Design of a corporate performance management system in a devolved governmental organisation

2GC Research Paper

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Preamble

This paper was presented by Ian Cobbold to the The 2003 Business Strategy and the Environment conference, University of Leicester, UK, September 15th-16th 2003. This document comprises a reformatted version of the paper presented, with minor ammendments to suit web-publication.

Abstract

This paper is a case study exploring the design of a new performance management system for the UK Environment Agency. The Agency, with some 11,000 staff and more than 40 discrete management units (comprising hierarchical, geographic and functional divisions), is pursuing a strongly devolved approach to the development of strategic and operational plans. The approach adopted was based on best practice 3rd Generation Balanced Scorecard processes and was deployed at the Corporate level and then within Directorate, Regional and Area level units, to design and implement a total of 44 Balanced Scorecards across the organisation. Within this framework, the new Corporate Performance Management (CPM) system is positioned as the key mechanism of control for the entire organisation. The CPM is, however, taking different forms across the organisation, reflecting the differences in balance between management and strategic control priorities faced by different management groups. This paper explores the agency's rationale for undertaking a redesign of the CPM system, and looks at the design approach used to develop a system of control compatible with the needs of the organisation's devolved business units. The paper reports that the experience to date has been positive, and concludes with recommendations on future areas of research and ways to approach the issue of measure selection and use within complex devolved organisations.

Introduction

Over the last 20 years, as a result of the new public management reforms characterising development in many Western democracies (Pollitt & Bouckaert, 1999), public sector organisations have become increasingly obliged by complex corporate governance legislation (Barrett, 2002) to publish extensive performance statistics (Lynch & Day, 1996). This development reflects the trend towards requiring the public sector to be "made more accountable for achieving best value performance" (Collier et al, 2000). The UK has been no exception in this regard. Since the late 1990's many UK public sector organisations have been required to demonstrate more accountability in their delivery of national government-defined standards. The UK government recently produced detailed requirements specifying the need for public sector agencies to demonstrate not only that they have clear plans but also that they have a system in place to monitor performance against those plans (The PM's Office of Public Sector Reform, 2002).

This case study is based on one such public sector agency, The UK Environment Agency. The Agency needed to establish a new planning and control system in order to account for its performance to an overseeing governmental body representing the Department for Environment, Food and Rural Affairs (DEFRA) and the National Assembly for Wales. This case study provides factual information about the Agency's approach to providing this improved accountability. In addition to presenting the approach used by the Agency, this paper examines relevant academic literature and makes conclusions based on the empirical learning from the approaches used to manage performance in large devolved organisations.

A key topic explored in this paper is the manner by which large devolved organisations approach the issue of performance management so as to enable the demonstration of progress in achieving strategic goals. As organisations become larger and more complex, so do the challenges of maintaining effective communication and control. Traditionally, leaders of large organisations responded to these control issues by establishing hierarchies within which the communication of plans and the control against these plans was handled by a set of 'managers' (Miller, 1959; Chandler, 1962; Mintzberg, 1979).

Since the late 1970's, however, governmental management system reforms have typically involved the creation of flat hierarchies and the devolution of authority from the centre to the periphery (Milne, 1996; Lawrie & Cobbold, 2003). A key issue here is that devolved organisations rarely exhibit the hierarchical relationships that traditionally enabled managers to intervene in the activies of a working unit– the two parties may be located in completely separate parts of the organisation (Guest, 1986). In these situations, managers are often forced to accept responsibility for things over which they have little control, in an attempt to generate some understanding of actual performance (Dearden, 1987). The resulting lack of clarity and situational understanding can seriously damage an organisation's ability to design an effective strategic control system (Bungay & Goold, 1991), particularly in the absence of effective two-way communication systems (Sprott, 1958).

It is clear that devolved organisations need to establish performance management systems tailored to the organisation in question (Lynch & Day, 1996), and that also takes account of the local issues existing at divisional / functional levels (Mintzberg, 1990; Handy, 1994; Lawrie & Cobbold, 2003). Although there are many performance management frameworks in existence, the Environment Agency, as discussed later, selected an approach based on the Balanced Scorecard (Kaplan & Norton, 1992, 1993, 1996).

