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A Balanced Scorecard Hall of Fame™ Profile

The City of Charlotte



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What is the Balanced Scorecard Hall of Fame?

The Balanced Scorecard Hall of Fame for Executing Strategy™, administered by Balanced Scorecard Collaborative, recognizes organizations that have achieved breakthrough performance largely as a result of applying one or more of the five principles of the Strategy-Focused Organization. These principles, formulated by Balanced Scorecard creators Robert S. Kaplan and David P. Norton, are described in detail in their book *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment* (Harvard Business School Press, 2001). BSC Hall of Fame members are personally selected by Drs. Kaplan and Norton.

To learn more about Hall of Fame selection criteria and Hall of Fame members, visit bscol.com.

The Five Principles of the Strategy-Focused Organization

Each of the five principles of the Strategy-Focused Organization include specific management best practices that contribute to the achievement of breakthrough results. These best practices—validated through ongoing research with Hall of Fame organizations and hundreds of other users of the Balanced Scorecard around the world—must be embedded in any organization that wants to make strategy execution a core competency.

Principle #1. Mobilize Change Through Executive Leadership

Executive leadership, driven by a need for change, supports the drive to establish a new way of managing based on a performance-oriented culture.

Principle #2. Translate the Strategy into Operational Terms

The Balanced Scorecard is used to translate the strategy into a language that everyone understands.

Principle #3. Align the Organization to the Strategy

The scorecard is used to cascade the strategy to all parts of the organization and align resources needed to accomplish the strategy.

Principle #4. Motivate to Make Strategy Everyone's Job

The reward and recognition system is used to align individual behavior with performance objectives called for by the strategy.

Principle #5. Govern to Make Strategy a Continual Process

Strategy execution is linked to the budget, and a reporting system based on scorecard measures is used to provide feedback on strategic performance.

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ABOUT The City of Charlotte

Industry: Government

With a population of 632,000 in 2004, Charlotte, North Carolina, is the 26th-largest city in the United States and one of the fastest growing cities in the nation. During the 1990s, Charlotte's population grew at an average of 20% per year—a growth rate second only to that of Phoenix, Arizona. Consequently, Charlotte's leaders are wrestling with the problems that accompany rapid urban growth: congestion, pollution, and suburban sprawl.

Charlotte is the second-largest financial services center in the U.S. (based on assets), serving as headquarters to banking giants Bank of America (in its earliest incarnation, North Carolina National Bank) and Wachovia (originally First Union). It is also home to several other Fortune 500 companies, including Duke Energy, Goodrich Corp., and Nucor. Banking and financial services are the leading sectors for employment, followed by healthcare, retail, and manufacturing. Charlotte has a robust economy; in February 2005, its unemployment rate stood at 5.2 %, below the national average of 5.4 %.

The first public-sector organization to adopt the Balanced Scorecard, Charlotte was innovative in its redesign of the scorecard perspectives to better match the goals of not-for-profit institutions. Its early use of the scorecard was analyzed in a Harvard Business School case study published in 1998, and the city has received numerous awards and accolades for its successful use of the scorecard. This year marks Charlotte's tenth anniversary of strategic management with the Balanced Scorecard.

Employees: 6,000

Annual budget: \$1.56 billion

Inducted into the Balanced Scorecard Hall of Fame: 2000

This early Balanced Scorecard adopter, and the first known public-sector organization to use the BSC, is also an innovator in managing by strategic theme. The City of Charlotte's BSC program, now in its tenth year, has helped this city of 632,000 achieve healthy, fiscally prudent growth while being responsive to the varied needs of its citizens.

Founded in the 1750s at the crossroads of two Indian trading paths, Charlotte was named for Charlotte of Mecklenburg-Strelitz, the German wife of Britain's King George III. The deference to the British crown soon faded, and during the American Revolution, the city was a hotbed of ideological activity. Charlotte also has a long history as a financial center, beginning in 1838, when Congress established a branch of the U.S. Mint in the city. Today, with \$1.3 trillion in assets managed there, it is the second largest financial center in the U.S., and home to several Fortune 500 companies.

The City of Charlotte is governed by a City Council—a mayor and 11 council members—elected every two years. In 2005, Republican Mayor Pat McCrory was serving his fifth two-year term.

Since 1929, the City Council has employed a professional city manager to administer the City's operational policies and budget. While the mayor and council members serve part-time, the city manager is a full-time position, equivalent to a chief operating officer. The office of City Manager defies the usual vicissitudes of politics; the average tenure for the position is more than 12 years. The city manager oversees the budget process and serves as the liaison between the elected leadership and the City's functional and support departments.

The City has 6,000 employees and an operating and capital budget of \$1.56 billion (FY2005). Remarkably, the City of Charlotte has not increased property taxes since 1986; a 9% increase proposed for the City's 2005 budget did not win approval by the City Council.

The foundation for Charlotte's Balanced Scorecard adoption was laid in 1991 when Charlotte's City Council began to develop long-term planning objectives. At the City Council's annual retreat—a tradition dating back to the 1930s—City Council members targeted five areas for long-range focus, areas that later became the backbone of Charlotte's corporate scorecard. Today, Charlotte's focus areas, or strategic themes, are defined as:

- *Community Safety:* “Charlotte will be the safest large city in America.”
- *Economic Development:* “Charlotte will be the most prosperous and livable city for all citizens through quality economic development.”
- *Transportation:* “Charlotte will be the premier city in the country for integrating land use and transportation choices.”
- *Housing and Neighborhood Development:* “Creating great neighborhoods in which we live, work, and play.” (Originally just “Neighborhoods,” this strategic theme was renamed “City Within a City” in 1992; it was given its current name in 2003.)
- *Restructuring Government:* “The City of Charlotte will provide the best services at the lowest costs.”

“Our Management by Objective strategy didn’t address the issues of different agencies working collaboratively or working strategically,” says City Manager Pam Syfert. “The Balanced Scorecard did.”

