City of Charlotte (A)

The Scorecard is a communication, information and learning system. Building a scorecard helps managers link today's actions with the achievement of today's priorities. It encourages accountability. And, today, we define accountability by results.

– Pam Syfert, City Manager

The City of Charlotte, North Carolina, with a population of 513,000, is the largest city between Atlanta and Washington, D.C. It contains offices of nearly 300 of the Fortune 500 companies. As the headquarters city for First Union and NationsBank (in addition to companies like Duke Energy, and Nucor), Charlotte is the second-largest banking/financial center in the United States. In 1998, the city's operational and capital budget was $900 million, broken into 150 separate programs. It employed 5,100 people, all nonunionized, and enjoyed a AAA bond rating. The City had developed Mission and Vision statements (see **Exhibit 1**). These communicated the city's desire to provide high quality services to its citizens that would make it a "community of choice for living, working, and leisure activities."

Charlotte operated with a Council-Manager form of city government. A mayor and 11 city council members were elected every two years. In 1998, Republican mayor Pat McCrory was midway through his second two-year term. Mayor McCrory, like the city council members, served part-time. During his term, he continued in his previous position, for one or two days per week, as a human resources executive of Duke Energy. The mayor and council could make only three appointments: the city manager, the city attorney, and the city clerk (who took notes at council meetings). McCrory saw the mayor's role as "Chairman of the Board":

> You help to set policy and the vision for where we want the city to go. The mayor is also the chief communicator for the City of Charlotte, its chief spokesman.

The full-time city manager, who usually served through several administrations, was effectively the city's chief operating officer. Currently the city manager was Pam Syfert, who supervised the city's departments (see organization chart in **Exhibit 2**). Syfert had served as deputy city manager for six years, was appointed acting city manager in 1996, and permanent city manager in 1997. Her predecessor had served 15 years. Biannually, the city manager prepared a two-year budget that was brought to the mayor and city council for approval. Once budgets and initiatives were approved, Syfert was responsible for running the city. Syfert usually met with the mayor twice a week to review upcoming council meeting agendas and discuss policy issues.

Professor Robert S. Kaplan prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

In the early 1990s, growth in tax revenues had slowed dramatically. In response, the city manager instituted a major downsizing program that eliminated 683 positions and explored ways to provide more efficient and cost-effective services. The restructuring government initiative led to a new organizational structure (see **Exhibit 2**) in which 27 former departments were consolidated into nine key business units and four support businesses, each led by a Key Business Executive (KBE), plus four administrative functions (mayor/council, city manager, clerk, and attorney). The KBEs were given considerable latitude to run their departments like a "business," with fewer controls but with greater accountability.

In 1995, Charlotte won first prize in the City Livability Awards, being cited for "setting the standard by which to measure good local government." The award noted the city's programs that were designed to foster collaboration and encourage all citizens to work together on solving problems. The city officials liked to engage in a friendly competition with cities, like Indianapolis and Phoenix, to be recognized as the best managed city in the United States. Charlotte, like these other cities, was using activity-based cost management to promote an active competitive environment for city services. Parking-meter reading had already been privatized, and ongoing competition occurred between municipal workers and private contractors for garbage collection, street maintenance and repair, equipment fleet maintenance, water-meter reading, and water and sewage treatment. To date, the city workers had won most of the competitive contracts against the private sector.

Performance Measurement

Charlotte had a long tradition of performance measurement for city services, having instituted a Management by Objectives (MBO) program in 1972. The MBO process had three steps:

- Identify the objectives of each department
- Determine how the organization will be structured to meet the stated objectives
- Develop an accurate data collection system to determine if objectives have been met

Departments submitted objectives each year as part of the budget request. Once adopted, the departments reported on 5-, 8-, and 12-month intervals to the city manager on their progress in meeting the objectives. Over the years, however, the MBO process had become burdensome and bureaucratic. Syfert recalled:

> City staff measured everything from workload, response time, cost per unit, and number of inspections. They also identified efficiency and effectiveness measures. One unintended result was an information overload, between 800 and 900 measures. There were lengthy reports with data generated that few people read.
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> The city's management by objectives process served the organization well over the years and helped staff to track performance against targets. However, it did not reflect the '90s emphasis on strategic goals, mission-driven government and rapid change. Our measurement system focused our attention backward, not forward. It was an audit tool, not a planning tool, and therefore did not relate to the city's vision, mission, or goals.