The Balanced Scorecard was originally proposed as an approach to performance measurement that combined traditional financial measures with non-financial measures to provide managers with richer and more relevant information about organisational performance, particularly with regard to key strategic goals (Kaplan & Norton 1992). By encouraging managers to focus on a limited number of measures drawn from four 'perspectives' (Financial, Customer, Internal Processes and Learning & Growth), the original Balanced Scorecard sought to improve clarity and utility. Over time, the Balanced Scorecard has developed to form the core of strategic communication and performance measurement frameworks intended to help management teams articulate, communicate and monitor the implementation of strategy, linked to the longer term organisational vision.

In parallel with these developments in the application of Balanced Scorecard, a three-stage evolution in the physical design elements and design processes used to create Balanced Scorecards can be observed (Cobbold & Lawrie, 2002). This evolution has been driven by both practitioner insights and the need for more effective mechanisms to select appropriate performance measures.

As part of the evolutionary process, a number of practitioners and academics have proposed versions of Balanced Scorecard specific to public sector organisations. It is commonly observed that the strategic priorities for public sector organisations are different from those in the private sector. Public sector organisations are usually less focused on financial results (Smith, 2000; Irwin, 2002) and also reflect a different notion of value (Alford, 2000). Some authors argue that the Balanced Scorecard in its original form is appropriate to the public sector and a useful tool to manage strategy (Smith, 2000; Piotrowski & Rosenbloom, 2002). Others suggest that Balanced Scorecard should be modified to reflect the different characteristics of the public sector. These proposed modifications fall into two categories:

- The addition of new perspectives (Provost & Leddick, 1993; Potthoff et Al, 1999; Zelman et al; 2003);
- The modification or re-ordering of the original perspectives (Rimar, 2000; Elefalk, 2001; Irwin, 2002).

Overall, these suggested changes are focused on the modification of, or addition to, the traditional perspectives to which measures are allocated. In this paper we propose that the changes suggested in the literature in fact create additional, unnecessary complications in the Balanced Scorecard model. We suggest that the physical design and design processes used at the Environment Agency offer a simple, more practical alternative that focuses management teams on the real strategic issues, rather than creating confusion about what to measure in each perspective, or which objective to put in what perspective.

Rationale for undertaking the redesign of the Agency's CPM system

Background

The Environment Agency is a non-departmental public body carrying out functions in England and Wales on behalf of DEFRA and The National Assembly for Wales. The Agency carries out a wide range of duties grouped across five broad areas: Regulation, Protection, Improvement, Information Provision, and Planning & Development Control.

Formed in 1996, through the combination of 86 separate governmental organisations into a single entity, the Agency now employs more than 11,000 people within a flat matrix based devolved organisational structure. The Agency adopted this type of organisational structure in response to the diversity of duties covered by the Agency's operational role (e.g. from the issue of fishing rod licences to the implementation of EU directives on industrial waste) and variation in the mix of these duties faced by different areas arising from differences in local geography (e.g. length of coastline, mix of agriculture to industry etc.).

The matrix includes the following types of organisational units (EA FMPR Review, 2001)

- **Areas** – providing local service delivery;
- Regions – providing effective links to Regional Government and Regional Development Agencies, and co-ordinating the areas within the region;
- **National Head Office** - responsible for the Agency's corporate direction, establishing Agency policy, monitoring overall performance, and interfacing with government departments and national organisations;
- **National Services** - securing the economies of scale and critical mass to maintain competencies (e.g. training, finance, and publications);

- **National Centres** – comprising groups of staff expected to achieve national and international standing, to ensure that the scientific base of the organisation's work is developed; centres are required to identify and support current best practice, to commission research to improve best practice and develop new methods, and to support the systematic application of new methods and best practices across the organisation.

The seven centrally managed **National Head Office Directorates** are at the centre of the organisation and concentrate on process co-ordination and policy development. The eight semi-autonomous operating regions provide administrative and liaison support (e.g. to regional bodies) to the operating areas, and form the second axis of the Agency's matrix structure. The 26 operating areas sit at the nexus of the matrix and operate more or less autonomously – but with direct hierarchical accountability to the Head Office Operations Directorate. The national centres provide classic shared-service type support to the rest of the matrix.

This organisational structure is represented in Figure 1 (overleaf).

The need for change to Corporate Performance Management (CPM)

The Agency recognised that there were two management issues needing to be addressed so as to enable better and more effective management of its flat, matrix style organisation:

1. The efficient and effective communication of purpose and task from the head of the organisation to the Areas via the matrix;
2. The reconciliation of performance of the whole organisation against goals.

