A New Balanced Scorecard Approach for Quality of Life Measurement in Italian Local Government.

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Introduction

This paper suggests to add social indicators to the existing set of indicators already required by the law requires for local government. We did an effort to integrate the *present set of indicators* and *the Social Reporting (a recent methodology that companies use to report what they did for stakeholders)* using *balanced scorecard's approach* (a management control system that adds new perspectives to financial data) in order to measure the quality of life at local level.

This paper defines a new specific balanced scorecard for the local government (LGBS) matching the current indicator system with Social Reporting in order to measure the true and main goal of local government: a better quality of life.

In the first chapter we analyse characteristics of current system of measurement used in Italy; in the second chapter You can find a description of two relevant trends in management (the Social Reporting and the Balanced Scorecard) and some recent use of these approaches in Public Management; our suggestion of an integrate use of current set of indicators and of Social Reporting according to a balanced scorecard approach is explicated in the third chapter.

Current system used in Italy

In the last years central government has done an effort to develop a methodology for quality measurement in Italian local government.

Since 1996 (DPR n. 194/1996) a set of performance indicators has been used to measure quality of service delivered by 6954 Italian local governments (85% of 8.099 Municipalities) (Daccò, 2000). The goal of this law was to control Municipalities, not to help them to improve performances. This legal top-down approach didn't work. Municipalities consider it only as a statistical methodology and not as a guide for managing its structure and to decide priorities. Moreover, they "feel" this law as a new formal control used by central government to measure service quality in order to "punish" Municipalities that demonstrate bad results. A system of "punishment" starts in case of very low financial and qualitative performance: local Government is replaced by a manager of the Central Government.

However, this law (DPR n. 194/1996) forced Local Authorities to understand the informative "power" of indicators as a synthetic measurement of a social or/and economic trend.

This set of quality indicators is organized in four categories: "economic and financial", "main services", " individual demand services" and "others services".

Economic and financial indicators are traditional measurements of balance sheet of Municipality: measurement of taxes pro-capite, cash flow, …
Main services indicators measure performances of mandatory services delivered by Municipalities (school, aqueduct, refuse collection, …): measurement involved both effectiveness and efficiency of services.
Individual demand services indicators measure performance of some services delivered by Municipalities in order to satisfy a specific demand (hotel, school refectories, …): this category measures effectiveness and efficiency of services that depend on economic and social characteristics of the municipality.
"Others services" indicators measure performance of a miscellaneous of services delivered by some Municipalities (gas, bus,…). That's the reason why there are no average value in the table (each municipality has a different mix of "other services).
In the following table You can see the list of indicators and the last empirical data calculated on 6.954 municipalities (over 85% of the 8.099 Italian municipalities).

The table has three kind of indicators:

- Ratios between monetary values and number of citizens (expressed in Italian lire);
- Ratios expressed in percent to measure effectiveness and efficiency;
- Ratios between non-monetary data (expressed in m^2, classroom, …).

INDICATORS	VALUE
ECONOMIC AND FINANCIAL	
Indicator 1: Tax and non tax revenue / number of citizens ratio	764.935
Indicator 2: Tax revenue / number of Citizens	571.126
Indicator 3: State contribution	449.689
Indicator 4: Regional contribution	95.635
Indicator 5: cash from tax and non tax revenue / tax and non tax revenue	57 %
Indicator 6: Payment of current cost / authorized current cost	76 %

MAIN SERVICES

Indicator 1: school effectiveness (classroom / number of students)	0,06
Indicator 2: water service effectiveness (m^3 of water / number of citizens)	109
Indicator 3: aqueduct effectiveness (number of buildings delivered/total buildings)	77 %
Indicator 4: sewerage service effectiveness (number of buildings delivered/total buildings)	72 %
Indicator 5: municipal refuse collection service effectiveness (number of refuse collections per week)	0,52
Indicator 6: municipal refuse collection service effectiveness (number of buildings delivered/total buildings)	83%
Indicator 7: education effectiveness (cost / attending students)	1.045.742
Indicator 8: aqueduct efficiency (total cost / m^3 of water)	738
Indicator 9: sewerage service efficiency (total cost / kilometres of sewerage)	56.409
Indicator 10: municipal refuse collection service efficiency (total cost /quintal of waste)	16.003