Curt Walton, budget director, noted the diffusion of energy across the city's business units:

> The key business executives had so many initiatives going on that they couldn't get focus on what was really important for the city. We needed to find a way to narrow the range of requirements that a department manager had to do.

Five Strategic Focus Areas

Nancy Elliott, a long-time budget analyst (now working in Human Resources), commented on another aspect of the city's environment in recent years:

> Up through the mid-1980s, the city manager and the budget office had a clear idea about City Council's priorities. During the late 1980s and early 1990s, however, the council had become more diverse. More conflicting opinions were expressed in meetings and many decisions were made on close 6-to-5 votes.

In 1991, Pam Syfert, then deputy city manager, went to the annual retreat of the city council and the senior administrative staff with a proposal that the council get some focus for the city's objectives. She proposed to the council that they identify a few strategic themes in which the city could strive to excel and focus its limited resources. Several candidates came readily to mind. During the late 1980s, attention on crime had evolved into a focus on community safety. Similarly, attacks on poverty had been broadened into a major initiative labeled "City Within a City." This initiative emphasized strengthening the many diverse neighborhoods in the city's core districts.

The staff presented City Council with 15 possible focus areas. Active debate on which one to choose occurred during the retreat. Many people argued that education should be one of the high priority areas. But education was the responsibility of Charlotte-Mecklenburg County, a separate political entity, so the council members decided to emphasize areas they could directly influence. At the end, they selected

- Community Safety
- Transportation
- City Within a City
- Restructuring Government
- Economic Development

Initially, however, the city could not link the five strategic focus areas to the day-to-day activities of its business units. The MBO process continued to generate local, operational measures but these were too voluminous and were not focused on contributing to advancing performance in the focus areas.

The Balanced Scorecard Project

In 1994, Pam Syfert came across a series of *Harvard Business Review* articles[1] that described how a Balanced Scorecard enabled company objectives and strategy to be linked to a few performance measures across four perspectives: financial, customer, internal, and learning and growth. She passed these articles on to the budget and evaluation director, with a note, "Why not look into this?"

Two budget analysts, Nancy Elliott and Lisa Schumacher, started to work to develop a measurement framework that would connect the city's strategy to measurement. They experimented with recasting the MBO data into the scorecard's four perspectives but these data related to local, tactical accomplishments and didn't capture the focus on strategy, customers, and capability

1 R. S. Kaplan and D.P. Norton, "The Balanced Scorecard: Measures that Drive Performance," *Harvard Business Review* (January-February 1992), pp. 71-79; and "Putting the Balanced Scorecard to Work," *Harvard Business Review* (September-October 1993), pp 134-147

development that seemed central for the scorecard approach. The two analysts decided to obtain more information by attending a June 1996 conference on the Balanced Scorecard. There they learned the process of selecting objectives and measures explicitly linked to strategy. Upon their return, they proposed to Syfert that the city embark on a project, facilitated by experienced outside consultants, to implement the Balanced Scorecard.[2] Syfert briefed the city council members who agreed to the study.

The project was organized with three teams. A Leadership Team served as the project's steering committee. It consisted of the city manager, assistant city managers, several business executives (i.e., department heads), the budget director, finance director, and planning director. The consultants interviewed each member of the leadership team to learn about key issues in the city's strategy and management processes. A Core Team, led by Schumacher and Elliott, served as the staff for the project. The core team included the deputy finance director, a division head of engineering, an assistant in the neighborhood development department, and a management analyst. The third team consisted of a contact person in each city department. The contact person would become knowledgeable about the Balanced Scorecard and be the person to launch a scorecard project in his or her department once the city-side scorecard had been developed.

The core team met in a series of half-day retreats over a 2½ month period. At one of these, the team realized that the traditional corporate BSC, with the financial objectives as the ultimate long-term outcome, did not represent what the city was trying to achieve. A Renaissance consultant finally said: "The financial perspective doesn't belong on top. Your customers, the citizens, belong on top."