Awareness of these issues led Agency management to recognise the need for reform of the organisation's approach to Corporate Performance Management. There was, however, a second major factor contributing to their recognition of the need for change. Every 5 years in the UK, every Non-Departmental Public Body is subject to a Financial Management and Policy Review (FMPR). In 2001, the Agency's review was carried out by DEFRA, working with the National Assembly for Wales. The FMPR report found that the agency needed to address several issues in order to improve the management of the new structure and organisation (EA FMPR Report, 2001) and formally highlighted the need for improved corporate performance management.

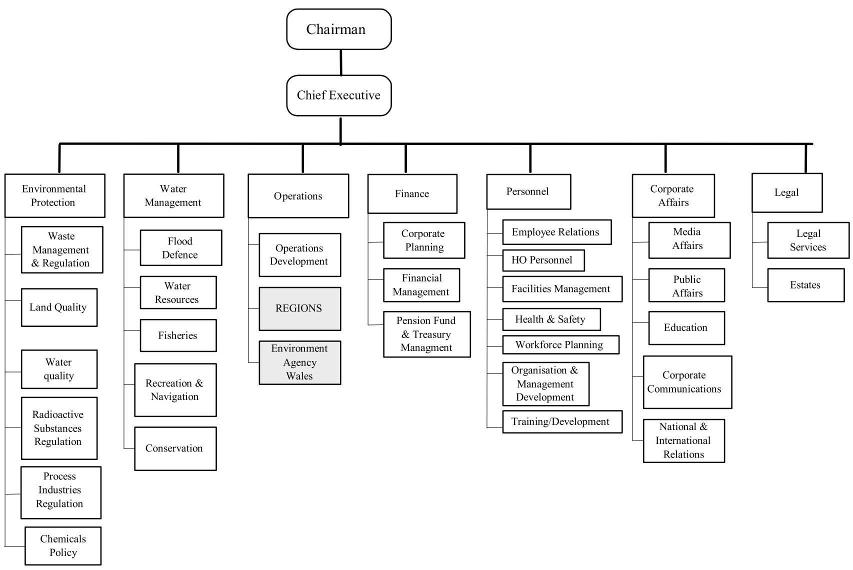

Figure 1 – Organisational Chart for the Environment Agency, Spring 2003.

The report recommended that the Agency change its sponsorship of strategic management policies and organisation to achieve:

- Co-ordination of sponsorship at a strategic level, to be achieved by focusing guidance to the Agency in terms of delivering environmental outcomes;
- Identification and adoption of a best practice model for sponsorship in accordance with the principles of modernising government;
- Strategic direction through a framework of agreed outcome and output objectives relating the Agency's vision to government policy objectives for sustainable development, the environment and other government commitments such as modernising government;
- Provision of resources and empowerment to deliver the agreed outcomes and outputs within an agreed accountability framework in which the corporate plan is central;
- Corporate planning, through the review and overhaul of the current process to ensure full alignment with the Government's 2 or 3 year spending review cycles, and consistency across sponsoring departments;
- Formalised relationships with the Department of Trade and Industry, the Cabinet Office and Her Majesty's Treasury, in support of DEFRA's leading sponsorship role.

The pre-existing Corporate Performance Management system

The Agency accepted the FMPR recommendations and concluded that part of the solution was to introduce an effective Corporate Performance Management system, initially at Board Level, that could subsequently be extended to cover the entire Agency. The aim of the resultant project was to develop a system that would allow the Agency to drive towards the achievement of the 'Vision' whilst providing the ability to effectively and efficiently manage progress in getting there.

A pre-existing data collection and reporting system related to operational activity. The Output Performance Measures (OPM) system collected data quarterly from the 26 operating areas of the Agency. This information was used for two primary purposes:

- To allow central Agency functions to monitor the performance of operating areas / regions;
- To collect and report data required by external bodies such as DEFRA and Local Authorities.

Every quarter the OPM system collected approximately 561 performance measures. The time and resource needed to collect the data was considerable, and most of the data was perceived to have little or no relevance or value to the managers and staff involved in its collection. As a result the OPM system, although required by Agency stakeholders, was unpopular within the Agency itself.

The requirements of the new management system

The CPM project was required to deliver:

- A unified CPM system, which met all Agency 'performance' needs using defined performance indicators and measures, integrated into the way the Agency works;
- A suite of key performance indicators and supporting measures useful at both strategic and operational levels, focusing on organisation, process and individual performance.

