

**THE BALANCED SCORECARD AS A PERFORMANCE MEASUREMENT  
TOOL FOR THE SOUTH AFRICAN GOVERNMENT'S UPGRADING OF  
INFORMAL SETTLEMENTS PROGRAMME**

by

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## **SUMMARY**

The perceived lack of progress by the Department of Human Settlements (“Department”) in meeting the increased demand for subsidised housing post-1994 is a ticking time bomb, given the repeated promises without any prospect of meeting the commitment to eradicate or upgrade all informal settlements by 2014. Despite ongoing delivery of subsidised housing, the backlog remained at 2,4 million households from 2005 to 2009, the indicator being the number of informal settlement households. The “Department” has acknowledged the existence of bureaucratic blockages throughout the housing delivery chain. Despite the urgency of the situation, there appears to be no research on the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme (“programme”) and finding a solution that would maximise delivery within budgetary constraints. This research assesses the suitability of the Balanced Scorecard (BSC), a Strategic Management Accounting performance measurement and management tool, for addressing the departmental factors hampering delivery (“factors”) under the “programme” and develops a conceptual framework to guide any future application of the BSC to the “programme”.

The complexity of housing delivery and the proposed integration of the BSC call for a detailed literature study of the post-1994 national housing and “programme” documentation and that of the public sector BSC. The theoretical study will establish how and by whom housing delivery should be done, the “factors” and the BSC framework and translation process. This will serve as the basis for the assessment of the suitability of the BSC for addressing the “factors” and the development of the conceptual framework.

This study revealed that the BSC is suitable for addressing seven of the eight departmental factors hampering delivery under the “programme” and partially suitable for addressing the remaining factor. The recommendation is that the BSC be applied to the “programme” according to the conceptual framework provided. This study has contributed to knowledge by: producing an overall picture of the national framework for the delivery of subsidised housing, presenting the BSC as a suitable performance measurement tool for addressing the departmental factors hampering delivery under the “programme”, and developing a conceptual framework for any future BSC application to the “programme”.

**Key terms:**

Subsidised housing delivery, governmental facilitators, departmental factors hampering delivery, Balanced Scorecard in the public sector, performance measurement, mission, strategy execution, National Department of Human Settlements, South African Government’s Upgrading of Informal Settlements Programme

## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 BACKGROUND**

In 1996, the basic right to housing was formalised in the new Constitution. In terms of section 26(1) of the Constitution, every person has the right of access to adequate housing. Section 26(2) of the Constitution squarely lays the responsibility on the state to realise this embedded right, subject to available resources (Constitution of the Republic of South Africa, 1996). The above sections of the Constitution place huge demands on the state to deliver housing. The government department tasked with providing housing was known as the National Department of Housing until mid-2009, after which the name was changed to the National Department of Human Settlements (National Department of Human Settlements 2009c:1).

The provision of housing is not a straightforward endeavour. This statement by Ms Sankie Mthembi-Mahanyele, a former Minister of Housing, in Cohen (1997:137) sheds some light on the complexity involved:

Housing is, as I have found out during the past two years, about everything but houses! It is about the availability of land, about access to credit, about affordability, about basic services, about economic growth, about social development, about the environment. Some elements of all these have to be in place before the first brick of a house is even laid.

The complexity of housing delivery is further illustrated by an opinion expressed by the same housing minister, who stated that no single formula exists to meet the housing challenge, but that policy should continually evolve to effect the

positive changes required (National Department of Housing 2000a:1). Since the advent of democracy in 1994, this evolving process has been visible through multiple documents which have been put in place by the National Department of Housing/Human Settlements as part of its mandate to frame national housing policy in terms of the Housing Act of 1997 (Housing Act 107 of 1997, s 3(2)). Housing is delivered by multiple facilitators, nongovernmental organisations and housing institutions – within and outside government – which have various roles to play (South African Government Information 2008:10–13).

In addition to the complexity of delivery discussed previously, many sources within and outside government report that the rate of growth in housing demand exceeds delivery (National Department of Housing 1994:8; Cohen 1997:149; National Department of Housing 2004:3–4; Hutchinson 2006:30; Chenwi 2007:21; National Department of Human Settlements 2010c:1). The *Submission for the Division of Revenue 2010/11* sheds light on the rate of growth in the demand for subsidised housing, attributing the growth to declining household sizes, migration, unemployment and an increase in the population (Financial and Fiscal Commission 2009:58). Where subsidised housing delivery is not accelerated in line with the growth in housing demand, the subsidised housing backlog will increase. An example of a backlog in an area is provided by Hutchinson (2006:29), quoting Mr Amos Masondo, the executive mayor of Johannesburg, who acknowledged in February 2006 that the city and province were aware of the need to fast-track housing in Alexandra and that the 1996–1997 housing list would be adhered to. Although the housing backlog still exists, statistically, it appears that progress is being made. According to Statistics South Africa (2007:9), 70,5% of households lived in formal dwellings in 2007, compared with 64,4% in 1996; the comparative figures for informal settlements were 14,5% in 2007 and 16% in 1996.

