
Designing a Balanced Scorecard for the Evaluation of a Local Authority Organization*

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Abstract:

Introduced in the early 90's by Kaplan and Norton, Balanced Scorecard (BSC) composed a contemporary framework for the evaluation of a company or an institution, translating mission and strategy into goals and measures, organized into four different perspectives: Financial, Customer, Internal Process and Learning and Growth. Several variations of the initial scorecard, developed in the years to follow, was intended to be applied by non-profit and government organizations, such as Local Authority Organizations (LAOs), where traditional evaluation methods, focused mainly on the financial performance, were not the most appropriate tools for their performance measurement. The purpose of this paper is to describe and present the design of a BSC in order to be applied to the evaluation of a LAO. The main alteration of the proposed scorecard is the modification of its architecture, where the Customer Perspective, which in the case of a LAO is named Stakeholders Perspective, is placed on the top of the scorecard, instead of the Financial, and is actually identical to the organization's mission. For each one of the four perspectives of the model, a three-level sub-system is employed which contains one strategic goal, three to four objectives and up to five performance drives for every objective. The design of the scorecard starts with the definition of the strategic goal of every perspective and the process is completed with the selection of the objectives and the performance drivers of the four scorecard's perspectives. The whole model is presented analytically in a table.

Key Words: *Balanced Scorecard, Local Government, Performance Evaluation*

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1. Introduction

In 1985, the member States of the Council of Europe, agreed to the constitutional and legal foundation of Local Self-Government, convinced that Local Authorities, the main foundation of any democratic regime, can provide an administration that can be both effective and close to the citizen, once they are given a wide degree of autonomy to their operation and resources management. The European Chapter of Local Self-Government (1985), as this “agreement” was named, defined the concept, the scope and the whole framework in which Local Authorities are entitled and committed to operate. This Chapter was incorporated to the Greek Legislation in 1989 (Greek Law No 1850, 1989) and in coherence with the Greek Constitution and Law No 2539/1997, changed the administrative map of Greece and created a new form of local administration units, named as Local Authority Organizations (LAOs). The newly established municipalities, along with the pre-existing ones, constituted the First (A') Degree LAOs, while the Prefectures constituted the Second (B') Degree LAOs (Ministerial Arbitration No 25565, 1998).

L.A.Os are entitled, according to national economic policy, to draw financial resources of their own, part of which derive from local taxes and charges, whereas the other part is Government participation. LAOs may allocate these resources freely, within their operational framework and under the State's supervision in terms of Law maintenance (European Chapter of Local Self-Government, 1985).

As the first core of administration, LAOs' have such an authority and financial autonomy which enable them to intervene, in a determinant way, in many aspects of their population's life. Therefore, the assessment and evaluation of their performance provides useful information and evidence of their effectiveness in serving community needs. Although traditional financially-based performance measurement systems provide information about the financial activity of an organization, they seem to fail when it comes to the measurement of all the critical success factors, even in the contemporary business environment. These systems seem to fail even worse in the case of LAOs that are non-profit organizations.

To the direction of the evaluation of the Greek public administration, the Greek Law No 3230 (2004) established a Management-By-Objectives (MBO) framework and an efficiency measurement system in Greek public administration. Directions and guidelines for the implementation of this Law, were given by the Ministry's of Interior Circular Letter No 5270/2007, whose main concept was based on a new approach to performance measurement systems, developed in the early 1990's by Robert Kaplan and David Norton, named «The Balanced Scorecard» (BSC). According to them, this new evaluation method supports managers to translate a company's strategic goals into a coherent set of performance measures, not only in the financial level but also in critical areas like product, process, customer and market development (Kaplan and Norton, 1992; 1993).