The core team members gasped with relief, "Can we really do this?" Once the geography of the BSC had been suitably rearranged, the team moved rapidly to create the city's "Corporate Scorecard" (see **Exhibit 3**). The top-line, customer perspective, captured aspects of the five strategic focus areas, slightly renamed. Its objectives represented the key services the city was delivering for its citizens. The financial objectives became the enablers for helping the city achieve its customer objectives. It measured whether the city's services were being delivered at a good price. The internal and learning & growth objectives then supported both the financial and the customer objectives. The internal objectives encouraged the city to change and improve the way it delivered services. And the learning and growth objectives identified whether the city was maintaining technology and its employee training and skills so that it could continually improve. The team developed descriptive statements for each of the 21 objectives on the Corporate Scorecard (see **Exhibit 4**).

Some departments, such as Fire, Wastewater Treatment and Solid Waste Disposal, were disappointed that their activities did not appear on the Corporate Scorecard. Syfert told people in these departments that their work remained vitally important for the city but that they should also think how their operations could contribute to one or more of the city's top-level objectives. Syfert explained:

> The corporate scorecard does not and cannot represent every important service delivered. For example, basic city services such as fire suppression, garbage collection or animal control are not represented individually on the corporate scorecard. These basic services are more appropriately addressed at a department or division level scorecard. The focus areas identify services the organization wants to improve or enhance to make Charlotte a community of choice for living and working.

2 They recommended Renaissance Solutions, the consulting firm founded by David Norton, a co-author of the HBR articles

The next step was to develop pilot BSCs in four departments. The budget director approached several key business executives to ask for their participation but got turned down from several. Doug Bean, newly appointed head of Utilities, recalled his skepticism:

> The Balanced Scorecard initiative had the feeling of a top-down flavor-of-the-month initiative without buy-in from the individual departments. And my department was already in the midst of a major initiative to roll out our business plan throughout the organization, to make it come alive for each of our 650 blue-collar employees. The BSC proposal would have needed as much new training and education as our business plan rollout. We were also engaged, at the same time, in our competition and privatization plan; this was a huge deal that took lots of management time and resources.

Fortunately, four units—Engineering and Property Management, Planning, Police, and Transportation—agreed to be pilot sites. In each unit, the project team consisted of the director plus four to five senior people, who typically were assistant directors or division heads. Schumacher described the value of the pilots:

> Working with volunteers meant you got less resistance. And the management teams from these pilot departments were risk takers, people who embraced change. We emphasized to the pilots that this exercise was a learning experience and it was all right to make mistakes. The success of these early volunteers would help to secure buy-in from the rest of the organization.

Schumacher and Elliott, plus the Renaissance consultants, provided assistance to the teams. They asked each team to determine how its department could help achieve the city's strategic objectives. The leadership teams in these departments spent 12 to 20 hours over several weeks learning about the scorecard and constructing their own. The intent was to move from department-level scorecards down to division-level scorecards, team-level scorecards, and even individual scorecards.

Once the pilot scorecards had been built and accepted, Elliott was named as Balanced Scorecard coordinator. She worked with the remaining business units, one at a time, to help them develop their own scorecards. This process took an additional nine months, and about one-third to one-half of Elliott's time.

Schumacher reflected on the rollout process:

> At first, the KBEs tried to maximize the number of corporate BSC objectives they covered or influenced. We later told them that we would prefer them to choose a couple of the top [customer level] objectives and take real ownership of these.
>
> By design, our approach was "soft sell" and participative at the higher management levels. Communicating the shift to the strategic focus of the Balanced Scorecard was challenging. It was very different from the MBO process.

In parallel with helping the business units develop their BSCs, the city's project team developed specific BSCs for each of the five focus areas (see examples in **Exhibit 5**). Writing scorecards for the focus areas required management to choose or affirm objectives and decide how success would be determined. The focus area BSCs used subsets of the corporate (city) BSC to show the specific objectives and linkages for each theme. Syfert noted: "The conversations on mission, roles and impact on issues were excellent and at the conclusion, staff had a consensus on the strategy and the impact required."