While the above statistics show an improvement, there is general consensus that there is a long way to go, as is illustrated in the report, *Current and future building activity in South Africa: 2006–2015* (2006:61), which states that affordable housing represents 49% of the total investment in housing – or 91% of the need expressed in numbers – and would require 36% of the available mortgage finance. According to the report, 80,55% of the affordable housing market is made up of people earning a household income of up to R3500 per month and looking at an average house price of R110 000 (2006:59). These homeowners would rely on a combination of individual credit from financial institutions and governmental project-linked subsidies. Of the people who make up 80,55% of the affordable housing market, 59,96% represent households who would rely on subsidies, being people with a household income of up to R1999 per month and who are looking at an average house price of R50 000 to R70 000 (2006:59).

Regarding individual credit from financial institutions, banks are cautious about re-entering the low-income housing market as a result of past experiences where loans were made to low-income earners, but banks were unable to repossess the properties when lenders defaulted on payments (Housing Finance 2000:4). Hohendorff (2006:20) reports that banks are holding discussions with government – and between themselves – on finding ways of limiting the risk of lending money to low-income earners. Cokayne (2009:1) quantifies the risk, stating that the National Housing Finance Corporation, a state-owned development finance institution, experiences a default level of just below 5% of the total loans granted, whereas major banks work on a 2,5% default level.

Another factor implicated in the failure of the delivery of housing to keep up with the rate of growth in demand is quality issues and fraud by developers and government officials. It has been widely reported that many problems have

been encountered with the poor quality of the subsidised houses delivered, mainly due to incompetent or dishonest contractors (Parliamentary Monitoring Group 2004:2&4; samaYende 2005:1; Mail and Guardian Online 2008:1; Maleke 2008:1; Masinga 2008:1; Sidumo 2008:1; Smuts 2006:1–2). According to Mabaya (2007:1), a lack of project management skills in the early 1990s and fraud and corruption by developers – some in collusion with Government officials – affected contracts worth R2 billion. In 2002, government blocked the contracts, declaring that it would not accept substandard work. From 2002 to March 2008, the problems posed by these contracts were investigated by auditing each project; determining what monies were recoverable from developers; charging corrupt officials and making the completion of the projects a priority. In April 2008, Ms Damane-Mkhosana, the head of the anti-corruption unit at the National Department of Housing, stated that 7363 cases involving government officials who had fraudulently acquired RDP houses were being investigated (7000+ in RDP scam 2008:1). In May 2008, former Housing Minister Sisulu disclosed to Parliament that more than 31 000 housing subsidy cases involving government employees had been uncovered and that the Department intended charging persons who had acted illegally (Ngalwa 2008:2). In April 2010, Minister Sexwale (National Department of Human Settlements 2010a:7) stated that since November 2009, the Special Investigations Unit had uncovered corruption, malpractices and abuse and that 1570 officials had already been arrested, of whom 1189 had been convicted, with R38 million having been recovered and five lawyers struck off the roll.

The Ministry of Housing indicated in 2004 that “drastic and paradigm shifting measures” were needed to address the delivery of housing to the 2,4 million households living in informal settlements, failing which housing backlogs would reach an estimated total of 2,378 million by 2010 and 2,5 million by 2014 (*Current and future building activity in South Africa: 2006–2015* 2006:62).



In view of this, in September 2004, the then Minister of Housing, Lindiwe Sisulu, announced a new plan, which was published as *Breaking New Ground: a comprehensive plan for the development of sustainable human settlements* and commonly known as the Breaking New Ground (BNG) plan (*Current and future building activity in South Africa: 2006–2015* 2006:62; National Department of Human Settlements 2010c:1). At the time, the BNG plan was hailed as a crucial part of national policy for the delivery of subsidised housing because it changed the emphasis from the delivery of numbers of houses, schools and roads, to a more holistic qualitative and quantitative drive to build communities (Lombard 2004:2). The strategy of the BNG plan emphasises the “development of sustainable settlements and quality housing” to bring dignity to the recipients (Dyantyi 2007:1). As envisioned in the BNG plan, the housing subsidy is to be increased annually so that it is aligned with increased costs. The subsidy provides for a 40 m<sup>2</sup> house (National Department of Housing 2008e:1) with an open plan living room and kitchen, two bedrooms and a bathroom with a toilet and shower (Maleke 2008:1) and with electricity (Dyantyi 2007:1). The quality of building materials used for the BNG houses is substantially better than before and the houses are larger than the previous houses, some of which were only 24 m<sup>2</sup>, with no running water and no partitions (Maleke 2008:1).