In 1993, against the backdrop of a growing fiscal crisis, the City of Charlotte also reorganized its operational and administrative structure. Through a hiring freeze and early retirement incentive program, the City eliminated more than 250 positions, at the time about 8% of the workforce. The City’s 26 departments were consolidated into 13 key business units (KBUs). Nine of the units covered functional areas such as police, fire and transportation, aviation, and solid waste services. The remaining four KBUs were support units: budget and evaluation, business support services, finance, and human resources.

The 1993 “rightsizing” initiative also eliminated excess layers of management, under the general guideline that no KBU should have more than five levels of supervision.

According to *The Charlotte Story*, a 2000 publication of the City of Charlotte’s City Manager’s Office describing the City’s strategic transformation and performance management improvement initiative, “The initial focus of the rightsizing program was to

save money, flatten the organization, and re-think how the City conducts its business to better position itself in the future. Beyond saving the needed money, rightsizing was very much a workforce initiative and not just a budget initiative. Rightsizing empowered the employees to make decisions at the lowest appropriate level, and it promoted quality and excellence, accountability, productivity, teamwork, and openness in the workforce.”¹

The five focus areas and newly streamlined management structure helped the City of Charlotte better utilize its resources. But linking these areas to the daily business of running the city continued to be a challenge, one that was mostly keenly felt in the Office of Budget and Evaluation.

Since 1972, the City had utilized a Management by Objectives (MBO)² system of performance measures, which put the City at the forefront of public-sector management during the 1970s and 1980s. But by the early 1990s, the sheer number of measures—some 850—had become cumbersome. City staff members were measuring everything from workload to response time. And despite the creation of the five strategic focus areas and the streamlined KBUs, the MBO system continued to generate operational measures that were too voluminous to manage. “The MBO system was an audit tool, not a planning tool,” explains City Manager Pamela Syfert. She began looking for a system that would streamline the City’s performance measurement system, and create a forward-looking management process.

In 1992, Syfert (then assistant city manager) came across Robert Kaplan’s and David Norton’s article in the January–February 1992 *Harvard Business Review* introducing the Balanced Scorecard.³ So impressed was she that she immediately began exploring possible applications of the Balanced Scorecard to the City of Charlotte. “Our MBO strategy didn’t address the issues of different agencies working collaboratively or working strategically,” says Syfert. “The Balanced Scorecard did.” But would the Balanced Scorecard work for a public-sector organization?

First Steps

According to Syfert, bringing in outside expertise was the crucial first step in Charlotte’s scorecard implementation. By working with Balanced Scorecard architects Kaplan and Norton, the City of Charlotte was able to solve a problem that had troubled Syfert: for organizations like governments in which profit is not the utmost goal, how best to design the

scorecard perspectives? The solution: rearrange the scorecard's perspectives, putting the customer perspective, not the financial perspective, at the top. According to Syfert and her associate, Senior Budget and Evaluation Analyst Lisa Schumacher, "The arrangement more accurately reflects the public sector emphasis on effectively and efficiently meeting citizen needs rather than achieving financial goals, and [this step] was the first in a series of customizations."⁴ This simple rearrangement, moreover, represented a groundbreaking moment in BSC history, paving the way for more widespread adoption by public sector and nonprofit organizations.

Syfert's strong advocacy of the scorecard, combined with the internal resources of the Budget and Evaluation Office (in particular, its research capabilities and its long history of leading performance management) and Kaplan and Norton's guidance, created a smooth foundation for mobilizing the scorecard and translating the strategy. Over a two-month period, Syfert, the deputy city manager, several department heads, and the City's budget and finance director worked closely with Kaplan and Norton's consulting associates to develop the corporate scorecard.

One of the most innovative and effective aspects of Charlotte's scorecard program was conceived during this initial development process. Building on the tradition of Charlotte's five focus areas, Syfert established a unique system in which each of the five strategic focus areas was assigned an interdepartmental working group or "cabinet." As part of the ongoing scorecard process, the cabinets were designed to create links between the City of Charlotte's long-term strategy and the KBUs. Meeting each month, the cabinets consisted of executives from all departments that were affected by the focus areas. While the composition of the cabinets has changed since 1997, the cabinet system continues to play an important role in the City's annual planning process and in oversight of the scorecard. Charged with monitoring key initiatives, the cabinets also draft the annual focus area plans, which include scorecard initiatives and measures. The City Manager's recommended budget addresses the Council's priorities in the focus area plans—thus linking the City's strategy and budget. In addition to their crucial role in the City's strategic and operational planning, the cabinets have reinforced the notion that strategic management with the Balanced Scorecard requires team building.

After incorporating the five focus areas as strategic themes in Charlotte's first corporate scorecard, the

City moved on to define its four scorecard perspectives. The customer perspective looks at how well the City is delivering its services—transportation, waste management, water, community safety—to Charlotte's residents, and accounts for nearly 40% of all measures tracked by the City of Charlotte, including those covering safety and crime, neighborhood improvement, service delivery improvement, maintaining a competitive tax rate, and providing safe and convenient transportation. All of the focus area issues are contained within the customer perspective.

The financial perspective defines the City's financial objectives—maintenance of its AAA bond rating, growing the tax base without raising property taxes, outsourcing, and securing funding and service partners—while the internal process perspective covers productivity improvement, promotion of community-based problem solving, and enhancement of customer service. The learning and growth perspective encompasses broad objectives such as employee development through technology training.

Once the corporate scorecard was designed, two more "teams" were created to aid in the program's implementation. The Leadership Team, headed by Syfert, was now joined by the Core Team and the Departmental Team. The Core Team, which became the working staff for BSC implementation, was led by two senior budget analysts and members of the City's finance and engineering departments. The Departmental Team, composed of representatives from each of the City's departments, was charged with observing and learning about the BSC to help members implement it in their respective KBUs. With these teams in place, the City of Charlotte piloted the scorecard in four of its KBUs: Engineering and Property Management, Planning, Police, and Transportation.