Choosing a framework

To achieve both the Agency's internal requirements and the requirements laid out in the FMPR report, the Agency investigated a number of potential frameworks, including:

- **Balanced Scorecard** - A widely adopted performance measurement framework, used by commercial and non-profit organisations around the world (Kaplan & Norton, 1992, 1993, 1996; Cobbold & Lawrie 2002);
- **The Business Excellence Model** - A popular derivation of Total Quality Management methods, used for assessing the relative quality of process performance in for-profit and non-profit organisations (EFQM, 1999);
- **Herzlinger's Matrix** - A customised version of the Balanced Scorecard developed specifically for non-profit organisations and based on work by a Harvard Business School professor (Herzlinger, 1977).
- **Performance Contracting** - A negotiation based system using the identification of a small number of critical outcomes and constraints, and the agreement of targets for these (Lawrence, 1999);

After investigating these models, the Agency's executive management team chose to develop an Agency CPM system based on the Balanced Scorecard framework. The reasons for this choice were diverse, but included:

- Directors' familiarity with the framework, based on prior experience in other organisations;
- Support for the framework from a cross section of Agency managers, following a series of exploratory workshops to examine the issues likely to occur during implementation of a CPM system;
- Strong evidence, from experience in analogous organisations, to suggest that the framework could be successfully applied within the Agency.

A project to design and implement Balanced Scorecard

In October 2001, the Agency Directors initiated a project to develop a CPM system based on the Balanced Scorecard. A project team was established, consisting of a small number of the staff working centrally within EA on the pre-existing OPM system. In addition to the Agency staff, consultants from a specialist performance management consultancy, 2GC Active Management, was brought in to form an integrated 'virtual' team (known as the CPM Project Team). 2GC was appointed to the project team because of its expertise in the design and implementation of performance management and Balanced Scorecard systems. The project was structured in two phases:

- An initial phase, to design and introduce the CPM system at the Main Board level by April 2002;
- A second phase, to extend the CPM system to the rest of the Agency by April 2003.

The CPM Project Team initially took the role of planning and implementing a project to design and introduce the Board level Balanced Scorecard, and as part of this activity carried out design work for the second phase of the project. During the second phase, time and resources were scarce, as the Agency was concurrently implementing seven major change projects (EA MIH Document, 2002):

- Modernising regulation
- Sharpening efficiency
- Communicating and influencing
- Shaping the organisation
- Developing people
- Supporting technology
- Driving corporate performance (The CPM project)

The seven change projects demanded considerable time of senior management and area management teams. The matrix structure of the Agency meant that at some point in time, all of the change projects would 'come home to roost', resulting in significant changes to the activities and organisation at the area level. One key success factor was therefore the ability to schedule CPM project activity in line with resource demands from the other change projects. This heavily influenced the timetable options for implementing the CPM project, both in terms of sequencing and the amount of time available for key staff to contribute, and had consequences for both the Balanced Scorecard design and the design methods adopted.

In addition to the timetabling constraints, it was apparent early in the design work that the second phase of the CPM project should mirror the work being carried out within the Agency to develop a new 'strategic plan'. This plan identified 43 management units as being required (in addition to the Main Board), with each unit needing to make distinct contributions to the Agency's 5-year plan, created at Board level during 2000/2001. The 43 units comprised:

- 8 Regional Administration Offices
- 26 Operating Areas
- 7 National Head Office Directorates
- 2 National Support Centres - National Laboratories and Corporate Information Services (CIS)

The strategic review called for each of these 43 units to document how they would 'contribute' to the Agency's overall corporate vision and strategy, as described in 'Making It Happen', a summary document generated by the Executive Management Team. These unit level strategy documents were given the title 'Local Contribution', and were created through a process 'controlled' only to the extent that inconsistencies were identified. In general, the units were given significant autonomy to define their 'local' strategy. The CPM work was designed to link directly to this Local Contribution document, allowing the Agency to measure its progress in delivering these locally defined strategies.

The Design and Approach Used

The Design

Working with 2GC, the Environment Agency developed a process that built on two key elements of the local contributions project:

- The 'Local Contribution' documents, describing how each management unit would contribute to the achievement of the Agency's 5-year goals and strategies;
- The Agency's heightened awareness of the need for autonomous and devolved implementation of the Agency strategy at the local level.

The CPM system and its associated design process were required to produce a set of outputs that would serve two purposes.