Trying to integrate the 2007 Circular Letter into the Greek Law No 3230, this paper attempts to propose and design such a scorecard that could be appropriately applied to the performance evaluation of a LAO. The remaining of the paper is organized as follows: The second chapter gives a brief description of the basic concept of the BSC, as well as its implementation as a strategic management tool. In the third chapter, the transformation of the classic BSC in the case of a LAO and its architecture modification are proposed. The fourth chapter describes the methodology followed and the designing process of such a BSC for a Greek typical LAO and presents the final formulation of the scorecard whereas the last chapter summarizes the final conclusions of the paper.

2. The Balanced Scorecard

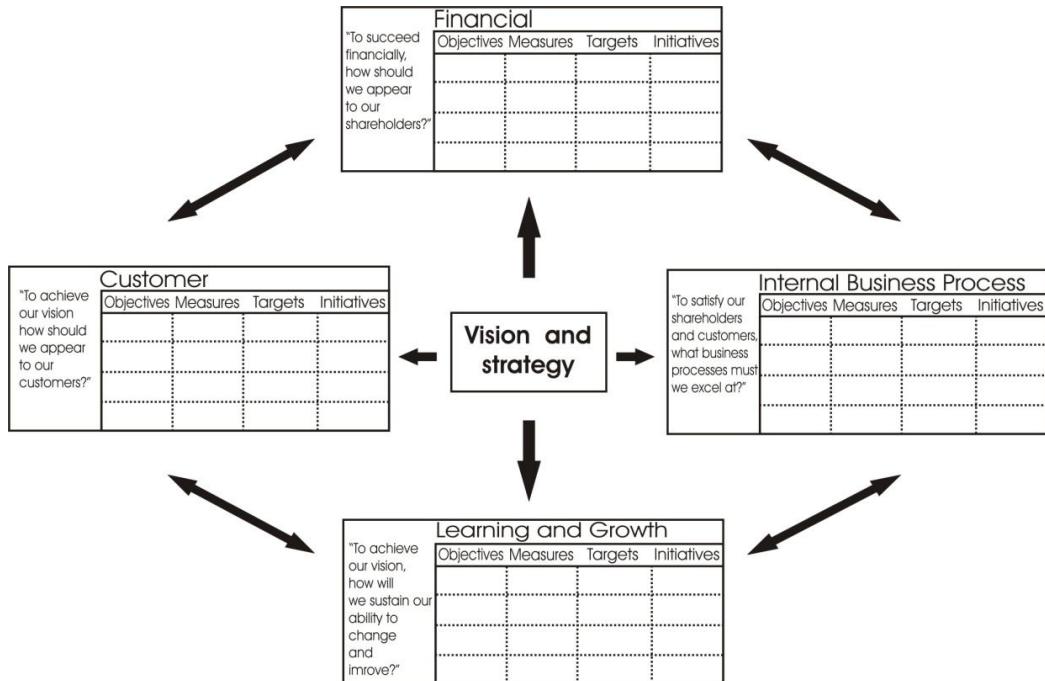
2.1. The Concept

Many performance measurement systems have been developed throughout the years, in the business or private companies' sector. These systems mainly focused on financial and accounting measures, reporting on the past (that is how well the organization's strategy worked in the previous time period), gave little guidance of how this strategy should be oriented in the future. In modern years, to deal with this new dynamic environment, new performance measurement systems have been proposed. The Balanced Scorecard is a management tool that combines historical financial data with significant qualitative information in non-financial areas, to lead a company to future success. The basic idea, as introduced by Kaplan and Norton, is that it views an organization through four different perspectives. These are (Kaplan and Norton, 1992):

- 1. *The Financial Perspective*** monitors the organization's financial performance, which indicates whether the strategy, the implementation and the execution are contributing to bottom-line improvement. Typical financial goals involve profitability, growth and shareholder value.
- 2. *The Customer Perspective*** looks at the organization through the eyes of its customers. Modern management requires that managers translate their customer service mission statement into specific measures that reflect the factors that really involve customers such as delivery time, quality, service, and cost. It uses indicators such as service level, satisfaction and complains rates etc.
- 3. *The Internal Process Perspective*** reports on the efficiency of internal processes and procedures. It highlights and evaluates those business procedures that have the greatest impact on customers' satisfaction, such as cycle time, inventory management, productivity control and logistics.
- 4. *The Learning and Growth Perspective*** reflects the commitment of the organization to grow and adapt to change. It measures a company's ability to innovate, improve and learn. It uses metrics as intellectual asset, innovations, employee skills development etc.

