

# Balance Scorecard

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# 3 The Balanced Scorecard as a Tool for Measuring the Performance of Government Institutions: A Literature Review

**Abstract.** *Balanced Scorecard* (BSC) was introduced in the United States in the early 1990s and is used as a performance measure in future organizations and as a measurement tool in all institutions. This study aims to explain how the implementation of the balanced scorecard in government agencies in Indonesia in assessing its contribution to the accountability of their performance. This study uses the Systematic Literature Review (SLR) method by reviewing and reviewing several journal articles within a period of 5 years starting from 2017 to 2021. The results of this study indicate that the application of the Balanced Scorecard (BSC) in government institutions in Indonesia is used as a tool to measure performance and as information for improving employee performance has been successfully applied in all government sectors. The limitations of this study are the supporting references for research are still inadequate and the theories used have not been updated. This research is expected to add and update insights about the Balanced Scorecard (BSC) in government institutions.

**Keyword.** Accountability; Balanced Scorecard; Performance measurement.

**Article history.**

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## INTRODUCTION

The rapid progress of Indonesian public sector accounting is in line with the implementation of regional autonomy. According to Law No. 23 of 2014 on Local Government, individual independence gives all regions and districts of Indonesia the freedom to develop and expand their sources of income. (Setyoko et al., 2021).

Public awareness of government accountability is increasing. The taxpayer population is becoming more and more critical of the performance of public institutions. Government agencies in Indonesia are required to report accountability for performance each year, as set out in Presidential Decree No. 29 of 2014 on the Government's Performance Accountability System. This report describes how government agencies manage performance, including how government agencies plan strategic goals based on their vision and mission, define work plans, and measure performance. All government agencies need to make this information publicly available as a key stakeholder. In addition, the public can assess how well government agencies are using their state budgets to achieve their mission and high public expectations.

Government agencies must meet the expectations of various stakeholders: beneficiaries, employees, credit, and granting institutions, the general public, and taxpayers. Public institutions are responsible for demonstrating their ability to use public funds economically and effectively and efficiently. Due to the almost intangible nature of public sector output, financial indicators alone are not sufficient to explain public sector performance. Therefore, it is necessary to develop non-financial key performance indicators (Mardiasmo 2018:152).

Therefore, public institutions must develop themselves according to the expectations of the people. Therefore, some government agencies have attempted to apply the Balanced Scorecard as a breakthrough method for achieving better institutional performance. Studies on the implementation of balance scorecards in the public sector of developed countries are very well maintained, but research on this particular topic in Indonesia, especially studies showing the link between implementation of balance scorecards and performance, is accountable. It is still rare to find out. Due to its very rapid development, government agencies are also involved in implementing good corporate governance. Due to the very rapid development, authorities can immediately recognize good governance (good corporate governance).

For the past 25 years, the use of the Balanced Scorecard as a measurement model for private and public sector management has attracted the attention of many stakeholders (Madsen et al., 2019). The Balanced Scorecard concept was originally aimed at retailers, but over time, the BSC concept can also be implemented in public institutions. The use of the Balanced Scorecard to measure government performance is aimed at adjusting various internal and external metrics. Due to the differences between the public and private sector Balanced Scorecards, the implementation of the Public Sector Balanced Scorecard requires adjustments. Therefore, the Balanced Scorecard must first be adapted to the needs of the public sector.

Performance measurement can be used as an organizational control tool because performance measurement is enhanced by establishing a system of rewards and penalties (Tanan and Duri, 2018). Performance measurement in public sector organizations, especially those containing pure non-profits such as government, measuring success is difficult to prove because the measurement applied is more to a government budget. (Rasidi & Sadmoko, 2019). However, with good performance measurement, it is hoped that the existing system in government will run according to its objectives and focus on achieving it.

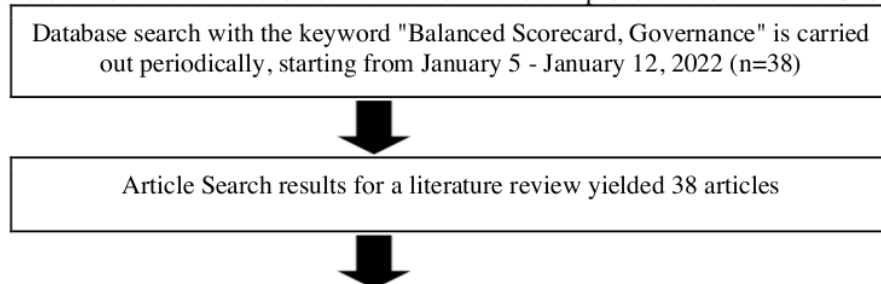
Kaplan and Norton (1996) state that the concept of the Balanced Scorecard developed has four perspectives as measurement methods: financial perspective, customer perspective, internal business perspective, learning and growth perspective. BSC applies only to traditional performance-based metrics that focus on financial and non-financial aspects. The difference is seen when the Balanced Scorecard is applied in a defined direction and focuses only on benefits and public services (Blocher et al., 2011). The corporate sector focuses solely on finance, while the public sector uses public services such as stakeholders.