The focus areas became institutionalized when the city formed five "cabinets," one for each focus area (see **Exhibit 6**). The cabinet consisted of key business executives whose departments could affect or influence each area. It provided a mechanism to get key operating people together with a common interest in a strategic theme. For example, Dennis Nowicki, chief of police, was an obvious member for the Community Safety cabinet. Initially, however, Nowicki had avoided involvement in the Transportation focus area. He noticed, however, that more people were being killed in traffic accidents than in homicides. He realized that his department's responsibilities for public safety required a more active participation in the Transportation focus area so he eventually joined that cabinet, and also served on cabinets for City Within a City and Economic Development. In all these focus areas, he felt that the police department could play a significant role.

Each cabinet met monthly to develop and update strategies for the focus area, and serve as the spokesman for attracting resources to the focus area. A major city project, such as a new convention center or sports arena, would be reviewed by each cabinet to assess its impact on the focus area's strategic theme. Stanley Watkins, director of Neighborhood Development, noted the value of the cabinets to him:

> The meetings of the City Within a City cabinet enable me to get inputs from the police, fire department, and transportation, all of whom have a big impact on our neighborhoods.

Del Borgsdorf, deputy city manager, observed:

> Most cities are really just federations of operating units. The Balanced Scorecard became the vehicle to integrate across departments. It enabled us to ask, "What are you doing that either contributes to or subtracts from the 'strengthen neighborhoods' objective?" The scorecard enabled us to shift the city council agenda from departments and tactics to the five strategic themes of the cabinets.

Initially the Balanced Scorecard for each cabinet existed as linked objectives in the four perspectives (see **Exhibit 5**). The city manager, however, wanted the cabinets, in 1999, to develop specific measures for their objectives so that progress in achieving the objectives could be assessed quantitatively.

Measurement Issues

While the Management By Objectives process had produced hundreds of measures of city performance during the past 25 years, several business units felt that they needed to create entirely new measures for their balanced scorecards. The Police Department had historically been measured by how long police took to respond to emergency (911) calls. Surprisingly, their analysis revealed that rapid response time was relevant for less than 1% of the calls they received. Even when a crime had been committed, the criminal had usually left the premises, and victims were typically satisfied if the police arrived, as promised, within an hour, rather than within two minutes. The police also observed that there was no correlation between response time to a call and the crime rate. They felt it more important to prevent the next crime than to respond quickly to crimes already committed. The Police Department, however, felt that the crime rate would not be a reliable indicator by itself. If the department were successful in its community policing efforts, the local police would observe and report more crimes. Also, the citizens themselves would develop increased confidence that local police were responsive and skillful, leading to an increase in the number of crimes they reported to the police. Both forces could increase the number of crimes reported even while the actual incidence of serious crimes was decreasing.

The Police Department initially worked with researchers at the University of North Carolina, Charlotte (UNCC), to develop a survey that would produce an index of the community's perception of safety. Chief Nowicki decided that this measurement was so critical to his organization's performance that he subsequently asked the Gallup Organization to refine and administer the survey to individuals in the city's neighborhoods. Using an experienced, trusted, and independent organization like Gallup, would give the safety perception measurement added credibility.

Stanley Watkins also wanted a specific, uniform measurement for his neighborhood development efforts. He was working with UNCC researchers to develop a Neighborhood Quality of Life Index for the 73 neighborhoods in the CWAC program. The measurements would encompass 28 variables in four categories—social, crime, physical, and economic (see examples in **Exhibit 7**). The index would enable each neighborhood to be classified as stable, threatened, or fragile.

The Strategic Management System

By 1998, the balanced scorecard had become embedded in Charlotte's annual strategic planning and management process. Del Borgsdorf described the cycle of activity (see **Exhibit 8**).