The four perspectives of the Balanced Scorecard are depicted in the following Figure 1:

Figure 1. The Four Perspectives of the Balanced Scorecard



Source: Kaplan & Norton, 1996A, pp76

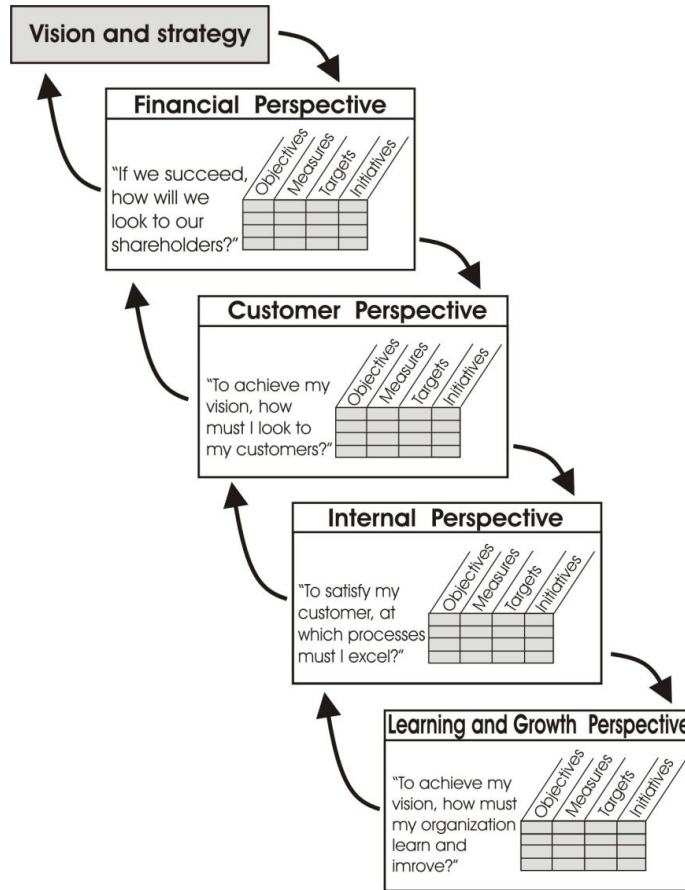
BSC provides executives with a comprehensive framework that can translate a company's vision and strategy into a coherent and linked series of objectives (measures) and performance drivers (sub-measures). It is not just a collection of critical, financial or non-financial, indicators of these four different perspectives. The performance drivers used to measure the targets in such a scorecard are the Key Performance Indicators (KPI). These critical indicators (measures and sub-measures), organized into the four perspectives, are both consistent and mutually reinforcing.

2.2. The Balanced Scorecard as a Strategic Management Tool

In 1992, Kaplan and Norton introduced BSC initially as a performance measurement system. Very quickly they realized that measurement systems help business units to navigate into the future, since they become the operational framework in which the strategy is organized. As they have concluded, the BSC provided the framework in which the strategic objectives are organized within the four perspectives. As shown in Figure 2, the strategy's critical elements and the

linkage between them are top down organized on a cause and effect relationship base (Kaplan and Norton, 2001A).

Figure 2. Cause-and-Effect Relationships of the BSC's Perspectives



Source: Kaplan & Norton, 2001A, pp.91

According to them, cause and effect relationships should exist between these four perspectives in a way that learning and growth leads to the improvement of the internal business process, which in turn leads to customer satisfaction improvement and finally affects the financial improvement of the company.