Each unit director led a team of four to five senior managers that worked with members of the Core Team—senior budget analysts Schumacher and Nancy Elliott—to develop unit-level scorecards, each one arranged according to the focus areas defined in the corporate scorecard. Once these four scorecards were completed, Elliott spent another nine months working with the remaining KBUs to develop their scorecards. By the end of 1997, the City had implemented scorecards in all its KBUs. Charlotte today has a corporate scorecard and separate scorecards for each of its now 14 KBUs and tracks a total of 360 measures—less than half its pre-Balanced Scorecard total.

When some KBU heads realized that the rollout process involved developing measures with explicit links to the corporate scorecard's focus areas, they saw it as an opportunity to completely rethink their choice of measures. The Police Department, for instance, had traditionally gauged its performance with a measure of response time to 911 emergency calls. But a more careful analysis showed that rapid response time was relevant for less than 1% of their 911 emergency calls, and that there was no correlation between response time and crime rate.

By eliminating unnecessary MBO measures (the recommended limit today is 25 measures per KBU scorecard), KBUs could dramatically shift their focus to strategic management—and to the critical linkages between operational and strategic management.

Today, the Police Department measures the number of repeat calls in high repeat-call locations, a measure that is directly related to the corporate scorecard's objective of reducing crime in areas identified as "chronic crime hotspots." In fulfilling the corporate scorecard objective of crime reduction, the measure also is linked to the City's focus area of Community Safety.

The customer perspective on the City's corporate scorecard included a familiar objective—"Reduce crime"—and a new objective—"Increase the perception of safety." The city manager and the police chief believed that increasing citizens' perception of public safety was an important outcome. So, twice a year, through a third-party research firm, the City surveys citizens about their perception of safety. It asks them to give their overall impression of the police department on a 10-point scale, ranking police on courtesy, professionalism, and good judgment in the use of force. The survey also asks citizens whether they feel safe in their neighborhoods and whether they consider Charlotte in general to be a safe place to live.

During the same time that the City implemented the Balanced Scorecard, the Police Department implemented community-oriented policing, which emphasizes police forging relationships with

communities to prevent crime. As a result, Charlotte's Police Department developed operating and management strategies that incorporated crime prevention and community relations as core principles. Today's Police Department scorecard includes six objectives for crime reduction as well as five objectives that address increasing the perception of safety. For example, one initiative on the Police scorecard is to improve the perception of safety in neighborhoods by reducing the number of gang-committed graffiti incidents. And the crime reduction measures, once lacking a causal connection to strategy, are now strategy-focused. For instance, in 2002 the Police Department initiated a public education campaign to meet its objective of reducing the number of auto thefts in Charlotte. A year later, auto thefts had dropped 5%, a dramatic result when compared with a projected increase of 9% to 10%.

The experience of the Charlotte Police force reflected what would become a resonating theme in the City's overall scorecard experience. By eliminating unnecessary MBO measures (the recommended limit today is 25 measures per KBU scorecard), KBUs could dramatically shift their focus to strategic management—and to the critical linkages between operational and strategic management.

The "Strategy-Structured" Organization: A Breakthrough Scorecard Framework

The process of creating Charlotte's corporate-level scorecard created a new culture, and more important, a new infrastructure that encouraged strategy-driven revision and innovation. Ten years later, it is still this process that makes Charlotte stand out as an exceptional public-sector adopter of the scorecard.

The first historical instance of a theme-based BSC, Charlotte's scorecard approach overcame the particular obstacles that public-sector organizations face. Many such organizations have strategic goals so complex that no one agency or department can accomplish them single-handedly. Yet how does an organization transcend the hierarchies and the often nearly impenetrable departmental boundaries to foster coordination among these different groups? How do you unify the organization around strategic goals and promote synergies? The five-cabinet system based on the five focus areas provided the solution, by unifying the concerns of the different department and functions and enabling the KBU scorecards to reside harmoniously under the corporate scorecard umbrella.⁵

The focus areas recognize the broad interrelationships between crime and quality of life, traffic safety and police department strategy, and so forth. By their very existence, they promote cross-functional, collaborative solutions to problems. For example, ten years ago, traffic-related deaths exceeded the number of homicides. This caught the police chief's attention, prompting him to develop a strategy that would increase vehicle and pedestrian safety. A key component of the City's public safety philosophy is to encourage a team approach to serving a neighborhood or business corridor to ensure that appropriate resources are brought to bear on all problems of the affected area.

Transportation—a hot topic for the City for more than a decade—provides another example. At a recent conference, Syfert noted that transportation was an impetus for introducing the concept of focus areas to City Council members in the early 1990s. Her office was trying “to get them to think strategically about the community and not to build roads to the exclusion of other community needs.” She added: “We [now] have several initiatives to ensure a balanced and coordinated transportation system.” Syfert explained that Charlotte's recently adopted long-range rapid transit/land-use plan is unique for several reasons. For one thing, she notes, “We are including the land-use planning as an essential component of a successful rapid transit plan.” In addition, the plan represents the collaboration and support of eight governing jurisdictions—Charlotte, the county, and six adjoining towns.

Integrating Strategy with Budgeting and Planning

Charlotte's strategy planning and budgeting processes are fully integrated, and it is through the budgeting and planning process that scorecards are aligned with corporate and among themselves. This integration—an important evolutionary step in Charlotte's BSC program—was formally acknowledged in 1999, when, for the 2000-2001 public budget presentations, management leaders first required explicit linkages to the City's scorecard and focus areas. Budget presentations were renamed “Strategic Operating Plans,” and demonstrated how line-item measures related to the five focus areas.

Every fall, the City focuses on its long-term strategy, when the Leadership Team reviews strategic feedback from throughout the organization. (Every two years, in concert with the two-year Strategic Operating Plan, the Leadership Team conducts a more extensive strategy

review.) From this annual strategy review, the team develops a revised corporate BSC, which it forwards to the KBUs. Each KBU is required to develop a business plan and budget that outlines how it will contribute to meeting the City's strategic objectives over the course of the coming fiscal year. The KBUs forward their budget plans and resource requests to the Budget and Evaluation Office, which then develops a financial status report, a two-year operating budget, and a five-year capital budget.