At the time of the launching of the BNG plan in 2004, former Housing Minister Sisulu believed that the new plan would eradicate all informal settlements within 10 years, that is by 2014. According to the Accounting Officer’s Overview (National Department of Human Settlements 2010c:1), the prime objective of the BNG plan is the “eradication and upgrading of all informal settlements by 2014/15”. Yet, even though the greater part of the housing policy framework has been in place by 2004, along with facilitators, and the BNG plan has been applied since September 2004, delivery has not accelerated as anticipated. It appears that the BNG plan merely halted the growth in the number of informal settlement households, but made no inroads in the backlog, as is borne out by

the delivery statistics discussed in chapter 2 and the number of informal settlement households quoted next. Hutchinson (2006:30) quotes Lindiwe Sisulu, a former Housing Minister, as saying that by 2005, 2,4 million families were living in informal housing structures, a figure quoted again in 2007 (Chenwi 2007:21) and 2009 (SabinetLaw 2009:2).

On the basis of these figures, it appears that the launching of the BNG plan has not resulted in “drastic and paradigm shifting measures” in the delivery of housing, as was initially intended when it was launched in 2004. Despite all the actions described above to ensure that housing delivery is accelerated, the National Housing Goal for delivery, which was set in 2000 at 350 000 units per annum until the housing backlog has been overcome (National Department of Housing 2000c:3), has not yet been reached.

In 2004, it was acknowledged that the wide gap had to be bridged in that South African government performance had to be measured through clear governance and development indicators (Department of Public Service and Administration 2004:1). The decision was taken to implement a Government-wide Monitoring and Evaluation (GWM&E) System in all government departments across all levels of government. Monitoring and Evaluation forms part of the GWM&E System, the intention being to increase effectiveness so that a greater developmental impact is achieved (The Presidency 2007:5). The Presidency (2007:2) indicates that the object of Monitoring and Evaluation is to evaluate performance, identify factors which contribute to service delivery outcomes and to draw causal connections between the choice of policy priorities, resourcing of policy objectives, programmes designed to implement them, services actually being delivered and the ultimate impact on communities. While the principle and intention of implementing Monitoring and Evaluation across government is sound, there is no evidence that it is actually contributing to service delivery outcomes.

While there have been various interventions that have attempted to address the housing backlog, the situation should not be underestimated. Cohen (1997:137) argues that the fundamental problem is that there will never be sufficient funds to address the housing needs of the country. Cohen (1997:143) states that the housing budget for 1997/98 was R4,7 billion and the individual subsidy was R15 000 per beneficiary. For 2009/10, the allocation to provinces was just over R12,4 billion (Division of Revenue Bill 2009:49) and the cost of providing housing in eThekweni was approximately R80 000 per household (Misselhorn 2008:21). When the 1997/98 housing budget is compared with that of 2009/10 and the comparative subsidies of R15 000 and approximately R80 000 per household are noted, it is obvious that fewer beneficiaries can be assisted than in 1997/98. It is therefore imperative that the money spent on housing is effectively utilised in order to benefit as many people as possible.

According to Minister Sexwale, studies have shown that if the current trend in the funding of the housing budget continues, there will be a housing funding shortfall of R102 billion by 2012, which could increase to R253 billion by 2016 (National Department of Human Settlements 2009d:1–2). The above discussion confirms the statement by MEC Ndou that the government is faced with the “mammoth task” of providing houses for the poorest of the poor (Tshikudo 2008:1) and the opinion of Hutchinson (2006:28) that the housing crisis has been “seriously underestimated”. In spite of the need, it is unlikely that the funding trend for the housing budget is going to change, because housing has to compete with other national priorities like health, water and education – while the State fiscus has limited funds (National Department of Housing 1994:15–16). In this situation, the opinion expressed by Mr Johan Minnie of the National Department of Human Settlements appears to be very apt. After emphasising the complexity of the housing issue in the presentation of the Budget and Strategic Plan 2009/10, Minnie stated that in the end it was about money and the best use of every rand (Parliamentary Monitoring Group 2009a:1–2).