In the case of a company, whose main strategy is related exclusively to its financial results, these four perspectives are interlinked in many ways, in which each one of the three perspectives contribute to the final link, its financial performance. From this initial framework, Kaplan and Norton (2001A) developed a more general and detailed one to describe and implement strategy, which they named "The

Strategy Map". In this way, they introduced their scorecard as an integrated system of the organization's strategic management process.

3. Implementation of the BSC in Public Organizations

3.1. Related Literature

Since the BSC concept had been widely adopted by manufacturing and service companies around the world, Kaplan and Norton introduced variations of it in order to be applied by non-profit and government organizations. Their experience showed that non-profit and government agencies have considerable difficulty in defining their strategy clearly. Instead of one, their mission includes programs and initiatives and not the goals the organization is trying to achieve (Kaplan and Norton, 2001B).

Some government organizations however, followed a different approach to articulate their own strategy, proving that they can build competitive advantage in ways other than pure operational excellence. The United Way of Southeastern New England, a charity foundation, articulated a customer (donor) intimacy strategy. The May Institute, a psychological health institution, used partnerships with universities and researchers to deliver the best behavioural and rehabilitation care. New Profit Inc, a philanthropic fund, introduced new selection, monitoring and governing processes that are unique among non-profit organizations. Montefiore University Hospital used a combination of product leadership and excellent customer relationships to build market share in its local area (Kaplan and Norton, 2001B).

In early 1990s, the City of Charlotte North Carolina followed a customer-based strategy by selecting an interrelated set of strategic themes to create distinct value for its citizens. They focused on five themes (community safety, transportation, city within a city, restructuring government and economic development) which they translate into strategic goals. They placed the customer (citizen) perspective at the top of the scorecard, focusing on the key services the city was delivering for its citizens. The perspective consisted of seven customer-oriented objectives, two each for community safety and restructuring government and one each for the other three strategic goals. The remaining three perspectives were unaltered. The financial objectives were the means that enable the city to achieve its customer objectives. The internal objectives help the city to improve the way it delivers services while the learning and growth objectives emphasize on the improvement of the employees' training and skills (Kaplan and Norton, 2001B).

Other researchers seem to agree with the restructuring of the BSC's perspectives. Pollalis et al (2004), presenting an application of the BSC methodology in the Defence Finance and Accounting Service of the Department of Defence in the U.S., suggested the Customer Perspective to be placed on the top of the BSC's causal relationships. St-Pierre and Champagne (2004) followed also a similar approach for the Canadian National Defence. By evaluating its progress, in relation to specific measurement areas like military performance, economy,

efficiency and effectiveness against Key Result Expectations, they placed the mission of the organization (Defence Policy and strategy) at the top of the BSC architecture. Karra and Papadopoulos (2004; 2005), measuring the performance of two non-profit organizations, University of Macedonia and Theagenion Hospital of Thessaloniki, also applied a BSC. In both organizations the first two perspectives of the BSC were slightly modified. In the perspective of financial performance monitoring, instead of «*financial*» the term «*management*» was used and the term «*customers*» in the relative perspective was replaced by «*stakeholders*». Although they did not establish cause-and-effect relationships between the four perspectives and did not rank them, they calculated their relative value using the Analytic Hierarchy Process. The estimated local statistical weight for the Stakeholder Perspective was in both cases, by far, the higher one of all four, reaching even 50% for Theagenion Hospital.