- First, to provide a mechanism for informing local management teams about their performance and relevant to their perceptions of the actions needed to address local strategic issues;
- Second, to communicate a clear and concise summary of each unit's performance against its strategic agenda – typically to other interested units and/or functional directors.

To deliver these outputs, a standardised CPM system design and design process were agreed, based on best practice performance management and Balanced Scorecard design principles that are described elsewhere as '3rd Generation Balanced Scorecard' (Cobbold & Lawrie, 2002). The agreed approach used of a standardised, facilitated design process that actively involved the unit management team and built on the work previously carried out to produce the 'Local Contribution' document.

The CPM Design process resulted in the creation of a Balanced Scorecard-like device for each management unit, including:

- A one-page 'Destination Statement' agreed by the whole management team and describing the unit in five years time (2007), assuming successful implementation of the Local Contribution strategic agenda. This statement was to be quantified where possible, and was to focus on topic areas clearly within the scope of the management team to influence directly. The Destination Statement described the future unit around four main topics – Environmental Outcomes; External Relationships; Resources, Organisation & Culture; and Activities & Processes;
- A set of short to medium term 'Objectives' (24 maximum) chosen to be a mix of activities and outcomes, and structured through a 'Strategic Linkage Model' (SLM) to illustrate cause and effect relationships between Objectives. This SLM document was also agreed by the entire unit management team and was constrained to lie within their scope of responsibility;
- Detailed descriptions of, and assigned 'owners' for, each of the selected Objectives;
- A set of measures and associated target values selected to inform on progress against the chosen Objectives at regular and frequent (no more than quarterly) intervals.

Use of two perspectives

A notable difference in the physical design adopted by the Agency for its CPM system as compared to previously described Balanced Scorecard designs was the use of only two 'perspectives'. Previous Balanced Scorecard designs had typically focused on the allocation of objectives to four perspectives, generally those pioneered by Kaplan and Norton (Financial, Customer, Internal Processes and Learning & Growth). Other proponents of Balanced Scorecard have suggested additional perspectives, although these have usually been additions to or variants of the original four (Provost & Leddick, 1993; Irwin, 2002; Zelman et al, 2003).

The layout and design process adopted by the Agency delivered a mix of objectives allocated to just two perspectives: 'Activities' and 'Outcomes' (see example below). Once a blend of Activity and Outcome objectives had been decided, management teams could, if they wished, further separate the objectives into the four Agency Balanced Scorecard perspectives, although this was not a key design criteria. The intention of this simplification was to reduce potential management debate on the perspective into which each objective should be placed, and to a lesser extent to simplify the training required for facilitators of the adopted design process. During initial discussions with Agency staff, it became clear that there was scope for considerable confusion and distraction, were a 'Financial' perspective to be included: the Agency was wary of any suggestion that the achievement of Environmental Outcomes was not the top priority for the organisation. By using a general perspective for 'Outcomes' each team could choose a range of Financial, Stakeholder, Environmental and Customer related objectives, without having to debate the issue of formal hierarchical priorities.