Meanwhile, the focus-area cabinets draft their strategic plans, reviewing their mission and vision and assessing whether they are being sufficiently responsive to the citizenry.

A City Council Budget Committee meets concurrently to provide its input to the preliminary operating budget to ensure it reflects the City's and citizens' needs and issues.

In January or February of the new year, the City Council holds its Manager/Council retreat. Here, the Budget and Evaluation Department presents the City's financial picture, along with a list of service delivery needs. The Council announces any parameters that have implications for the budget, and discusses its priorities and citizens' concerns and expectations. Also at the retreat, the Council examines and approves the Strategic Focus Area Plan, the collective plan of the five cabinets. According to Syfert and Schumacher in an article they coauthored, “The retreat provides the framework for establishing the upcoming operating and capital budgets. As a result, Charlotte's budget can be tailored to meet the goals of the strategic plan.”⁶

From February through June, the Council continues to give the city manager and the Budget and Evaluation Office input on budget development. Throughout the same period, Budget and Evaluation gathers this input and incorporates it into the manager's proposed budget as a preliminary Strategic Operating Plan. The Council can propose changes, which it votes on. The City also holds public budget hearings to solicit public response and input.

Scorecard Review, Performance Management

In addition to preparing and presenting the City's budget, the Budget and Evaluation Office is responsible for scorecard oversight. Every six months, the Office's seven analysts review all 360 measures and compile performance reports. Because the analysts work closely with members of the cabinets, meeting each month, their evaluations and other

information are constantly communicated over the course of the year.

The Budget and Evaluation Office also leads the City's performance management program. The program promotes the Balanced Scorecard and provides training and consulting services to business units. In 2003, the Budget and Evaluation Office created the new managerial position of evaluation manager, charged with leading the City's evaluation program and promoting the Balanced Scorecard within the City organization. The evaluation manager, along with a team of four analysts, effectively serves as the Balanced Scorecard ambassador and interdepartmental liaison.

In Charlotte, stretch targets require trust between the City Council, the city manager and the key business units. "The police chief knows he won't be fired if he doesn't meet the stretch target to reduce crime by 5%. It is really more of a motivational tool," says Senior Budget and Evaluation Analyst Lisa Schumacher.

Measures are reevaluated every year as part of the planning cycle, and targets are also set each year. The City of Charlotte incorporates stretch targets into its scorecards. As Schumacher says, "A stretch target is a challenging target—a target that may not be met. It may be a multi-year goal with annual milestones. As a guideline, stretch targets should not demoralize the workforce in any way, but rather identify areas of challenge and change. Their purpose is to keep the focus on long-term goals." Schumacher further explains that stretch targets will not work well where there is a punitive approach. In Charlotte, stretch targets require trust between the City Council, the city manager and the key business units. "The police chief knows he won't be fired if he doesn't meet the stretch target to reduce crime by 5%. It is really more of a motivational tool." Schumacher also notes that stretch targets are not linked to employee awards or incentive plans.

Motivating Employees to Align to Strategy

The education and motivation of employees is an evolving dimension of Charlotte's scorecard program.

In 2003, the City took a significant step in scorecard alignment: it launched a corporate communications program aimed at educating all levels of the City's workforce.

Although the Balanced Scorecard is at the heart of the City's corporate strategy, it has not always been a common catchphrase among municipal employees. The Balanced Scorecard program was covered by the City's biweekly employee newsletter, but the City did not have any other public communications campaign about the scorecard.

Then, following a scorecard evaluation in 2001, the City's Corporate Communications division began to develop an employee education and awareness program, and rolled it out in 2003 and 2004.

According to Schumacher, key components of the plan include:

- Adding a scorecard communications measure to Key Business Executives performance review and development plan
- Ensuring a consistent corporate strategy message in part through the implementation of a new performance review program called Performance Review and Development
- Creating a new theme and brand for corporate strategy
- Placing strategy posters throughout the workplace
- Writing strategy articles for the City's biweekly employee newsletter, *FYI*, throughout the year
- Producing a City strategy video for employees and citizens (shown to all employees and aired on the government cable channel)
- Creating the annual City Manager's City Strategy award to recognize outstanding efforts by key business units
- Conducting a training course for employees, "City Strategy 101," as part of the City's Training Trax Program

In 2003, the City's Human Resources unit and Budget and Evaluation Office collaborated to develop a performance review program that explicitly linked employee performance with KBU strategy. The Performance Review and Development (PRD) program, according to Schumacher, represents "the next step in formally cascading the Balanced Scorecard to employees." Today, Charlotte's PRD program is managed by the Human Resources unit. Individual employee performance evaluation is also

tied to Balanced Scorecard measures. As Schumacher explains, “There is a pay-for-performance bonus system, where up to 8% of an employee’s annual salary can be awarded at the discretion of his or her supervisor.” The pay-for-performance system was first established a decade ago as a flat bonus rate, and “revamped” four years ago, Schumacher adds. “Now, an employee’s performance link to scorecard measures is very, very specific.”

The employee incentive program, begun in 1995, rewards employees for achieving budget savings goals and meeting individualized business unit targets. Each KBU selects its incentive targets, identifying three to five targets. According to Syfert, “If KBUs meet their incentive targets and contribute to saving the City money, employees share in the savings generated. In 2004, those employees whose business units met all their targets received a lump sum payment of \$244 before taxes.” Annual lump sum payments have reached as much as \$670.

The combined alignment efforts of 2003 have increased awareness of the scorecard program; in 2004, 57% of employees said they knew the City’s goals, and 72% said they understood the goals of their KBU. Although financial incentives have suffered in recent years, simply because it is difficult to create substantial incentives in the face of shrinking revenues, the PRD program is still successful. “While the dollar amount of the incentives has decreased, employees still buy into the concept,” observes Schumacher.