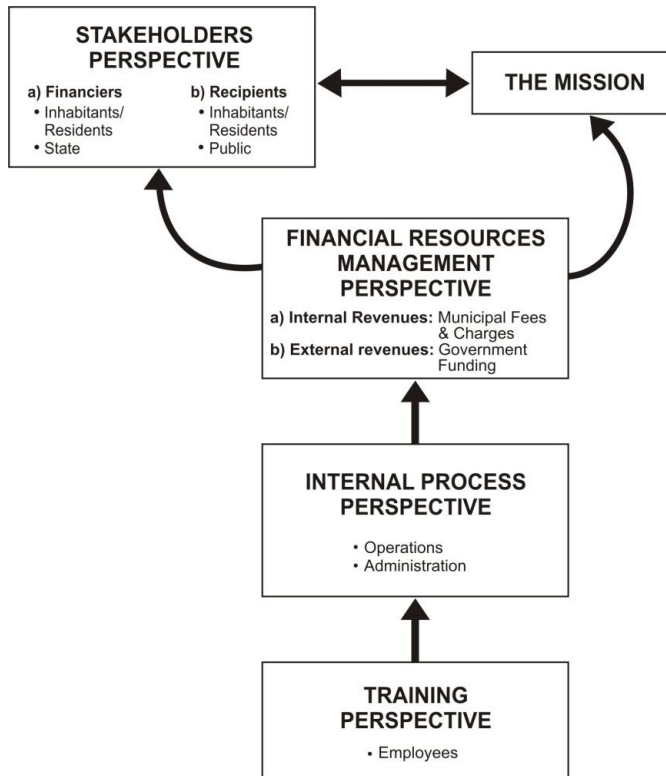
3.2. Modifying the Architecture of BSC for Local Authority Organizations

Non-profit or public organizations have a different philosophy than companies or firms; they take their current mission as a given and try to do their work more efficiently, faster, at lower cost and with fewer defects. They identify as constituents more the suppliers and the community, rather than the shareholders, customers and employees (the Stakeholder Scorecard), therefore they define their goals by developing scorecards of measures and targets focused on these constituents. It is unusual to find non-profit organizations focusing on a strategy that can be thought of as product leadership or customer intimacy. As a consequence, their scorecards tend to be closer to the KPI scorecards, rather than true strategy ones and therefore they place an objective at the top of their scorecard that represents their long-term goal while the objectives within the scorecard are placed in order to improve it. Financial performance is not the indicator whether the organization is fulfilling its mission (Kaplan and Norton, 2001A).

Following the same reasoning, the architecture of a scorecard for the case of a LAO is modified as well, placing the Customer perspective above all the others, representing its long-term, overall goal. LAOs' mission is given by the Constitution and Law (Greek Law No 1850, 1989, pp 3348), which is «... *within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population.*», meaning that their basic commitment is the improvement of population's life conditions by upgrading services and developing infrastructures. In accordance with the related literature referred above, the Customer Perspective within a LAO scorecard is renamed as "Stakeholders' Perspective" as it consists of two groups: The Funding Group (the citizens who are the Municipal Fees payers and the State) and The Recipients Group (the citizens and the community in general). Likewise, the Financial Perspective is also renamed as "Financial Resources Management Perspective", since a LAO is much more oriented to financial management than to income creation, without of course the second to be overlooked. The Internal Process perspective retains the

same title whereas the Learning and Growth Perspective is now renamed as “Training Perspective”, since it aims to employees’ strategic skills development rather than service innovation. The depiction of the architecture of a LAO Scorecard is given in Figure 3 that follows:

Figure 3. The BSC architecture for a LAO



4. Construction of a BSC for a Local Authority Organization

4.1. The Model

Kaplan and Norton’s latest articles (1996A, 1996B, 2001A) leave no doubt that a proper BSC should consist of both core outcome measures (lagging indicators) as objectives and performance drivers (leading indicators) as sub-measures of these outcomes. According to them, solid outcome measures without performance drivers do not communicate the way these outcomes should be achieved, nor do they indicate whether the selected strategy is being properly implemented. On the other hand, performance drivers without outcome measures may lead to short-term operational improvements, but will not give evidence of their incorporation into

enhanced financial performance. Practically, the former show the common goals of many strategies as well as similar structures across industries and companies, while the latter are measurements for their achievement, which tend to be specialized for a particular business unit and show the uniqueness of its strategy. The performance drivers used to measure the level of achievement of the outcome measures (objectives) are the Key Performance Indicators (KPIs).