The public sector that only focuses on profit will be very helpful in implementing the BSC to achieve its vision and mission also maximizing strategies in achieving targets (Alamsyah et al., 2019). The public sector will put the customer at the top perspective (Moullin, 2017). The orientation of the public sector must focus on services, so the government is emphasized to improve performance to get quality services (Muchran, 2018).

8 This research is significant because at this time not too many studies have been conducted in Indonesia regarding the application of the Balanced Scorecard (BSC) method in government institutions. Therefore, based on the description above, it is significant to conduct research entitled Balanced Scorecard as a tool to measure the performance of government institutions.

## METHOD

The stages of this literature review process begin with data collection by doing a simple search on the Google Scholar page starting with the words "Balanced Scorecard, Government" in the source above bringing up an average of 5,580 articles from various national and international journals and taking data from the last five years so that get relevant articles and more up to date with research topics. The next stage is data processing with Microsoft Excel. The collected data is then entered into a table and becomes a database. The search process is described as follows:



The selection of articles after the screening process resulted in 30 articles

| Journal Topic                           | Total |
|-----------------------------------------|-------|
| <i>Balanced scorecard</i> in government | 26    |
| Other theories that support research    | 4     |
| Total                                   | 30    |

Dari 30 the selected articles, the authors re-select the articles with a screening process to match references and topics that are relevant to the theme raised. In the screening process, the authors found 26 articles that discussed "Balanced Scorecard in government" and four articles that discuss the theory that supports the research.

## RESULTS AND DISCUSSION

(Kaplan et al, 1996) explained that the Balanced Scorecard is a combination of measurements consisting of financial and non-financial that can also be regarded as external and internal performance measurements, grouped into several sections such as *finance, customers, internal business processes, and growth*. The balanced scorecard is also used for strategic evaluation and control techniques which are believed to be able to balance financial and non-financial measures under financial goals and strategic objectives that have been carefully selected and have been adapted to the business that has been run.

The application of the BSC in government is expected not only to focus on the financial aspect to assess performance more comprehensively but from various perspectives that exist in the BSC so that managers and employees are more motivated to improve their performance (Mahsina et al., 2017). Government programs and budgets focus on planning and implementation to achieve the mission by serving and achieving community welfare using four perspectives. The application of the balanced scorecard concept to improve the performance measurement system focuses on the expected performance improvement. If the application of the BSC is carried out correctly, a better government reporting system will be realized (Rasidi & Sadmoko, 2019).

Despite its positive quality, the Balanced Scorecard has its drawbacks. The Balanced Scorecard requires good strategic planning to effectively contribute to the performance of your organization. Developing a strategic plan is not an easy task for managers. All stakeholders and employees of the company need to be involved. This strategic plan is integrated with the Balanced Scorecard perspective. However, based on a survey in Australia, most managers do not pay attention to these aspects when creating the Balanced Scorecard (Ndevu & Muller, 2018). As stated in the *Balanced Scorecard Criticism as a Performance Measurement Tool* by (Awadallah & Allam, 2015) in "A Critique of the balanced scorecard as a Performance Measurement tool" include: another limitation of both the conceptual and practical balanced scorecards is:

1. The concept of the Balanced Scorecard is not clear. Relationship with organizational performance.
2. Action goals and definitions exclude blocked stakeholders.
3. The definition of key success factors for identifying key performance indicators is missing.
4. The four perspectives limit the views adjacent to the organization.

5. Focusing on achieving your goals can prevent your company from maximizing your ability to exceed your goals.
6. Recognize the organization as a hierarchical structure.
7. Promote limited innovation.

Many organizations implement the Balanced Scorecard with some modifications tailored to the characteristics of the organization. For example, manufacturers typically focus on dealing with internal customers. The IT Group, on the other hand, sees the innovation and learning perspective as a key benchmark. Other studies have also enhanced the causes of problem communication and cascading in the implementation of the Balanced Scorecard (Geneti, 2019).