The above paragraphs have outlined the complexity of subsidised housing delivery and the inability of the Department of Housing/Human Settlements to reach the delivery targets set by them, in spite of various interventions. It is argued that a tool must be found to assist the Department of Human Settlements to address the constraints encountered and to enable the best use to be made of every rand so that delivery targets can be reached.

According to Drury (2008:576), new developments in Strategic Management Accounting, such as the Balanced Scorecard (BSC), provide for an integrated framework of performance measurement and management, focused on financial and non-financial performance measures. The BSC was initially developed by Kaplan and Norton as a tool for performance measurement (Kaplan & Norton 2001:vii) because businesses in the information age are operating in complex, competitive environments and the BSC provides managers with the instrumentation they need to be successful in that environment (Kaplan & Norton 1996b:2). The BSC has a holistic perspective, translating the mission and strategies into objectives, performance measures and targets which make strategy executable (Niven 2003:32). As executives in organisations adopted the BSC for performance measurement, they found that the BSC could also be used as a performance management system (Kaplan & Norton 1996a:85). The BSC as a performance management system has a wider application, aligning the various management processes and focusing the attention of everyone in the organisation on implementing long-term strategy and enabling the alignment of the various management processes (Kaplan & Norton 1996a:85). Weinstein (2009:46) contends that the focus of the management control system should be on the strategic goals of the organisation and that of the performance measurement system should be on evaluating the progress in achieving these goals. As public sector entities searched for tools to manage complex environments, the BSC was adapted for

public sector use. The public sector BSC uses the following four interrelated perspectives, namely: Customer, Financial, Internal Processes and Employee Learning and Growth (Niven 2003:32).

## **1.2 RESEARCH FOCUS**

In 2005, former Housing Minister Lindiwe Sisulu stated that in spite of a R29,5 billion investment by the public sector in housing over ten years, informal settlements “continue to mushroom” (Hutchinson 2006:30). It is argued that this statement points towards confusion as to why the investment in housing has not had the desired effect of reducing the number of informal settlement households.

In paragraph 1.1, the complex housing delivery environment was found to have multiple facets. Even though the greater part of the housing policy framework and multiple facilitators has been in place for many years, delivery has not accelerated as anticipated. According to Sisulu, a former Housing Minister (National Department of Housing 2008b:1–2), investigations into housing delivery constraints subsequent to the launching of the BNG plan pointed to weaknesses in intergovernmental relations which were hampering development efforts. This is confirmed by Minister Sexwale, who cited “bureaucratic blockages which affect every step of the human settlement delivery chain” and the existence of “bureaucratic service delivery log-jams” (National Department of Human Settlements 2009k:2). For ease of reference in this study, the term “national framework for the delivery of subsidised housing” has been used to refer collectively to present South African national housing principles, legislation, policies, plans, mission, core values, vision, strategies, national housing programmes and governmental facilitators, based on developments since the advent of democracy in 1994.

It is argued that, in an environment where budget allocations are limited and increases in the subsidies per household have outstripped the increase in total budget allocations, the best use of every rand as proposed by Minnie above would be to maximise delivery within budget allocations. Minnie's opinion is interpreted as a shift in emphasis away from seeing the budget as a constraint to seeing it as an enabler instead and asking how it can best be utilised. This appears to direct attention inwards, towards an internal or departmental perspective. The presence of internal or departmental weaknesses or blockages that hamper development efforts as discussed above would clearly not maximise delivery and facilitate the best use of every rand, but would more likely be a constraint that would hamper delivery.

Because there is a widespread belief that the BSC represents one of the most significant management accounting developments and because the BSC has become known as an important management tool for improving operational performance (Hendriks, Menor & Wiedman 2004:1–2), this study aims to assess the suitability of the BSC for the Upgrading of Informal Settlements Programme. The BSC is the least criticised, most widely accepted (Amaratunga, Baldry & Sarshar 2001:179) and used performance measurement system (Paranjape, Rossiter & Pantano 2006:5) in organisations of all sizes and types – in both the private and the public sectors (Bible, Kerr & Zanini 2006:23). More specifically, the success of the BSC in managing quality in a major infrastructure project, namely the Heathrow Terminal 5 project, where other quality plans had failed, has established and proved the applicability of the BSC for major construction projects (Basu, Little & Millard 2009:22, 32).