The proposed BSC model employs four separate three-level hierarchy structure sub-systems, each one representing a perspective of the BSC. The four sub-systems are organized in the same order as the four perspectives, shown in Figure 3, starting with the sub-system of the Training Perspective at the bottom and ending with the one of the Stakeholders Perspective at the top. The implemented BSC is build upon one basic assumption: The organization's performance in the achievement of the strategic goal of every perspective is related with the performance of the organization in achieving the strategic goal of the perspective of the lower level. Every sub-system has one strategic goal and contains both outcome measures (Objectives) and performance drivers (KPIs). The strategic goal of each perspective takes place in the first level. The second level consists of the outcome measures of the perspective which serve as objectives, while the third level contains the selected performance measures (KPIs) for every objective.

4.2. Designing Process

Given the three-level structure of the BSC's perspectives (Goal – Objectives – KPIs), the design process of the presented model follows three steps:

1. Definition of the strategic goals of a LAO in the four perspectives of the scorecard.
2. Identification of the appropriate performance factors (measures) of the four perspectives structured in two levels: Lagging indicators as objectives and leading indicators as performance drivers.
3. Quantification of the relative and the overall effect of all the factors (Objectives and KPIs), on the achievement of the strategic goal of each one of the four perspectives.

4.2.1 Defining the Strategic Goals of a LAO within the four Perspectives of the BSC

The first step of the process is to define the four strategic goals of a LAO, each one corresponding to a perspective of the scorecard. For every perspective one strategic goal will be selected, aiming to include and summarize the basic pursuits of the organization, regarding the specific perspective. Based on the modified architecture of the BSC for LAOs, the goals will be set from the bottom perspective to the top one, beginning from the Training and ending to the Stakeholders Perspective.

- Training Perspective

Strategic Goal: «*Increase employees' efficiency*»

The strategic goal in this perspective can be easily defined, since employees' efficiency contributes directly, along with other factors, to the organization's operational excellence.

- Internal Process Perspective

Strategic Goal: «*Achieve operational excellence*»

The continuous effort for operational improvement is the strategic goal for this perspective, since the LAO should operate in compliance to the Law, minimizing delays and mistakes, with excellent coordination and cooperation within its departments. The term "operational" includes the elected administration (the Mayor, the Municipal Council, etc) as well.

- Financial Resources Management Perspective

Strategic Goal: «*Financial growth*»

The central financial goal in this perspective reveals the importance of financial resources to the accomplishment of the mission of such an organization. The degree of the accomplishment of the specific goal predetermines the extend up to which the overall goal of the organization is reached.

- Stakeholders' Perspective

Strategic Goal: «*Offer local development and prosperity*»

Given its mission, a LAO is entitled to regulate and manage a substantial share of public affairs under its own responsibility and in the interest of its local population. This practically coincides with the strategic goal of the Stakeholders' Perspective.

4.2.2 Identifying the Outcome Measures and Selecting the Key Performance Indicators for the four Perspectives of the BSC

Each one of the four perspectives of the BSC is connected with the others in a way that, the goal of the lower perspective (starting from the Training Perspective) participates as an objective for the achievement of the goal of the above perspective. In this way, all perspectives contribute to the strategic goal of the top perspective of the BSC, the Stakeholders Perspective.

The usefulness of every BSC depends on the chosen performance factors of its perspectives. These factors, as well as their statistical weights, could be either empirical, based on the manager's experience, or "academic", selected with several management tools and methods of mathematical analysis (Kaplan and Norton, 1992; 1996A).