> At the January retreat with City Council, we set priorities for the upcoming budget. We give Council specific project proposals in the context of the five focus areas, such as initiatives for housing and a new sports arena. We also review and update the Corporate Scorecard, as needed. So far, we have made only minor adjustments to the original scorecard. We eliminated the internal process, "Promote Business Mix." We intended, with this objective, to make the city less dependent on the financial services industry, but we couldn't find anyone within city government who really "owned" or could influence this objective.
>
> After the high-level review at the January retreat, all the city business units review their work against the updated information and set their business plans, including the performance measures for the next year. During the year, the businesses report on their progress, achievements, and challenges.

Each key business unit submitted an annual plan built upon the balanced scorecard framework. For example, Stanley Watkins' Neighborhood Development business unit had recently completed its 1999 business plan. The plan, organized by its balanced scorecard (see **Exhibit 9**), affirmed the unit's contribution to the city's corporate scorecard, and developed specific objectives and measurable outcomes for its performance in 1999. The plan drilled down to specific reporting responsibilities for each measure, and the programs, services, and initiatives that would enable the unit to achieve its objectives.

The budget office, during the year, monitors the performance of the business units against their targets. Semiannually, the city manager issues a report to the mayor and city council. Starting in 1998, the report was organized by the corporate scorecard objectives. A separate page was devoted to each of the scorecard's 21 objectives. The page contained a definition for the objective, the initiatives undertaken to improve performance for that objective, and some representative indicators of progress. As an example, **Exhibit 10** shows page 6 from the FY 1998 Year-end Report, describing the Customer objective, "Improve Service Quality." Syfert wanted the semi-annual and annual reports to be publicized throughout the city:

> Just as the city council members can see how the city is progressing against important objectives, we intend that the city residents themselves should receive this same communication.

Syfert, in 1996, had initiated a gain-sharing program to motivate efficiency among city employees. A citizen's advisory group, consisting of human resources professionals from the city's major private sector employers, had requested this program. The program paid up to $600 a person, about two weeks of pay for lower-paid employees, based on two components. The first component, worth $300 per employee, would be paid if the city achieved a targeted budget savings: $ 3 million. This savings could be accomplished by doing the required work with fewer than budgeted people and by savings from the privatization program. The second component was based on achieving local objectives set by the individual's business unit head. Rather than operate with multiple performance measurement systems, Syfert asked the KBEs in 1998 to select the local objectives from the unit's balanced scorecard objectives. The city's human resources department would review and approve each business unit's objectives and goals to validate that the targets were sufficiently challenging.

Summary

Lisa Schumacher reflected on the effort during the past three years.

> This has been an adventure. I underestimated the amount of change required to implement this strategic measurement approach. It was already a huge deal to absorb the downsizing changes leading to a new organization structure of the key business units. Then we introduced the balanced scorecard concept to replace the MBO process and had to get people comfortable with a new vocabulary. It was a big cultural shift, getting people to distinguish between strategic and diagnostic measures.

Martin Cramton, planning department head, felt that the scorecard was not a complete break from the past.

> It was a logical extension of what we had been doing with the five focus areas and our downsizing program. The BSC helped us determine where the city was going rather than measuring the past. I would be concerned, however, if the "accountants" take it over and the process becomes burdensome, producing a lot of paperwork without much impact. We need to decentralize the process—make it a way of life in the departments where local innovation and initiatives can flourish.

Pam Syfert was now using the scorecard to instill accountability among her key business executives. She had always started her periodic meetings with the KBEs by asking them several big questions:

- How are you doing running your business?
- How are you building the community and contributing to the focus areas?
- How are you building your people?
- How are you contributing to looking to the future?

She noted:

The balanced scorecard has become the common theme that unites discussions across all these questions.

Del Borgsdorf noticed a major change in the planning discussions:

Before Pam, the city manager would review progress on a major project, like the convention center, to see whether it was on time and on budget. He would examine the causes and cures to overruns and delays. Pam is more strategic. She asks: Why did we build the convention center? What is its impact on neighborhoods, on economic development of the hospitality industry, on employment, on transportation in the downtown corridor, on the viability of downtown neighborhoods?

This is a much broader discussion, requiring the active involvement of people from many departments. The questions are bigger and harder but they are also more fun and more motivating to work on.