As discussed in paragraph 1.1, the Department of Human Settlements is currently making use of Monitoring and Evaluation for performance management. Nair (2004:2–3) contends that the BSC attempts to move organisations from “monitoring” to “measurement” to “management” to

“direction-setting”. On the basis of Nair’s (2004:2–3) insights, the use of the BSC as a performance measurement system by the Department of Human Settlements would be a more sophisticated performance management application than the present system of Monitoring and Evaluation. This is in line with the viewpoint of Mooraj, Oyon and Hostettler (1999:487) that the BSC is seldom initially introduced into an organisation as a performance management system, but rather as a performance measurement system. Past experience has shown that as executives notice the benefits of the BSC, the application of the BSC initiates a change process that becomes much wider than the performance measurement application initially intended (Kaplan & Norton 1996a:77). Because the needs of organisations are continually evolving in response to changes in the environment, the fact that a performance measurement system has the potential to be used for performance management is a good reason for choosing the system. A case in point is the change in Strategy 9 of the BNG plan, which was initially performance measurement but was changed in 2010 to performance management (National Department of Human Settlements 2009b:33–34). After this change in 2010, consideration was given to changing the scope of this study from the BSC as a performance measurement tool to the BSC as a performance management system. It was decided that performance management is too wide and multidisciplinary for a study of this nature and that the scope of the study should be limited to performance measurement. Srimai, Radford and Wright (2011:668) argue that a performance measurement system is a central part of a performance management system.

It was therefore decided that the focus of the research would be the departmental factors that hamper delivery under the Upgrading of Informal Settlements Programme and that have to be addressed to maximise delivery within budgetary constraints; assessing the suitability of the BSC, a Strategic Management Accounting tool, to do so; and the development of a conceptual

framework to guide any possible future BSC application to the Upgrading of Informal Settlements Programme provided that the BSC is found to be a suitable tool.

### **1.3 OVERALL RESEARCH AIM AND INDIVIDUAL RESEARCH OBJECTIVES**

The overall aim of this research is twofold, firstly to critically assess whether the Balanced Scorecard (BSC) as a performance measurement tool is suitable for addressing the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme. Secondly, where the BSC is found to be suitable, the aim is to develop a conceptual framework which could guide any possible future application of the BSC to the Upgrading of Informal Settlements Programme.

Specifically, within the context of the Upgrading of Informal Settlements Programme ("programme"), the objectives of this research are to:

- Produce an overall picture of the national framework for the delivery of subsidised housing and indicate where the "programme" fits into the framework.
- Investigate the complexity of the upgrading of informal settlements scenario, including the provisions of the "programme".
- Identify the multiple departmental factors hampering delivery under the "programme" and organise and combine them under relevant headings.
- Clarify the use of the BSC as a performance measurement tool for the public sector and do a preliminary appraisal of whether the present Monitoring and Evaluation or the BSC has the potential to collectively address the factors hampering delivery under the "programme".



- Critically assess the suitability of the BSC as a performance measurement tool for addressing the departmental factors hampering delivery under the “programme”.
- Develop a conceptual framework to guide a possible future application of the BSC to the “programme”.

#### **1.4 DELIMITATION OF RESEARCH**

While the discussion has indicated that the BSC has various possible levels of use, this study is limited to the use of the BSC as a performance measurement tool. The use of the BSC for performance management or for direction-setting is therefore excluded. Performance measurement will only be discussed against the backdrop of the changes in the business environment which triggered the development of recent performance measurement systems like the BSC. The wider discipline of performance measurement is excluded.

As will be understood from paragraphs 1.2 and 1.3, the study focuses on the delivery of subsidised housing in South Africa, at the national level under a national housing programme, namely the Upgrading of Informal Settlements Programme. The discussion will be limited to the Upgrading of Informal Settlements Programme and an overview of the framework for the delivery of subsidised housing. The other national housing programmes are therefore excluded. The advent of democracy in South Africa in 1994 triggered the development of new national housing principles, legislation, policies, plans, a mission, core values, a vision, strategies, national housing programmes and governmental facilitators. The discussion will therefore be confined to developments post-1994 and the present situation. The study is restricted to housing/human settlements at the national level and therefore laws that apply to the public service in general, such as the Public Finance Management Act (PFMA) of 1999, are excluded, as is provincial and municipal housing

legislation. Because of the internal or departmental perspective, only governmental facilitators are included. These are the three tiers of government and the housing institutions that report to the National Department of Human Settlements.

## **1.5 NEED FOR THIS RESEARCH**

There is a need for this research, because, in 2004, government made a commitment to eradicate or upgrade all informal settlements by 2014, an undertaking which was reiterated on many occasions (South African Government Information 2005a:5; National Department of Housing: 2006a:1; 2006b:2; 2006c:1; 2006d:1). In 2010, there was an unannounced shift away from that commitment to one of upgrading a limited number of informal settlements (Parliamentary Monitoring Group 2010a). The initial and revised commitments are discussed in more detail in chapter 3. It is argued that where a delivery commitment of this nature is made to very poor people living in dire poverty in informal settlements, hopes are raised. Where delivery does not progress accordingly, the affected people lose hope and the scene is set for protests and violence, as has become common in South Africa. In 2008, Misselhorn (2008:3) was already of the opinion that the situation “constitutes a political and developmental powder-keg”. He based this opinion on the fact that the promises of housing and other developments which had been made from various platforms, especially before elections, were only partially kept because of limited delivery of these promises.