In the developed model, the selected metrics were not selected academically, by the application of strategic management tools, since the proposed scorecard is not constructed for a specific LAO but it is designed generally so that it can be

implemented to any similar organization. Some metrics were chosen after brainstorming and discussion with other colleges in corresponding departments in their services, or during attendance of related seminars and team cooperating learning drills. Other metrics were chosen by studying the current related legislation concerning the definition of indicators for several public organizations, such as Regions (Ministerial Arbitration No 714, 2009), Prefectures (Ministerial Arbitration No 712, 2009), and several Ministries (Ministerial Arbitrations No 153168/1K, 2008; 114062/388, 2008; 29/120686, 2010). Also lists with directional, pilot indicators published by the Greek Ministry of Interior (www.gspa.gr) or other Greek Municipalities, like Amaroussion/Athens (www.maroussi.gr) and Ierapetra/Crete (www.kpaier.wordpress.com), which have been already used to measure their efficiency and evaluate their performance, were taken under consideration.

To the achievement of its strategic goal, which is employees' efficiency, the Training Perspective consists of three outcome measures that emphasize on the human capital of the organization, the employees, aiming to the improvement of their competence and skills. The KPIs employed address the commitment of the administration to cultivate a motivating and co-operational working environment among the employees.

Employees' efficiency is transferred to the above level, the Internal Process Perspective, and is transformed to one of the four outcome measures this perspective consists of. The other three outcome measures proposed for the Internal Process Perspective refer mostly to the efficiency and legitimacy of the LAO's administrative structure and the authority exercised by the elected administration. The KPIs here measure the LAO's ability to be effective, prompt, up to date with contemporary technology and, more importantly, to be close to the community's needs and succeed to fulfil them, within the framework of the close State's supervision.

The goal of Internal Process Perspective is transferred to the Financial Resources Management Perspective, as an outcome measure amongst the other three that guide the organization to raise the necessary funds to finance its responsibilities and duties. For this purpose it is substantial for a LAO to secure and increase its revenue flows, to reduce its operational cost and to create new revenue sources. The KPIs in this perspective focus on the improvement of the financial situation of the LAO, the rationalization of its functional expenses and its ability to attract governmental investments and funds and exercise business activity. The goal in this perspective is the financial growth of the LAO, an important element in the BSC which contributes in a determinant way to the achievement of the utmost importance goal of the top perspective of the BSC, the Stakeholders'.

Placed on the top of the scorecard, the Stakeholders' Perspective is composed of four outcome measures, which practically derive directly from actions for which a LAO is entitled to make expenditures and turn them into services delivered to its citizens, and one that "embodies" the previous three perspectives: Financial growth, goal of the Financial Resources Management Perspective,

includes operational excellence, goal of the Internal Process Perspective, which in turn includes employees' efficiency, goal of the Training Perspective. The Key Performance Indicators (KPIs) show the performance related to the achievement of the objectives within this perspective.

The four perspectives of the scorecard, with the strategic goals and all the Outcome Measures with the respective KPIs, are presented in the following Table 1. This table represents the LAO Balance Scorecard.