SERVICES ON INDIVIDUAL DEMAND

Indicator 1: Hotels effectiveness: demands granted / total demands (percentage)	79%
Indicator 2: infant school effectiveness: demands granted /total demands (percentage)	74,1%
Indicator 3: sporting centres effectiveness: sporting centres numbers / 10.000 citizens	5,46
Indicator 4: School refectories effectiveness: demands granted /total demands (percentage)	98%
Indicator 5: Hotel efficiency: total cost / customer numbers (average)	26.449.707
Indicator 6: infant school efficiency: total cost / number of children (average values)	12.622.661
Indicator 7 sporting centres efficiency: total cost / number of customers (average values)	15.976
Indicator 8: school refectories efficiency: total cost / lunches delivered (average values)	7.347
Indicator 9: revenue of hotels: total revenue / number of customers (average values)	18.532.538
Indicator 10: revenue of infant school: total revenue/attending children (average values)	2.004.043
Indicator 11: revenue of sporting centres: total revenue / number of customers (average values)	3.739
Indicator 12 revenue of school refectories: total revenue/number of lunches delivered (average values)	3.889

OTHER SERVICES (Specific indicators for each Municipality)

gas delivery effectiveness	
public transport effectiveness	

Table 1 – Current mandatory set of indicators (Translated from original table, Daccò, 2000)

In 1999, the introduction of the law DPR 286/99 describes the design of a new public management control system. This law concerns strategic control, operative control and manager evaluation and it says that strategic control, operative control and manager evaluation are mandatory for central government, but is not mandatory for the local governments.
The application of this law has been gradual in order to obtain a participative diffusion of this methodology.

This law don't replace the previous set of indicators because its subject is the process and the roles of planning and management control and not the content of controls.

In case of local governments the application of this law is recommended, even if not mandatory. Local authorities are only invited by this law to use this system and performance indicators to measure the quality level of services.

DPR 286/99 forces central government to use performance indicators to evaluate the level of services.

The law marks the difference among strategic control, management control, accountability control and gives mandatory guide lines about mangers' performances measurement.
This system is an internal "instrument" for central and local government and no central control is previewed.

According to this law they have to fix the standards of quality indicators: citizens' associations can ask to participate in the choice of indicators and also the expected standards of the year in citizens charters.
The law gives a great chance to this class of stakeholders (citizens): they could use this power in order to influence priorities of local government.

This kind of negotiation could develop a co-operative network that works to ensure a better quality of services and quality of life.

Current trends in the world

There are two main trend in management that could be suitable for government in these years: the "Social Reporting" and "Balanced Scorecard".

The Social Reporting methodology in local government

A public agency should be an excellent service provider and discharge its social responsibilities with external stakeholders. We suggest to modify the current set of indicators (see table 1) adding a set of *social indicators* and to differentiate between different groups of local stakeholders.

There are two aspects that Local Governments have to consider in order to satisfy citizens:

1. Citizens can be grouped in class of stakeholder with different priority to satisfy;

2. A lot of these classes have "social" priorities (environment, …).

The word *stakeholder* was born in analogy to stockholder by Standford Research Institute in 1963 to indicate who has an interest in company activities.

Classic definition is Freeman's one (Freeman, 1984): "stakeholders are individuals or well-defined groups from whom the company depends on to survive … that can influence or be influenced from company activity in terms of products, policy and process."

Since few years, some Municipalities have been using a managerial tool named "Social Reporting" in order to monitoring social priorities of stakeholder.

Some Municipalities (we analyse reports from Comune di Copparo and XI Municipio di Roma) use "*The Social Reporting"* methodology to describe the achievement of each year (Zadek S., 1997) even if they can't integrate it with financial reporting.

For example, the Social Reporting of Comune di Copparo identifies ten dimensions:

1. Main indicators (including average cost of elements of “individual economy”, e.g. cost of house);
2. Urban environment ;
3. Cultural events;
4. Employment;
5. Industrial activities;
6. Municipality efficiency;
7. Individual demand services;
8. Employee of Municipality;
9. Social services;
10. Citizens associations.

This example of social reporting is interesting because it gives an action plan for each point: they consider social reporting as a managerial tool.