Mayor McCrory commented:

The balanced scorecard has helped me to communicate a strategic vision for the city to my constituents, the citizens. It also helps me when I have discussions with potential employers to locate here. It helps my city manager focus on things that will have the biggest impact on the city, and I see it helping people in departments think across organizational boundaries, to realize that they should not be a group of segregated departments.

But the measurements need to improve. They are complex, and not easy for the council and me to grasp. The council needs to get more involved in the measurements and how they can be used to evaluate the city managers. The time commitment and complexity create a dilemma for us.

I would be willing to expand the incentive system, but first I need to feel more confident about the measurements and whether we have the right measures.

Syfert concluded:

Elected officials want information that will help them make good decisions, especially for the budget. The challenge is to have the right measures so that we can manage our resources better and make more informed decisions.

Measurement gave clarity to vague concepts like strategic goals. We are using it to communicate, not to control. Building the scorecard has developed consensus and teamwork throughout the organization. Our next challenge is to communicate it to everyone in the organization.

The journey of implementation is under way. It will take three years of intensive care, before it truly becomes established, for the organization to fully embrace it and make it routine.

Exhibit 1 The Vision and Mission of the City of Charlotte

"Public Service is Our Business"

Mission Statement

The mission of the City of Charlotte is to ensure the delivery of quality public services that promote the safety, health and quality of life of its citizens. We will identify and respond to community needs and focus on the customer through:

- Creating and maintaining effective partnerships
- Attracting and retaining skilled, motivated employees
- Using strategic business planning.

Vision Statement

The City of Charlotte will be a model of excellence that puts the citizens first. Skilled, motivated employees will be known for providing quality and value in all areas of service. We will be a platform for vital economic activity that gives Charlotte a competitive edge in the marketplace. We will partner with citizens and businesses to make this a community of choice for living, working and leisure activities.

Exhibit 2 City of Charlotte Organizational Chart

City Clerk[a]

Mayor
City Council

City Attorney[a]

City Manager

Key Businesses

- Aviation
- Charlotte-Mecklenburg Planning Commission
- Charlotte-Mecklenburg Police
- Charlotte-Mecklenburg Utilities
- Engineering & Property Management
- Fire
- Neighborhood Development
- Solid Waste Services
- Transportation

Leadership Team

Deputy City Manager
Assistant City Managers
Executive Assistant

- City-County Customer Service & Information Center
- Community Relations Committee
- Corporate Communications
- Economic Development
- Internal Audit
- Training Team
- Urban Projects Coordinator

