |
|---|---|
| - 1year | |
| 1-2 years | |
| 2-5years | |
| 5+ years | |

5.6 Length of time in the current unit

| | |
|---|---|
| - 1year | |
| 1-2 years | |
| 2-5years | |
| 5+ years | |

5.7 Rank/ Position

| | |
|---|---|
| Senior Manager | |
| Middle Manager | |
| Account Manager | |
| CO-OP REP | |

5.8 Length of time in the current rank

| | |
|---|---|
| - 1year | |
| 1-2 years | |

| | |
|---|---|
| 2-5years | |
| 5+ years | |

6. Contact information

If you have any questions or concerns about this study or if any problems arise, please contact Prof. Noel Pearse at Rhodes Business School N.Pearse@ru.co.za.

7. Consent

I have read this consent form and have been given the opportunity to ask questions. I understand and agree to the terms set out here and give my consent to participate in this study.

Participant's signature:______________________________

Date: ________________

ANNEXURE D

**Research Interview Schedule**

Section 1

Customer Perspective

2.1 What are the key requirements of the cooperatives/ fund applicants within the Eastern Cape Province?

2.2 What are the key requirements (the support needed) of the funded cooperatives (fund recipients) within the Eastern Cape Province?

2.3 What are the key activities undertaken to meet co-operatives's needs and expectations?

2.4 How do you listen to and learn from your customers (cooperatives)?

2.5 What can be done to ensure that staff who work with cooperatives understand their needs and circumstances?

2.6 How best could the fund be expended to meet the applicants and the recipients's needs?

2.7 What should be done (activities) by DEDEAT/ ECDC to sufficiently attend to the most fundamental needs of the cooperatives?

Section 2

Financial Perspective

3.1 What are the key financial resources that are needed to meet customer expectations and achieve the mission?

3.2 How are you monitoring the financial performance of the agency/ unit to ensure that customer needs and expectations are met at reasonable cost, effort and time?

3.2.1 What measures have been put in place to ensure that costs are managed and that spending is in accordance with plans?

3.3 What financial objectives must be achieved by the agency in order to satisfy its customer needs?

3.4 What can be done to make sure that the agency delivers this service at the least possible cost to, time and effort from the customer?

3.5 What can be done to ensure that the funder realises return on its investment?

3.6 How can the unit ensure that expenditure is linked to and informed by key strategic priorities?

Section 3

Internal Processes Perspective

4.1 In which internal processes must the agency/ unit excel in order to manage its financial resources and meet the customer needs and expectations?

4.2 Which support process are critical to meeting customer needs?

4.3 How are these processes monitored to ensure that they indeed support your endeavors to meet cooperatives needs?

4.3.1 How should they be monitored to maximize their use and thus facilitate goal attainment?

4.4 Has the unit engaged in any benchmarking exercise with agencies doing similar work from other provinces?

4.4.1 If not how can this be done and what value could it bring to your processes?

4.5 What technology advancements have been brought in to ensure that the agency/ unit monitors its financial performance properly and thus serve cooperatives better?

Section 4

Employee Learning and Growth Perspective

5.1 What capabilities does the agency/ unit need to operate efficiently and enhance its internal processes?

5.2 How can these key capabilities be sourced, retained and/or improved to facilitate and support mission attainment?

5.3 What contributions are required from the stakeholders for the agency to be able to maintain and develop these key capabilities?

5.4 How does the unit ensure alignment between its HR capabilities, processes and ultimately the fund's key priorities?

5.5 What can be done to foster alignment between personal and programme goals?

5.6 What should the unit do to ensure that its workforce is capable of managing organizational processes and systems so as to facilitate the attainment of the mission of the programme?

5.7 How can you make sure that such capacity building programmes/processes are continuous and that they form part of your unit's DNA?

5.8 What should be the key signs signaling that the employees of the unit are consistently acquiring useful and relevant knowledge that will enable them to respond appropriately to the growing complexities of their working environment?

Section 5

Equity Perspective

6.1 Considering the history of oppression of certain groups in South Africa under the apartheid regime, what is being done to ensure full participation of the designated groups (women, youth, disabled and communities from rural areas) in this programme?

6.2 How can the agency ensure that women, youth and rural communities do not only enjoy maximum access to the fund, but become successful participants?

6.3 How can the agency minimize unintended consequences of such corrective discrimination like resistance from other groups and poor uptake of the fund?

6.4 How do you propose that such actions (i.e. advancing women, youth and the region) be incorporated as an element for measuring and monitoring the performance of the fund?

END