In general, *The Social Reporting* identifies stakeholders classes and describes what a company did during a year for them and how many resources have been used to do it. According to a recent proposal, stakeholders’ classes could be (for a company) the following: equity owners, employees, costumers, environment, local community, suppliers, and public agencies (Chiesi 2000).
The social reporting is increasing its success in all kinds of organizations. There are several reasons for this success.

Zadek in 1997 found three reasons:

1. Society want to know not only the effects of companies activity but also their strategies to evaluate if there are some negative social effect;
2. the “value shift” connected to globalisation that considers both economic aspects and strategies sustainability aspects;
3. stakeholder management - due to points 1 and 2 – that forces managers to understand the expectations of stakeholder.

Some standards of social reporting have been defined. Each of them analyses relation with some stakeholder class:

- Human Development Enterprise Index,
- Social Accountability 8000,
- Domini 400 Social Index,
- Dow Jones Sustainability Group Index.

Recently some efforts to integrate all relations with stakeholders have been made: method AA1000. In 1999, de Colle (Hopkins, de Colle, 1999) analysed which indicators can describe the dimensions of AA1000 method. Even if these studies consider companies, they could also be suitable to describe the activities of local governments.

In the following table you can find the dimensions (class of stakeholder and social responsibility) of AA1000 methodology:

Stakeholder	Social responsibility
Stockholder / Equity owners	Transparency
	Accountability
	Corporate governance
Employees	Health and safety
	Trade Unions relation
	Training
	Salary
	New jobs
	Carriers policy
	Human right respect
	Stock option
	Equal opportunities
	Fight against children work
Customers	Product quality and safety
	Information to customers
Environment	Environmental sustainability of production process
Local community	Free funding
	Social programs
Suppliers	Suppliers relationship
Government	Cooperation

Table 2 - Class of stakeholder and social responsibility in AA1000 methodology

The balanced scorecard approach

In management control, the recent *balanced scorecard approach* (Kaplan R. Norton D., 1996) adds 3 new perspectives to the financial one: customer, innovation and learning, and internal business.

The balanced scorecard is not only a measurement system: it enables organizations to clarify their strategy and translate them into action. It provides feedback about internal business processes and also about external outcomes.

Robert Kaplan and David Norton developed Balanced Scorecard in the early 1990's.
They answered the question: “what should companies measure in order to 'balance' the financial perspective?”.

They started from the need of new managerial tools to go over some weaknesses of previous management approaches.

This approach looks at managers’ behaviour as a continuous improvement of strategic performance. The balanced scorecard transforms strategic planning into the decisional tool of a company.

In local government we could achieve two results using a balanced scorecard approach:

1. to integrate quality of life aspects in the management control system of local governments;

2. to encourage use of an innovative approach to management control.

Kaplan and Norton describe the balanced scorecard as follows:

> "The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."

The balanced scorecard suggests to analyse four perspectives:

1. The Business Process Perspective
2. The Customer Perspective
3. The Financial Perspective
4. The Learning and Growth Perspective

1. The Business Process Perspective

This perspective refers to all internal business processes. We need a metrics based on this perspective that allows the managers to know:

- how well their business is running,
- how its products and services conform to customer requirements.

Who knows these processes must design these metrics carefully. This kind of information is not something that can be developed by consultants: a special effort of personnel is required.

We have to identify:

a) mission-oriented processes,
b) support processes.

While mission-oriented processes give many unique problems the support processes are easier to measure and benchmark using generic metrics.

2. The Customer Perspective

According to recent management studies, customer focus and satisfaction has an increased importance in any business. A customer not satisfied will eventually find a

competitor of the company that will meet their needs. Low performance from this perspective is an indicator of bad future results, even though the current financial indicators may look good.

3. The Financial Perspective

Financial data are strategic in the vision of Kaplan and Norton. Managers will do whatever necessary to provide it. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on finance leads to the "unbalanced" situation with regard to other perspectives.

There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category.

4. The Learning and Growth Perspective

This perspective consider that in a knowledge-worker organization, people are the main resource. In these years of rapid technological change, it is necessary for knowledge workers to have a continuous learning activity.

Kaplan and Norton say that 'learning' is more than 'training'. Learning includes things like tutors within the organization, web based instrument and tools to translate tacit knowledge in explicit knowledge.

Metrics should guide managers in focusing training funds where people need them. In any case, learning and growth are bases for success of any knowledge-worker organization.