The acceleration of the upgrading of informal settlements remains a delivery priority because it is the first of the five delivery priorities set for 2010 to 2014 by the Department of Human Settlements, subject to further directives from the Presidency (Parliamentary Monitoring Group 2010b:1–2).

Misselhorn (2008:3) is of the opinion that there is a growing awareness that the present approaches to the complex informal settlement issue are rather inadequate. In the Housing Budget Vote Speech Minister Sexwale states that in order to provide human settlements, “a new approach, a paradigm shift beyond housing . . . a change of mindset” is required. Minister Sexwale envisages a focus on holistic and integrated planning and improved cooperation and coordination with other departments in the “brand new” Ministry (National Department of Human Settlements 2009d:1–2). In April 2010, Minister Sexwale stated that the department should: “make our work simpler, reduce compliance work that adds no value and focus our energies on a few deliverables and do them well” (National Department of Human Settlements 2010a:7). After this, President Zuma, speaking at a Presidential Coordinating Council meeting on Human Settlements, stated that government needs to be “quicker, smarter, use money wisely and prioritise services that would better the lives of ordinary citizens” (Cities Alliance 2010:1).

It is argued that the upgrading of informal settlements is a delivery priority and calls have been made by the most senior persons in government for a new, smarter approach, one that will use money wisely. It was argued earlier in this chapter that where factors are hampering delivery, delivery will not accelerate as anticipated and the best use will not be made of every rand. A tool therefore has to be found which is suitable for addressing the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme.

While it has been shown in the background section that human settlement/housing delivery is complex, the BSC is an integrated framework which was developed and is widely used as a performance measurement and management tool to address complex challenges. Where the BSC is found to be suitable, it could be central in a new approach to delivery so that future spending on housing will achieve the maximum results, so that the prophetic

words of Billy Cobett are not realised. He said, “the Housing Ministry is making great progress and now has a splendid housing policy. But just no houses” (The Helen Suzman Foundation 1996:7).

This research is distinctive in that it investigates delivery from a Strategic Management Accounting perspective, which no research to date has attempted. This research aims to fill certain gaps in our knowledge by doing the following: producing an overall picture of the national framework for the delivery of subsidised housing; organising and combining departmental factors hampering delivery under the Upgrading of Informal Settlements Programme under headings selected as most suitable; doing a preliminary appraisal of Monitoring and Evaluation versus the BSC to collectively address the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme; and assessing the suitability of the BSC in addressing each of the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme, all of which have not previously been attempted. Lastly, this study intends developing a conceptual framework to guide any possible future application of the BSC to the Upgrading of Informal Settlements Programme, something which has not been attempted before either.

Where, through this study, the BSC is found to be a suitable tool for addressing the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme, wider application to the other national subsidised housing programmes – and any other government priority programmes – could be investigated as further research.

## 1.6 RESEARCH METHODOLOGY

Before a decision can be made on a suitable research methodology, the method of classifying the primary sources of data needs to be determined. Crowther and Lancaster (2009:74) argue that primary data does not exist until it is generated from the research process as part of the study. In contrast, Trafford and Leshem (2008:73–74) distinguish between three sources of data, namely primary, secondary and supporting sources. Trafford and Leshem (2008:73–74) cite primary sources as being those pieces of original work which have added significantly to knowledge so that they have brought about a paradigm shift in understanding.

The available data pertaining to informal settlements and the BSC should be discussed before a decision can be made on a suitable methodology. The national framework for the delivery of subsidised housing includes a huge volume of very lengthy documents published by the National Department of Housing/Human Settlements. The documents mentioned and minutes of discussions of and presentations to the Parliamentary Portfolio Committee on Housing/Human Settlements and reports published by various government commissions have naturally been subjected to scrutiny and discussion before publication, and have proved to be reliable secondary sources of information. Outside government, a great deal is being published on subsidised housing and informal settlements in South Africa, the majority being short newspaper items. There are a few peer-reviewed articles, but they tend to be written from a town planning, social or legal perspective. One thesis was found that examines the relationship between housing policy and practice in an informal settlement from the perspective of sociology and social anthropology (Burgoyne 2008).