TABLE 1. L.A.O BALANCED SCORECARD

PER/VE	STRATEGIC GOAL		OUTCOME MEASURES (OBJECTIVES)				
STAKE HOLDERS	SG: LOCAL DEVELOPMENT AND PROSPERITY	PERFORMANCE DRIVERS (KPIs)	Improve Services' Quality	Upgrade Infrastructures	Improve Urban Environment	Develop Culture/Social Policy/Sports	Financial Growth
			1) Time of response to enquiries	1) Grants employed	1) Grants employed	1) Grants employed	
			2) New services per year	2) Number of users/recipients	2) Parks-playgrounds-parking areas	2) Spare time/cultural activities	
			3) Citizens' participation in decision making	3) Minimize services' cost to the citizens	3) Environmental actions	3) Voluntary initiatives	
			4) Number of complaints/denunciations	4) Public needs' satisfaction	4) Violations facing penalty/fine	4) Sports' facilities	
		5) Litter/waste management and recycling facilities					
FINANCIAL RESOURCES MANAGEMENT	FG: FINANCIAL GROWTH	PERFORMANCE DRIVERS (KPIs)	Secure and Increase Revenues	Reduce Costs	New Revenue Sources	Operational Excellence	
			1) Increase liquidity	1) Reduce operational expenses	1) Percentage of Financed Projects		
			2) Increase efficiency	2) Control wages	2) Level of government financial participation		
			3) Adjust revenues to cost	3) Minimize public relationships' expenses	3) Enact Law Opportunities		
			4) Reduce uncollected taxes		4) Entrepreneurship		
5) Promote income creation projects							
INTERNAL PROCESS	IG: OPERATIONAL EXCELLENCE	PERFORMANCE DRIVERS (KPIs)	Strengthen Internal Auditing/Organizational Structure	Use Contemporary Technologies	Dynamic Local Authority	Employees' Efficiency	
			1) Promote state supervision	1) Level of Funds Employed	1) Strengthen public relationships		
			2) Accurate accounting picture	2) Staff training	2) Gain access to information		
			3) Processes' flow chart	3) Number of provided e-services	3) Administrative procedures' knowledge		
			4) Functional Organizational Chart	4) Upgrade equipment	4) Law compliance		
		5) In touch with community needs					
TRAINING	TG: EMPLOYEES' EFFICIENCY	PERFORMANCE DRIVERS	Reinforce Motivation	Encourage Education	Increase Reward		
			1) Evaluation	1) Personal Interest	1) Moral Award		
			2) Promotion	2) Agency facilities	2) Prize money		
			3) Self Motivation	3) Access to Information/Knowledge	3) Benefits		
			4) Responsibility/Productivity	4) Enforcement by the agency			

4.2.3 Quantifying the Effect of the BSC Measures on the Overall Performance

The final step of the construction of the BSC would be to quantify the effect of every factor (objectives and KPIs) on the achievement of the strategic goal of each perspective. For the estimation of the statistical weights, the adoption of an easy and quite accurate method of operational research is proposed, the Analytic Hierarchy Process (AHP), introduced and developed at the Wharton School of Business by Thomas Saaty (1980, 1986). AHP allows decision makers to model a complex problem in a hierarchical structure showing the relationships of the goal, objectives (criteria), sub-objectives and alternatives and enables them to derive ratio scale priorities or weights, instead of assigning them arbitrarily.

The AHP user asks constituents, via a questionnaire, to make a sequence of pair wise comparisons of the employed measures. The comparisons are then analyzed via a mathematical model to establish the relative priorities of the measures, usually taking the geometric mean of the answers for each specific question, after which another algorithm is applied to establish the final ranking of the decision objectives or alternatives. The pair wise comparisons are quantified using the standard one-to-nine AHP measurement scale, as proposed by Saaty (1980). The results then are synthesized to determine the overall importance of each measure, or alternative, in achieving the overall goal.

5. Conclusions

The purpose of this paper is to present the implementation and the application of a specially transformed BSC, in order to be used for the evaluation of a LAO. Demonstrating the alteration of its classic form and the modification of its architecture, the Stakeholders Perspective (the rename of the classic Customer Perspective) is now placed on top of the scorecard, embodying the mission of the LAO. The proposed model uses a three-level analysis; each perspective is developed in one strategic goal, objectives (Outcome Measures) and performance drivers (KPIs). In the proposed model, the goal of each perspective participates as an objective for the achievement of the goal of the above one, so that finally the level of achievement of the strategic goal of the Stakeholders Perspective summarizes the overall performance of the organization.

The designed scorecard does not refer to a specific organization but has more generalized characteristics. Nevertheless, it is adequately adjusted to the Greek Local Government reality and includes all the potential, but not yet formally established, measures that are most probably related with the evaluation of a LAO's performance. Of course, in order to be applied properly, the model could be adapted to the specific organization to be evaluated.

Until now, no such an application of the BSC to a Greek LAO has been documented. Two pioneer Municipalities in this field, the ones of Amaroussion/Athens and Ierapetra/Crete, have established sets of objectives and indicators, but without their linkage and interrelation within the perspectives of the

BSC. An application of the proposed model to a public organization (a Municipality for example) for the evaluation of its performance, could be the subject of future research in this field.

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