The Advent of “Smart Growth”

One of the most significant revisions to Charlotte’s Balanced Scorecard took place in 2000, when the City of Charlotte’s elected officials and city manager decided to incorporate the principles of “Smart Growth” in the corporate scorecard, to guide and complement the City’s five focus areas.

The principles of Smart Growth grew out of a movement in the 1990s that culminated in 1996 in a partnership between the U.S. Environmental Protection Agency and a number of important nonprofit, for-profit, and government organizations known as the Smart Growth Network. This network promoted the ten principles of Smart Growth, which are aimed at preventing urban and suburban sprawl and promoting environmentally friendly and vital communities. They are not merely theoretical ideas; by adopting them, the City ensures it meets federal environmental requirements, and protects itself from related obstacles should state officials find the area’s

rapid growth environmentally harmful.

Following a Smart Growth audit in 1999, the City of Charlotte incorporated five of the Smart Growth principles of urban development into its scorecard, designating them as complementary guiding principles for each of the five focus areas. In March 2001, the City Council voted to adopt a total of eight Smart Growth Principles. Today, they appear on the strategy map as strategic principles; some—but not all—of the scorecard objectives on the map are highlighted to correspond with the Smart Growth principles.

For example, in the FY 2005 Strategic Operating Plan, the Smart Growth principle “Provide Transportation Choices” is a strategic objective with two measures: (1) “percent increase in vehicle-miles traveled in the county versus percent change in population and percent change in transit miles traveled and (2) “achievement of South Corridor Light Rail Transit milestones against its construction schedule.”

The FY 2005 principles are spelled out in the City’s annual Strategic Operating Plan as:

- Maintain land use planning capacity
- Sustain effective land use decisions
- Strengthen community through healthy neighborhoods
- Build a competitive economic edge
- Design for livability
- Safeguard the environment
- Expand transportation choices
- Use public investment as a catalyst

The Smart Growth principles are directly relevant to one of Charlotte’s thorniest issues—air pollution. For nearly 20 years, the city’s ozone levels during the summer months have rarely met Environmental Protection Agency (EPA) standards due to Charlotte’s hot temperatures and vehicle traffic. In the 1990s, Charlotte’s rapid urban growth and the associated increase in traffic worsened air quality. In recent years, Charlotte has consistently been in the top 15 offenders on the American Lung Association’s annual list of worst air-polluted cities. The air pollution issue came to a boiling point in 2004 when the EPA’s new, more stringent ozone standards were linked to federal funding for road improvement. If Charlotte failed to meet its quota of “ozone conformity” hours each day, it stood to lose \$6 billion in federal funds.

The City responded quickly, establishing an Environmental Action Plan to reduce ozone levels.

Charlotte's corporate scorecard now includes specific environmental metrics to track progress toward the objective "Safeguard the environment." And the Department of Transportation scorecard now has corresponding measures related to its air quality attainment initiative. With the goal of having "eight hours of ozone conformity" each day in place by June 2005, the Department of Transportation has incrementally reduced the number of "ozone action days," days when ozone levels are dangerously high.

The air quality initiative is a good example of how the scorecard program helps to circumvent delays that may be caused by political considerations. Both Mecklenburg County (which also uses the BSC) and the City of Charlotte are responsible for air quality. "The scorecard doesn't create the collaborative process, but it creates the focus for that process," says Syfert.

The Light Rail line, one of the Transportation Department's solutions to air quality improvement, is also inspired by Smart Growth—and justified by the demographics of Charlotte's urban growth, which include a dramatic increase in the population of older people, empty-nesters, and immigrants seeking employment served by public transit.

The air quality initiative is a good example of how the scorecard program helps to circumvent delays that may be caused by political considerations. According to Syfert, "One of the challenges is that, under current state law, Mecklenburg County is responsible for air quality. And yet through oversight of the transportation department, we [the City] also have the air quality issue. The scorecard doesn't create the collaborative process, but it creates the focus for that process, and now we've put together a group that includes county people. Right now, there are teams drafting the air quality policy and they will go back to the City Council for legislative approval after January 1, 2006."

Transcending Politics

Charlotte's five focus areas have changed little since they were first identified—a testimony to the strength

of the initial scorecard development process. They have survived five elections and two city manager administrations (Syfert took over the position in 1996, when her predecessor retired after 15 years).

The cabinet system also has removed the turf-war aspect of management through the last ten years of political cycles. While the cabinets include heads of KBUs whose business units are directly affected by a particular focus area, there are some unlikely affiliations. The police chief is a member of the Economic Development cabinet (as well as the Transportation and Community Safety cabinets). Although he initially resisted involvement in cabinets not directly related to safety, Dennis Nowicki, Charlotte's chief of police from 1994 to 1999, explained the benefits of joining the Economic Development cabinet:⁷

Shortly after I arrived in Charlotte, an important retail store in a brand new building left a shopping mall. Did it leave because of a local high crime rate? I didn't know, but I should have known. Becoming involved in the Economic Development Cabinet presented an opportunity to be more involved in that arena. Public safety is important for attracting businesses to locate and remain in our city, and for them to recruit our citizens to work in their urban locations.

Through innovations such as the cabinet system, Charlotte's Balanced Scorecard process has established alliances that can better manage politically contentious issues. Nonetheless, City Manager Syfert advises public entities launching the Balanced Scorecard to gain the buy-in of elected officials as well as voters. In a March 2005 interview for this profile, she reflected that, if given another chance, she would make a greater effort to include elected representatives and citizens of Charlotte in the implementation process. "I would get more involvement of the council and the citizens. Originally, our council was not as engaged as they could have been. Mecklenburg County has adopted the BSC and they've done a better job of engaging their elected board," she notes. Among the advantages she cites of engaging the Council early on is a shorter learning curve for the Balanced Scorecard. Adds Syfert, "I would like to make our scorecard process a little more inclusive." Right now, the City discusses the BSC in its annual year-end performance report, which is available to the public. The government channel has also covered the City's BSC in various TV programs; in late summer 2005, the channel plans to produce a program on the corporate year-end performance report.