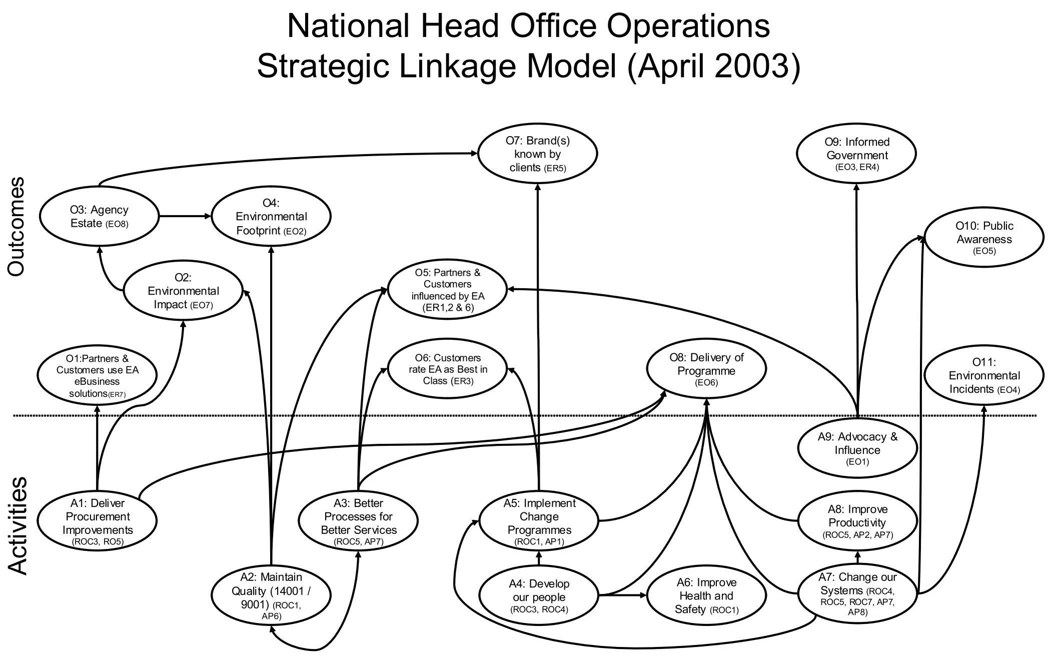

Figure 2 – Example of a two-perspective strategic linkage model developed during this project.

Implementing CPM within the Agency

The timetable for implementing the new CPM system was driven by the Agency's prior commitment to having a Board level system operating by April 2002 and an Agency wide system operating by April 2003. The project commenced in November 2001 and was charged with delivering to these two deadlines. While the implementation of a Board level Balanced Scorecard was the project's initial focus, it was quickly recognised that the delivery of another 43 Balanced Scorecards would be key to the long term success of the Agency. From early in Phase 1 the project team therefore considered how to best achieve this second phase of the project. Three project design goals were thus established:

For the design process to maximise knowledge transfer into all areas of the Agency;

- For design activities to be 'self-managed' by the units themselves;
- For external consulting support costs to be minimised.

The Agency's CPM system was 'rolled-out' using a large team of internal facilitators selected from each of the 43 units. These facilitators were to assist unit management teams to design the unit's Balanced Scorecard, through highly facilitated, interactive workshops. To this end, more than 50 in-house facilitators were identified, predominantly from amongst staff already operating in strategic planning and control roles. These individuals were trained and subsequently supported in their role as design facilitators by the virtual project team.

For this approach to work, the project team had to address two key challenges:

- First, to make the design process sufficiently simple and robust for facilitators with limited training and experience to be able to successfully execute the design and implementation activities with limited consultant and/or central support.
- Second, to ensure that the work carried out by the facilitators met minimum standards of quality and consistency.

These challenges were met partly through excellent process design and communication, by both the CPM team and 2GC, and partly through an extensive 2-stage audit process. The audit process reinforced the design process by dividing the work of the management teams into two stages (Destination & Strategic Linkage Model Design; Documentation & Measure Selection) and assessing the work produced at each of these stages against a standard set of quality and consistency criteria.

The supporting mechanisms and ongoing needs

As well as designing and implementing 44 Balanced Scorecards, the Agency also needed to introduce support mechanisms to facilitate the effective ongoing use of the new CPM system, an extensive exercise in its own right. The central CPM team, supported by 2GC, identified several key areas in which CPM team investment, assistance or direction was required:

- Evaluating and implementing software support systems
- Designing management review meetings
- Ensuring reset capability
- Rationalising pre-existing reporting systems

Software support systems: Because of the large volumes of management information to be documented, managed and reported, the Agency identified a need for an electronic method of data capture, storage and reporting. However, an obstacle to the selection of an appropriate software solution was an exercise to identify a corporate standard platform for handling data within the Agency, ongoing when the 43 Balanced Scorecards were being designed between

June 2002 and April 2003. The selection of a CPM data collection and reporting solution was therefore not possible before a corporate standard platform had been identified. As a result, an interim system was built by the Agency's internal CIS function to act as a 'tactical solution' until a long term solution could be procured. This interim system was tailored to Agency needs through consultation with 2GC and a user group established to provide user input and to test the proposed solution. A final version of the tactical software solution was delivered to key users in June 2003, in time for the first Balanced Scorecard management reviews in July 2003.

Management meetings: One area of increased importance to the Agency following this CPM work was the manner by which individual management teams were to manage their performance against the achievement of strategic goals. Prior to the design of the CPM system and the introduction of the Balanced Scorecard, Regional and Area management teams met monthly to discuss operational issues. Every quarter unit management teams would also have a review supervised by the Director of Operations, based on standard OPM data and various 'hot topics' selected on a discretionary basis by this Director. Historically, there had been no explicit focus on managing towards Environmental Outcomes or other key strategic goals.