The Balanced Scorecard is actively researched in the private sector and is the subject of numerous publications in the form of theses, books and international journals, most of which are peer reviewed. Using the BSC as a keyword in searching, four articles were found in local accredited journals. In comparison with the volume published in the private sector, there are very few in-depth accredited articles that have been published about the BSC for non-profit organisations (Greiling 2010:535–536) and even fewer for public sector BSCs (Greatbanks & Tapp 2007:846; Farnetti & Guthrie 2008:4). Very often articles focus on success stories, and then add a few pointers on a “how-to-do-level” (Greiling 2010:535–536). This considerably limits the public sector BSC concepts and arguments that can be applied to studies. No evidence has been found of the use of the BSC in subsidised housing development, in the upgrading of informal settlements or in the broader South African public sector. According to the classification by Trafford and Leshem (2008:73–74) discussed above, the BSC publications by Kaplan and Norton (1992, 1993, 1996a, 1996b, 1996c, 1996d, 2001a, 2001b, 2001c, 2004, 2006) would qualify as primary sources of data, because they developed the BSC.

Because of the complexity of the informal settlements scenario and delivery under the Upgrading of Informal Settlements Programme, with the proposed integration of the BSC, the study calls for a detailed literature study in which it is proposed to do the following:

- Examine South African national housing documentation and publications post-1994 to extract information relevant to producing an overview of the national framework for the delivery of subsidised housing and indicate where the Upgrading of Informal Settlements Programme fits into this framework.
- Scrutinise informal settlements documentation and publications post-1994 to investigate the concept, background and development of informal settlements as well as the provisions of the Upgrading of Informal Settlements Programme.

- Examine South African informal settlement documentation and publications post-1994 to identify the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme.
- Review the body of scholarship, consisting of primary and secondary data, relating to the BSC as a performance measurement tool in the public sector and discover the source of the performance indicators for the Upgrading of Informal Settlements Programme.

Consideration was given to confirming the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme through an empirical study. The decision was taken not to do the empirical study because: it is not a core part of the study and the information would be of limited value because the various provinces and municipalities are at different stages of the process of devolving powers to municipal level. It is argued that this process of devolving powers effectively means that staff in similar positions in different provincial or municipal human settlement/housing departments would have had different exposure to and involvement in housing delivery and that this would influence their opinions, making the information obtained of limited value.

On the basis of the information gathered from the detailed literature review it is proposed to do the following:

- Organise the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme and combine them under headings selected as the most appropriate in view of the complexity of the subject.
- Carry out a preliminary appraisal of the suitability of Monitoring and Evaluation versus the BSC to address the collective departmental factors hampering delivery under the Upgrading of Informal Settlements Programme.

- Measure the compatibility of the BSC with the principles for housing policy development and core values of the National Department of Human Settlements as a precursor to the detailed assessment referred to under the next bullet.
- Carry out a detailed assessment of suitability of the public sector BSC to address each factor hampering delivery under the Upgrading of Informal Settlements Programme.

Once the suitability of the BSC has been assessed, a conceptual framework study, in line with Mouton (2003:175–176), will be conducted to develop a conceptual framework which could guide the application of the BSC to the Upgrading of Informal Settlements Programme.

## **1.7 OUTLINE STRUCTURE**

### **Chapter 1: Introduction**

In line with the approach of Biggam (2011:15–17, 52–67), the discussion in chapter 1 commenced with the background and focus to the research. This was followed by the overall research aim and individual research objectives. The need for the research was explained after the delimitations. Lastly, the research methodology was discussed, and the chapter was concluded with this outline of the structure.

### **Chapter 2: The national framework for the delivery of subsidised housing**

Chapter 2 will concentrate on how delivery should proceed according to the “national framework for the delivery of subsidised housing”, with specific reference to the Upgrading of Informal Settlements Programme, which is one of sixteen national housing programmes.



### **Chapter 3: The upgrading of informal settlements**

Chapter 3 will initially focus on the concept of informal settlements. This is followed by a discussion of the background to and development of informal settlements in post-1994 South Africa, including developments in legislation, documents and government commitments. The next topic dealt with is the provisions of the Upgrading of Informal Settlements Programme, including performance measurement indicators. This is followed by a description of interrelated national housing programmes. Lastly, the emphasis falls on the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme.