Suggested means of improvement for measuring

We started our analysis from this balanced scorecard approach and suggest to use it in order to integrate a traditional financial performance system with a social reporting approach.

This approach could help us to integrate the *present set of indicators* and *the Social Reporting.* This paper defines a new specific balanced scorecard for the local government (LGBS) matching the current indicator system with Social Reporting.

The first question is: can we use the four perspective of balanced scorecard for evaluate Local Government ?

Financial perspective and customer (or citizen) perspective are already part of current performance measurement.

Innovation and learning perspective are surely suitable for local governments as “service company”: people are the main asset of a Municipality.

The use of internal business perspective requires an effort of Municipality managers to identify which process are delivered and how to measure process performances.

Local and central governments are often organized according to a functional chart (Services, taxation, finance, purchase, …) even if processes cross these departments.

In order to identify the LGBS content of four perspectives (financial perspective, customer perspective, innovation and learning perspective, internal business perspective), in this paper we determine six stakeholders' classes and a set of indicators for each class using current indicators system (see table 1) and/or Social Reporting proposal (Chiesi, 2000). The six stakeholders' classes are: citizens/costumer, employees, environment, voters, suppliers, other public agencies.

In the following table we match:

a) The four classes of present mandatory set of indicators;
b) The several dimensions analysed in social reporting;
c) The six classes of stakeholder;
d) The four perspective of balanced scorecard.

<table>
<tr><th>Present set of indicators</th><th>Social report indicators</th><th>Stakeholder class</th><th>Balanced scorecard perspective</th></tr>
<tr><td></td><td>Environmental sustainability of production process</td><td>Environment</td><td rowspan="5">Customers perspective</td></tr>
<tr><td></td><td></td><td>Voters</td></tr>
<tr><td>Main services</td><td rowspan="5"></td><td rowspan="5">Citizens</td></tr>
<tr><td>Individual demand services</td></tr>
<tr><td>Others services</td></tr>
<tr><td>Economic and financial</td><td rowspan="2">Financial perspective</td></tr>
<tr><td></td></tr>
<tr><td></td><td>Suppliers relationship</td><td>Suppliers</td><td rowspan="3">Internal business perspective</td></tr>
<tr><td></td><td>Cooperation</td><td>Other public agencies</td></tr>
<tr><td rowspan="10"></td><td>Health and safety</td><td rowspan="10">Employees</td><td rowspan="10">Innovation and learning perspective</td></tr>
<tr><td>Trade Union relation</td></tr>
<tr><td>Training</td></tr>
<tr><td>Salary</td></tr>
<tr><td>New Job creation</td></tr>
<tr><td>Career policy</td></tr>
<tr><td>Human rights respect</td></tr>
<tr><td>Participation modalities</td></tr>
<tr><td>Equal opportunities</td></tr>
<tr><td>Fight against children work</td></tr>
</table>

Table 3 – A balanced Scorecard for Local Government

You can note that:

- Customer perspective is relevant for three classes of stakeholder: citizens, voters and environment;
- Innovation and learning perspective is relevant for the employee's class;
- Financial perspective interests to citizens;
- Internal business perspective is important for citizens, suppliers and other public agencies.

The advantages of this approach are the following:

1. an integration of the monitoring and reporting systems of the Municipality;
2. an integration of Social Reporting in the planning and management control system.

The balanced scorecard teach us that it is important to have an integrated strategies in order to achieve targets of companies or Municipalities.

We plan to suggest this approach to some Municipalities in order to verify a concrete application and to test it.

Conclusion

This paper suggest to join a traditional practice of Municipalities (collect financial data) with a new practice (social reporting) using a new managerial approach to management control (balanced scorecard).

Financial indicators are a good measure of economic state of Municipalities. Nevertheless, a town could have a good financial result at the same time of a social or environmental disaster.

Social aspects (and indicators) can complete the description of the whole situation and needs of a town.

Integration of quality measurement in a management control system is the only way to ensure an high priority to quality and citizen satisfaction.

Nevertheless, the use of this kind of indicators system is not sufficient to ensure expected consequences on the quality of life. A US empirical case-study shows that performance management impact is substantial in administrations' internal management, but very limited in administration-to-stakeholders communications and resource allocation decisions (Xiao Hu Wang, 2002).

The design of a new integrated management control system is not enough: Municipalities have to redesign their process and governance system.

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