According to the Decision Letter of the head of the LAN (State Administration Agency) No. 239/IX/6/8/2003, performance accountability is the embodiment of accountability for success or failure in the implementation of the achievements that have been determined as a measuring tool. Accountability can be defined as the relationship between the party that controls and regulates the company and the party that has formal authority over the administrator. Public accountability and openness are both sides of the same coin and are, in principle, closely related to some of the better governance (Nasution, 2018). However, all government agencies such as agencies, institutions, and even the central government are required to provide accountability according to the accountability of success or failure (Nasution, 2019). The concept of accountability used by almost all agencies carries out their respective functions.

According to (Niven, 2015), the use of the Balanced scorecard in non-profit or profit organizations, both in number and type, is carried out using a good strategy. The perspectives used are stakeholders and customers. The implementation of the Balanced Scorecard is an improvement step in the reform era related to government accountability (Hasanah & Novita, 2019).

During bureaucratic reforms in Indonesia's government organization, the government sought to improve good governance by improving its management system. They have taken the old paradigm of Indonesian public institutions from slow service, poor accountability to performance, low public capacity and regular corruption, to better service, better governance and integrated IT. We are trying to change the process, and higher capacity and completeness. Government officials. The most well-known performance management system adopted by some Indonesian government agencies is the Balanced Scorecard.

Measurement of financial aspects is considered not to be able to provide an objective and comprehensive picture of the performance of an organization as a whole, so that performance measures that can measure government performance as a whole are not enough to be judged from the financial aspect alone but must also be assessed from non-financial aspects. (Setyawan, 2018). At first, the application of the balanced scorecard was only used by profit-oriented organizations, but many non-profit organizations are also using the balanced scorecard as their strategic tool. The thing that is the center of the goal in achieving this is not seen in finance, but accountability in the government budget such as stakeholders who are interested parties in this matter (Gasperz, 2017). An answer is a strategic approach and a balanced scorecard measurement to find how well people's expectations are and how civil servants meet people's expectations. For example, the Jombang Regional Government (Pemda) has not yet used the balanced scorecard method for measuring its performance. Research conducted by (Verlandes & Hariati, 2019) To find out how to measure performance using the balanced scorecard at the Jombang Regency Office, the results in measuring the effectiveness of the Jombang Regency Government's performance are successful, moderately successful, and less be successful.

The formulation of the BSC concept can be used to sharpen the performance management system in the government sector. The main determinant of success in the implementation of the BSC model is the continuous adaptation of the BSC model under the development of the organization (Rifqie Jauhari, 2020). Measuring the performance of city governments such as the North Jakarta City Government successfully implementing a balanced scorecard and presentation using four perspectives can produce relevant information for performance evaluation even using

accountability reports that are reported periodically (Alamsyah et al., 2019). Research conducted by (Setyoko et al., 2021) stated that the performance measurement using the Balanced Scorecard from a business perspective, growth and learning was considered good but, for government finances, it was considered that it still needed further attention annually.

A *Balanced Scorecard* (BSC) is mission identification, strategy formulation in its implementation. This is done by communicating with various members of the organization. BSC can function as a container of information and a source of sufficient knowledge, to be linked in the long or short term, this approach can be used as a decision-maker and focuses on achieving its strategy (Quesado et al., 2018). The implementation of the balanced scorecard has been proven to help organizations achieve the required targets with the vision and mission implemented (Biswan & Andika, 2020).

## CONCLUSION

*Balanced Scorecard* (BSC) as a whole it can be concluded that strategic performance measurement in creating a combination consisting of financial, non-financial and four perspectives used as benchmarks, namely: finance, customers, internal business, growth, and learning that have been successfully applied to the government sector. Performance accountability is required for all agencies in the government to be responsible for reports in the form of performance under the agency's vision and mission.

The use of the Balanced Scorecard is a breakthrough in improving organizational performance. Research on the implementation of balance scorecards in the public sector of developed countries is well maintained, but we find research on this particular topic in Indonesia, especially on the relationship between balance scorecard implementation and performance accountability that is still rare. The development of good governance becomes a very rapid organizational embodiment. The limitation of this research is that the supporting references for the research are still inadequate. The discussion on performance measurement is still widely discussed, not specific, or does not refer to one discussion. This research is expected to add what can affect performance accountability in government such as clarity of budget targets, performance-based budgeting so that in general it can open up information widely about the implementation of the Balanced Scorecard (BSC) and can be used as a reference material for further research. This research is expected to add and update insights about the Balanced Scorecard (BSC) in government institutions.

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