Balanced Scorecard Hall of Fame Profile: The City of Charlotte

In ten years, the City of Charlotte's management progress has moved beyond its 1993 "rightsizing" crisis to embrace the challenges of managing a rapidly growing city. With the Balanced Scorecard as its primary tool, Charlotte's leaders have created a culture where innovation and synergy coexist with strict budget analysis—and the structure and processes that foster the achievement of strategic objectives. Charlotte's leaders strive to keep their scorecards "clean"; today's corporate scorecard includes the same original strategic themes, and many of the same objectives. While the City had already had many sound management practices in place before adopting the BSC—focus areas, focus-area cabinets, its annual retreat, a stable city manager position, even activity-based costing—its scorecard program has helped transform these into best practices.

¹ See www.charmeck.org.

² *Management by Objective is a management framework in which employees and managers agree on a set of objectives, a time frame for reaching them, and a way of measuring their success.*

³ Robert S. Kaplan and David P. Norton, "The Balanced Scorecard: Measures that Drive Performance," *Harvard Business Review*, January–February 1992.

⁴ Pam Syfert and Lisa B. Schumacher, "Putting Strategy First in Performance Measurement," *Journal of Cost Management*, November–December 2000.

⁵ *A similar approach is successfully used at the Royal Canadian Mounted Police, Canada's combined federal, provincial and municipal law enforcement organization and another 2004 BSC Hall of Fame winner. See www.sfo.harvardbusinessonline.org and enter "Hall of Fame."*

⁶ Pam Syfert and Lisa B. Schumacher, "Putting Strategy First in Performance Measurement," *Journal of Cost Management*, November–December 2000.

⁷ *In a conversation with Robert S. Kaplan, later cited in Robert S. Kaplan's March–April 2002 Balanced Scorecard Report article, "Using Strategic Themes to Achieve Inter-Organizational Alignment."*

KEY RESULTS

- The City of Charlotte has not raised property taxes in 19 years (as of mid-2005). Moreover, the City has worked hard to ensure that property taxes represent less than a quarter of its revenue base. Keeping taxes low, a key objective in Charlotte's scorecard, requires the City to maintain a diversified revenue base through partnerships with business and non-profit, state, and federal funding sources.
- For 31 consecutive years—and despite a fiscal crisis in 1993—the City has maintained its AAA bond rating from Moody's. In 2004, the City's own investment portfolio earned twice its benchmark, adding \$10 million to city coffers. The City also saved \$3.2 million by refinancing \$58.7 million in government debt, which was possible due to its stellar bond rating.
- Charlotte has become a safer place to live. In 2004, the number of robberies per 100,000 population decreased by 16.5% (in the Hispanic population, the incidence of robberies fell 30%). The number of fires per 100,000 population dropped to .97, the lowest rate in three decades. A public education campaign in 2002 cut auto thefts in one year by 5%, when they were expected to grow by up to 10%.
- The city has responded quickly to the Smart Growth movement, incorporating five Smart Growth principles into its scorecard. One long-term result has been the approval of a light-rail transit line for the city, a classic Smart Growth project that was first proposed ten years ago. In addition, the Charlotte Department of Transportation has slightly reduced the number of high ozone-level days, making progress on a chronic environmental problem the City has struggled with for nearly two decades.

TAKEAWAYS

- Strategic theme-based organizational structures help organizations, particularly siloed ones, take a cross-functional approach to achieving strategic goals. It's a way of achieving interdepartmental cooperation, collaboration, and synergies.
- The strategic theme approach also recognizes the interrelationships between such areas as traffic safety and police department strategy, and crime and quality of life. Cross-functional teams also help people think "outside of the box," breaking out of their hardened assumptions about causality to find solutions to chronic, seemingly intractable problems.
- With their formal budget and planning processes already in place, public-sector organizations are already well poised to complete the integration "loop." The BSC helps incorporate strategy processes into these processes, to maximize strategic performance.
- Keeping measures to a manageable number is critical. Government organizations often have a history of measuring too much. As a result, many become inundated with data, thus defeating the purpose: being able to draw insights from their information. Streamlining measures to the most essential ones can help shift the focus from operational to strategic management. Think "planning," not "auditing."