Key Support Businesses

- Budget and Evaluation
- Business Support Services
- Finance
- Human Resources

[a] Council appointed

Exhibit 3 The Corporate Scorecard

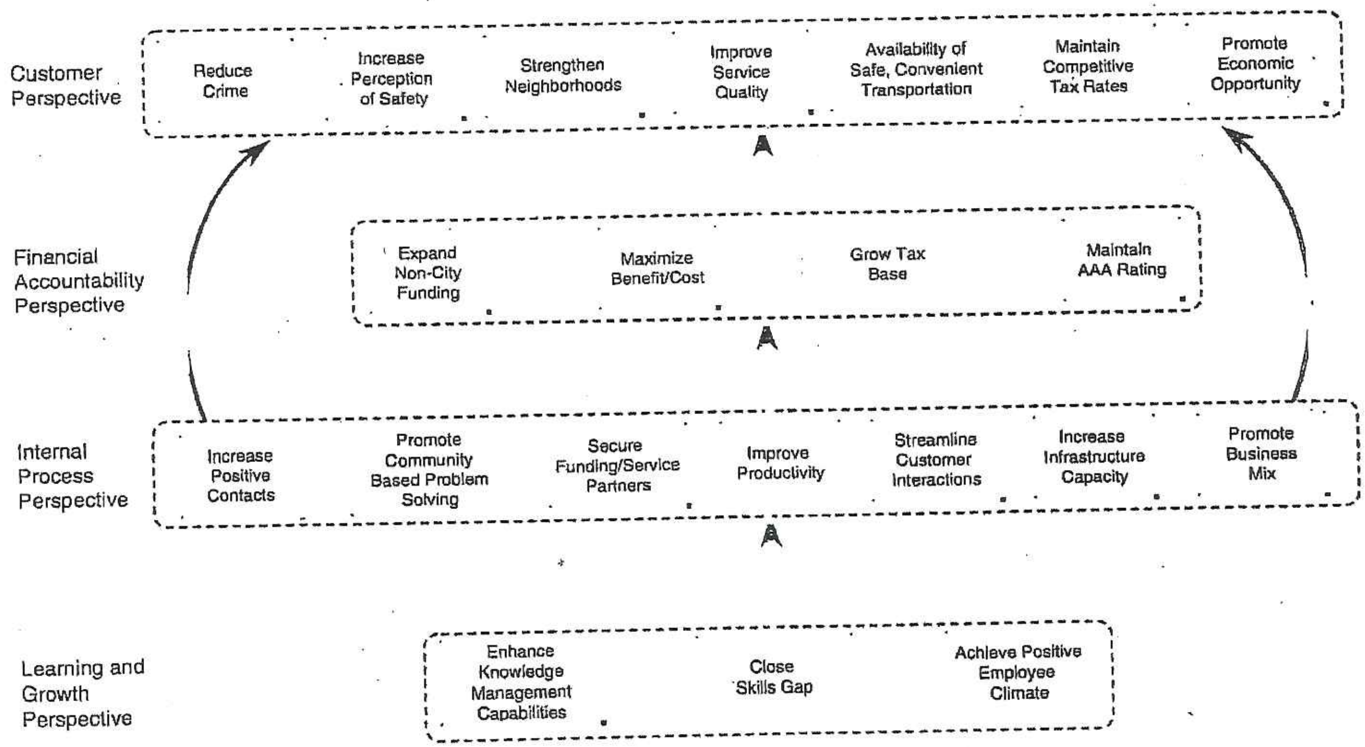

Exhibit 4 Balanced Scorecard Objectives and Objective Statements

Reduce Crime – Decrease overall crime rates, particularly violent crimes, domestic violence, repeat offenders, juvenile crimes and substance abuse.

Increase Perception of Safety – Improve perception of community safety through neighborhood services, communication, increased police visibility and active participation of community members.

Strengthen Neighborhoods – Promote vital neighborhoods that are safe and offer housing and economic opportunity for individuals and businesses in the community.

Improve Service Quality – Maintain exceptional service levels through improved internal processes and competitively sourced services.

Maintain Competitive Tax Rate – Maintain tax rates, including property and other taxes and user fees, which are competitive with other cities.

Safe, Convenient Transportation – Operate and develop transportation systems (i.e., roads, public transit, aviation) that enable people and goods to move easily and safely to, from and within the City and the region.

Promote Economic Opportunity – Support development of a business environment that provides economic opportunity for citizens and businesses and attracts new businesses to the City.

Maximize Benefit/Cost – The City will aggressively maximize the benefit from every tax dollar/user fee spent.

Expand non-City Funding – Extend City resources to meet community goals via contributions and participation of non-City government partners.

Grow the Tax Base – Increase tax revenue through economic growth, not by increased property tax rates.

Maintain AAA Rating – Pursue investment activities and fiscal policy that will maintain the City's AAA credit rating.

Increase Positive Contacts – Increase interaction with City personnel perceived by customers and partners as a positive experience.

Promote Community-based Problem Solving – Utilize community-based problem-solving model to strengthen neighborhoods, solve neighborhood problems, increase positive contacts and increase perception of safety.

Secure Funding/Service Partners – Leverage City resources by partnering with private and public organizations.

Improve Productivity – Minimize costs and increase service output by improving capital and labor productivity.

Streamline Customer Interactions – Enable easier customer transactions by improving processes.

(continued on next page)

Increase Infrastructure Capacity – Add new capacity and optimize existing infrastructure to support growth.

Promote Business Mix – Promote industry/service diversity in City businesses.

Enhance Knowledge Management Capabilities – Use technology to leverage the knowledge base of the workforce.

Close the Skills Gap – Increase the availability of skills required to support City focus area priorities through training and retention in key skill areas.

Achieve Positive Employee Climate – Create an environment where employees are motivated and empowered to be responsive to the City's objectives.