The new Corporate Performance Management system offered an opportunity to change the way in which management team performance is reviewed. A revised approach has been adopted, involving the use of the team's Balanced Scorecard performance results to drive (and indeed dictate) the management agenda and the associated performance review. The Director of Operations still reviews team performance on a quarterly basis, however management teams are now more responsible for selecting an agenda that is relevant to them in their pursuit of key goals, and the review focuses on exceptional variances between the team's Balanced Scorecard targets and their actual performance.

Ensuring reset capability: Over time, as the Areas, Regions and Directorates begin to deliver aspects of their Local Contribution, Destination Statement and Objectives, changes to these elements will need to occur:

- Objectives will either be achieved or will become a lower priority for active management;
- New Objectives requiring active management will arise, replacing or adding to pre-existing Objectives;

There will eventually be a need to revisit the entire Balanced Scorecard, including the Destination Statement, to ensure that the long term plans remain relevant.

The CPM team and 2GC recognised this issue early in the project and therefore built into the process a number of key factors to enable the regular 'updating' of relevant strategic issues and the less frequent 'resetting' of longer term strategic plans:

- Process knowledge transfer from 2GC to a number of core CPM team members, to enable the latter to manage future resets and to deliver future internal training. This knowledge transfer is also expected to allow the CPM team to manage the evolution of the Agency's Balanced Scorecard CPM system to meet the organisation's evolving needs;
- Knowledge transfer from the core CPM team to the original 50 facilitators, through training and hands-on design experience, to create a large body of expertise within the organisation;

- Knowledge transfer into the unit management teams through their involvement in developing their own Balanced Scorecards – had the facilitators simply designed the units' Balanced Scorecards for subsequent sign off, then the management teams would not have obtained the necessary hands-on experience with the process.

Rationalising current reporting systems: As stated earlier, prior to the introduction of the Balanced Scorecard, the Agency was managing performance using a system of standardised performance indicators called OPMs. While this system met the Agency's performance information needs, the information being collected was extensive, and for many units not relevant to what the management teams saw as required to manage their particular business areas. Clearly, not all of the original OPM information is now redundant, as some is still required for reporting to external stakeholders. However, it is recognised that as the Balanced Scorecard becomes the modus operandi within the Agency the information currently collected by the OPM system can be examined and rationalised by the CPM team. A major advantage of the Balanced Scorecard CPM system is that management teams use only data relevant to them, although external reporting requirements remain.

Case discussion and recommendations about the future areas of research

Impressions from the Agency management teams

Generally, the process was seen as a big step forward from the way the Agency previously operated.

One Business Unit 'Area' Manager commented on the process and the concept:

> *"The stronger your management teams' focus and ownership of your 5-year vision, goals and destination, then the easier the process. This [process] does help to refine your 5-year vision but there is not enough time to go back to basics. This is about identifying the business critical issues that a management team need to manage/oversee. It is not about monitoring everything. It is very liberating if you are prepared to let go and gives a much better focus to the role of management teams. In summary – it is hard work but I believe it is a very good management tool which is worth the investment in time (but do not try to cut corners)."*
>
> *Craig McGarvey, Dales Area Manager, Environment Agency, February 2002*

Early indications are that management teams universally prefer the new approach to corporate performance management because it is perceived to increase local autonomy and accountability, and limits the extent of 'prescriptive' intervention from the centre or elsewhere. This finding is consistent with what would be anticipated from both the economic and social theory underpinning the framework. In addition to this less prescriptive way of setting and managing strategy there were improvements in the ways in which 'contracting' could take place internally in the organisation due to the restriction of management teams to a more explicit set of outcomes rather than an extensive set of sometimes meaningless operational targets. This finding is also consistent with the findings above in the management literature. The new CPM system based on the Balanced Scorecard was in general perceived to be a less hostile method of managing performance than the previous OPM's system, which was disliked due to both its excessive nature and directive style.