SFO SPOTLIGHT

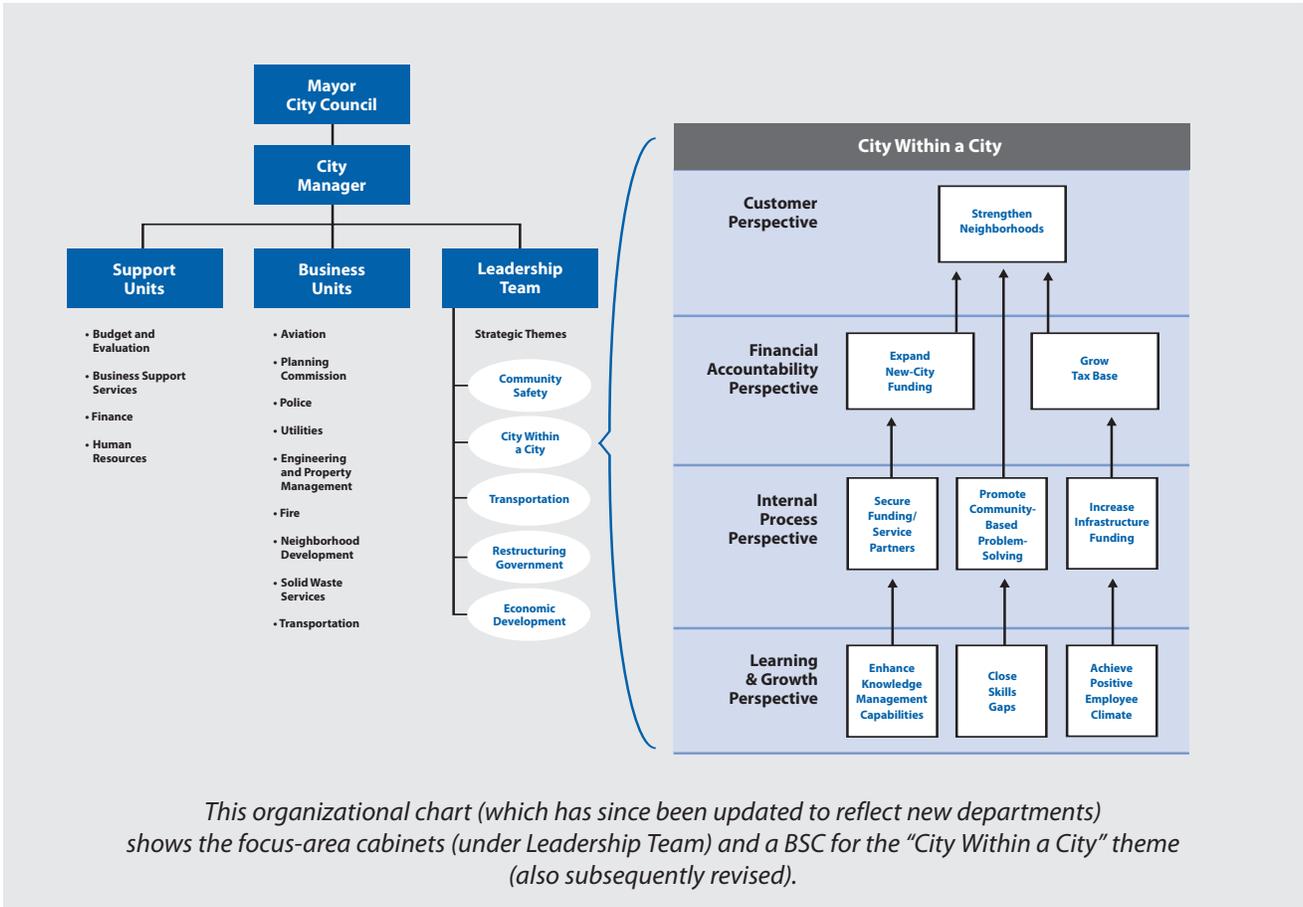
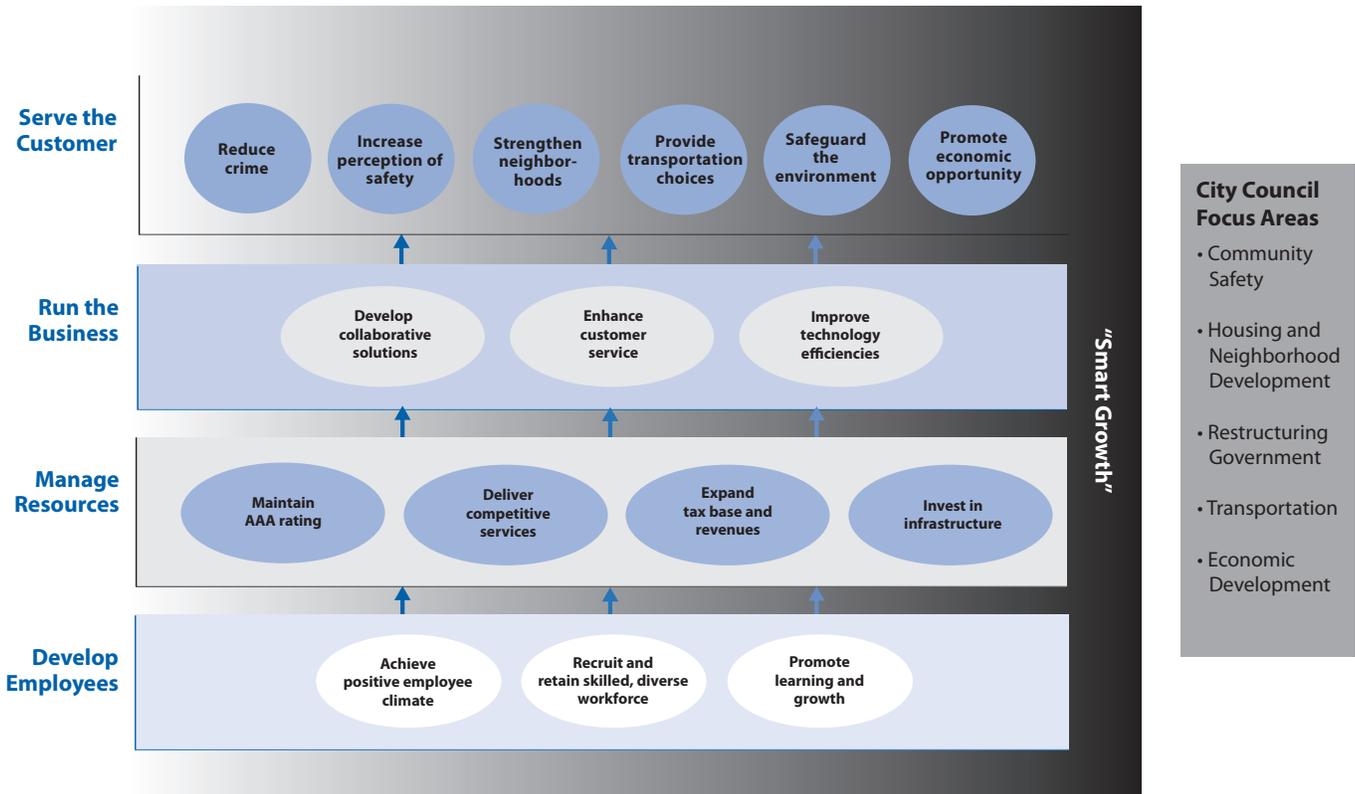
All Balanced Scorecard Hall of Fame organizations exemplify the five principles of the Strategy-Focused Organization. The City of Charlotte is especially noteworthy as an exemplar of the following SFO best practices:

- **Case for change clearly articulated:** In 1993, to cope with a mounting fiscal crisis, the City reorganized and streamlined its administration and operations. But this “rightsizing” initiative did not solve the City’s difficulties in with managing performance effectively. Then Assistant City Manager Pam Syfert sought a way to rein in the City’s voluminous portfolio of measures—and a more forward-looking management process. Convinced that the conventional performance measurement focus on financials was too limiting, given the mission of municipal government, Syfert found an answer in Kaplan and Norton’s landmark 1992 Harvard Business Review article on the Balanced Scorecard. Syfert enlisted the pair’s aid in designing Charlotte’s BSC—the first instance of a public-sector organization scorecard. [Principle #1: Mobilize Change Through Executive Leadership]
- **New way of managing understood:** Syfert created a cabinet system based on the strategic focus areas (strategic themes) the City had identified in 1991. Each focus area had its own cabinet, an interdepartmental team of executives drawn from relevant departments. This system has become the primary structural mechanism for implementing strategy. [Mobilize principle]
- **Strategy map developed:** The City had already laid the foundation for its strategy map with its strategic focus areas. Syfert’s team rearranged the position of the BSC perspectives, putting the customer perspective at the top—a design breakthrough that made the BSC more applicable to public-sector organizations, for whom profit is not paramount. The focus areas appear as strategic objectives in the customer perspective. [Principle #2: Translate the Strategy into Operational Terms]
- **Balanced Scorecard developed:** After Syfert and her team developed the corporate strategy map and BSC, two teams were organized to implement the BSC organization-wide: one, working staffers; the other, representatives from each department who studied the BSC before implementing it in their business units. The City piloted the BSC in four key business units (KBUs), and by 1997, had implemented it in all its KBUs. Understanding the need to link their measures to the focus areas of Charlotte’s corporate BSC, KBU heads began rethinking their traditional measures—in particular, reexamining many causal assumptions that had proven over the years to be off-base. The City revises its corporate BSC every two years in connection with its Strategic Operating Plan. [Translate principle]
- **Corporate role defined:** As the managerial, administrative, and budgetary authority of the City’s KBUs and support units, the City Manager’s office is responsible for ensuring that strategic objectives are achieved. The Budget and Evaluation Office, which was instrumental in guiding BSC development at the corporate and unit levels, continues to play a central role in monitoring and reporting on performance, as well as in the planning and budgeting processes. [Principle #: Align the Organization to the Strategy]

SFO SPOTLIGHT

- **Corporate–SBUs aligned:** The five focus areas are key elements of the corporate BSC and strategy map and all KBU scorecards contain objectives that support them. The focus area cabinets are the key enabler of organizational alignment, as are the planning and budgeting processes. [Align principle]
- **Personal incentives aligned:** Revenue pressures often make it difficult for government organizations to offer incentive compensation. Yet as early as 1995, the City began rewarding employees for achieving budget-savings goals and business unit targets. In 2003, the Human Resources unit and Budget and Evaluation Office developed a performance review program to link employee performance to KBU strategy and BSC measures. A pay-for-performance bonus system, instituted ten years ago on a flat-rate basis, was revised in 2001 to make the incentive link more specific. More recently, shrinking city revenues have reduced payout levels. [Principle #4: Motivate to Make Strategy Everyone’s Job]
- **Planning, budgeting, and strategy integrated:** BSC review, strategic planning, and budgeting are integrated in a lengthy, systematic process that begins in the fall and ends each May, following public input and the City Council’s budget vote. Since 1999, the City has referred to its two-year budget as the Strategic Operating Plan, when it began requiring explicit linkages to the BSC in budget presentations. Every fall, the Leadership Team reviews strategic feedback. Prior to the City Council’s January retreat, cabinets draft strategic plans and assess their progress. At the retreat, city executives review findings and the aggregate strategic focus area plan. In their proposed budgets, KBUs must address the focus areas and BSC objectives. BSC measures and targets are reevaluated and adjusted every year as part of the planning cycle. [Principle #5: Govern to Make Strategy a Continual Process]
- **Strategy management office established:** The City Manager’s office and the Budget and Evaluation Office work in concert to fulfill many of the roles of the strategy management office: overseeing strategy review and development; coordinating these processes and the planning and budgeting processes; administering performance review; governing overall operations and strategy execution; and, more recently, creating BSC and strategic communications and training for employees. Since the inception of the City’s BSC, the Budget and Evaluation Office has provided training and guidance on the BSC program, along with performance management oversight. In 2003, the City created the position of evaluation manager—a sort of BSC ambassador and interdepartmental liaison. [Govern principle]

THE CITY OF CHARLOTTE STRATEGY MAP



TO LEARN MORE

To learn more about the City of Charlotte and its Balanced Scorecard program, see:

- The *Balanced Scorecard Report* article “The Balanced Scorecard for Public-Sector Organizations,” by Robert S. Kaplan, *BSR* November–December 1999 (Reprint #B9911C).
- *Balanced Scorecard Report Special Hall of Fame 2000* Issue, which features a write-up on the City of Charlotte (Product #M70006).
- *The Strategy-Focused Organization: How Balanced Scorecard Companies Thrive in the New Business Environment*, by Robert S. Kaplan and David P. Norton, Harvard Business School Press, 2000 (pp. 137-142, 183-186). (Product #1342)
- The BSC library: BSC portal members with access to the library can search the keywords “City of Charlotte” for a complete list of resources, including conference presentations and executive video interviews. (For information on becoming a BSC Portal member, go to www.bscol.com.)
- www.charmeck.org

ADDITIONAL RESOURCES

- For more information on the Strategy-Focused Organization (SFO) principles, visit BSC Online. Membership is free. Go to www.bscol.com/bsc_online.
- For additional guidance on the SFO principles, and to learn about best practices in use at other organizations that have successfully executed strategy, go to www.bscol.com/toolkits. Here, you’ll find many resources available for purchase, including Strategy Execution Toolkits.
- For access to the largest compilation of published materials on the Balanced Scorecard and the Strategy-Focused Organization, visit www.sfo.harvardbusinessonline.org.

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