> *"In the future, the management of the operational regions and areas within the Agency will be mainly confined to the assessment of performance against the key objectives outlined on Regional and Area management team Balanced Scorecards rather than a set of performance targets set by the Operations Directorate."*
>
> *Archie Robertson, Operations Director, Environment Agency, February 2003*

Observations and conclusions

Overall, the CPM project is seen as a success. The ambitious deadlines of April 2002 for the Main Board Balanced Scorecard and April 2003 for the rest of the Agency were met. For the roll-out programme into the 43 units, most of the design work was completed in a challenging nine months, due to the demands placed on the Agency by other change projects. The process to develop a CPM system for this large, devolved organisation was exceptional, partially because 44 Balanced Scorecards were successfully designed and implemented in such a tight timeframe, partially because this was achieved with facilitators who were neither experienced in the process of designing strategic management systems, nor in the methods by which management teams should be facilitated through such a process. Finally, the output quality was of a high standard, with each of the 43 unit Balanced Scorecards having been subjected to an extensive internal audit of design and process quality and consistency, ensuring that the management teams developed a useful and workable system.

Some further observations relating to the project are as follows:

1. The Agency has demonstrated that modern Balanced Scorecards can be successfully introduced into large national public bodies using multiple, non-hierarchical designs, from the board level down to the individual operating unit level.
2. The new CPM system provides greater clarity of direction from the centre of the organisation to the rest of the organisation, in terms of Agency strategic direction and its focus on Environmental Outcomes. The Agency has moved from managing by internal targets to concentrating on delivering its environmentally focused national and local strategies. This has proved to be an effective mechanism for understanding local priorities and contracting (strategically) with other divisional units and overseeing functions.
3. The number of performance measures collated across the Agency through the traditional OPM system has now been reduced from 561 to about 446, with the potential for further reductions. While OPM data collection will still be required for reporting purposes, the number of measures that are currently being collected by the OPM system has been and will continue to be reduced as part on an ongoing process to rationalise the two reporting systems. The effect on the Agency has been that performance measurement and data collection is no longer seen as a chore with little meaning; rather data is collated and information developed only when there is a clear business need that is understood at all levels. There is now a effective framework for performance management that enables the centre to monitor strategic progress without the 'noise' inherent to large numbers of control indicators.
4. There has been a reported increase in the ownership of goals and the clarity of local issues within the operational units.
5. Balanced Scorecards are now used to drive the management agenda for Agency Strategic Performance Meetings at all levels, with the Agency Board discussing the Corporate Balanced Scorecard during quarterly Board Meetings. These Board Meetings are held publicly and performance results are then placed on the Agency website for all interested parties to view (see http://www.environment-agency.gov.uk/ for more information). The Board's approach in this regard has arguably set new standards for public openness and accountability.
6. An additional benefit of the project is that the Agency is now much better placed to procure a long term software solution for performance management data collection and reporting, due to the extensive work undertaken to develop a tactical solution.

7. For the design process and project described in this case study to be successful, full support and commitment is required, from the most senior levels of the organisation to the grassroots. Much hard work is also required.

Some observations relating to the 3rd Generation Balanced Scorecard design process are as follows:

1. The process of building consensus within management teams by requiring then to design their own Balanced Scorecards in workshops (with the support of trained internal facilitators) proved invaluable in terms of its utility to the management teams, ensuring the quality of the final designs, fostering ownership of the strategy, and generating a real understanding of what is required to genuinely 'manage performance'.
2. The use of a 'Destination Statement' helps clarify what the organisation is trying to achieve in the future. Although 'strategic plans' were already in existence (the 43 operational units' Local Contribution documents), these were generally not sufficiently quantified or clear in their targets, nor were they always built on a consensus-based understanding of the entire management team.
3. The Destination Statement also proved to be an effective device for aligning units within this devolved organisation. By describing their position in five years time, Directorates, Areas and Regions could contract with the corporate team and other units as to what they would do to support the Agency's strategic aims at both national and local levels.
4. Using the Activity and Outcomes perspectives, rather than the standard four Kaplan & Norton perspectives, worked very well. Managers were able to focus on the real issues they needed to manage in this complex public sector organisation.

Finally, Agency management has observed that the organisation is now more clearly focused on and accountable for progress toward key Environmental Outcomes. Not only are the goals now understood more clearly, but there is also real consensus around how the goals are to be achieved. The CPM-enabled devolved management structure has helped to engage and empower management teams in their discussions with other parts of the Agency: they understand more clearly what they require of others in order to achieve their own goals – a previously unseen recognition of the inter-dependencies between management units.

About 2GC

2GC is a research led consultancy expert in addressing the strategic control and performance management issues faced by organisations in today's era of rapid change and intense competition. Central to much of 2GC's work is the application of the widely acknowledged 3rd Generation Balanced Scorecard approach to strategic implementation, strategy management and performance measurement.

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