### **Chapter 4: The Balanced Scorecard as a performance measurement tool for the Upgrading of Informal Settlements Programme**

Chapter 4 will commence with an account of the changes in performance measurement systems necessitated by the change from the industrial age to the information age. Reasons why the BSC is being used extensively follows a description of the background and development of the BSC. The BSC concept, framework, adaptation for public sector use and the translation process are included. Before concluding this chapter, the research will focus on Monitoring and Evaluation, used to draw up the performance indicators for the Upgrading of Informal Settlements Programme. In conclusion, a preliminary appraisal of Monitoring and Evaluation versus the BSC as a means to collectively address the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme is carried out.

### **Chapter 5: The BSC framework for the Upgrading of Informal Settlements Programme**

Chapter 5 commences with the measurement of the compatibility of the BSC with the housing principles and core values of the National Department of Human Settlements. After this, the suitability of the BSC for addressing each of the factors hampering delivery under the Upgrading of Informal Settlements

Programme is discussed. Lastly, the focus moves to a conceptual framework which could guide any future possible BSC application to the Upgrading of Informal Settlements Programme.

### **Chapter 6: Conclusions and recommendation**

Chapter 6 concentrates on the conclusions, which are structured by using every individual objective of the research and focusing on whether the objective has been met. This is followed by a recommendation and suggestions for further research.

## **CHAPTER 2**

### **THE NATIONAL FRAMEWORK FOR THE DELIVERY OF SUBSIDISED HOUSING**

#### **2.1 INTRODUCTION**

The focus of this study is the Upgrading of Informal Settlements Programme, one of sixteen national housing programmes which are subsidised at present. Before the Upgrading of Informal Settlements Programme can be discussed, it is necessary to study the overall picture of subsidised housing. Although housing is now referred to as human settlements, the terms will be used interchangeably because housing is a widely recognised concept and is the most frequently documented.

In producing the overall picture of the delivery of subsidised housing, this chapter commences with the origin of subsidised housing in post-1994 South Africa. This is followed by definitions of housing terminology. The relationship between the new Constitution and the provision of housing and the fundamental principles of housing policy development are also discussed. The current national housing legislation and directives are then discussed in sequence, from those first legislated to the latest additions.

The starting point of delivery is to know the fundamental purpose, the desired end result and the approach to arriving at the end result. The national housing vision, mission, core values and strategies are therefore explored. A diagrammatic overview of the sixteen national housing programmes that have been developed in terms of the present policy is provided. The major facilitators of housing and their functions are then determined.

## 2.2 ORIGIN OF SUBSIDISED HOUSING

In the run-up to the first democratic elections held in South Africa on 27 April 1994, the African National Congress (ANC) made various preelection promises to the electorate. One of the preelection promises was “Housing and Services for All”, which stated that, if elected, the new ANC-led government would focus, among others, on the following with regard to housing:

- the basic human right of a roof over one’s head and reasonable living conditions
- housing 7 million squatters, the homeless and the upgrading of townships
- future planning that would recognise the need for
  - residents to live close to their workplaces
  - the provision of recreational and other basic facilities
- ensuring an open local government that would work closely with community structures to provide affordable houses and services
- within five years, the new government could:
  - build 1 million homes
  - provide running water and flushing toilets to 2 million households
  - electrify 2,5 million homes

(African National Congress 1994:4–5).

After coming into power, *A New Housing Policy and Strategy for South Africa*, commonly known as the 1994 Housing White Paper, was the first national housing policy framework published by the ANC-led government (National Department of Housing 2008c:1). The following projected information for 1995, contained in the 1994 Housing White Paper, gives some indication of the challenges that were faced by the ANC-led government with regard to housing at the time:

- Population size 42,8 million, expected to grow to 47,4 million by 2000.
- Approximately 2 million single people.

- Approximately 200 000 new households would be formed annually between 1995 and 2000, 150 000 of these were expected to be squatter households.
- Approximately 1,06 million households or 13,5% of households live in squatter dwellings.
- Approximately 58% of households have secure tenure of accommodation.
- Urban housing backlog stands at approximately 1,5 million houses.
- Number of households: 8,3 million, at an average of 4,97 people per household, with a monthly household income distribution as shown in table 2.1 below:

**Table 2.1      Projected monthly household income distribution for 1995**

<b>Income category per month</b>	<b>Percentage of households</b>	<b>Number of households</b>
R	%	Millions
0–800	39,7	3,30
801–1500	29,0	2,41
1501–2500	11,8	0,98
2501–3500	5,6	0,46
>3500	13,9	1,15
Total	100,0	8,30

Source: National Department of Housing 1994:6–10.

Table 2.1 shows that 86,1% (ranging from 100% to 13,9%) of households fell into the low-income bracket, earning R3500 per month or less. These households were unable to afford adequate housing and needed some form of government assistance (National Department of Housing 1994:6–11).

In spite of the scale of the challenges reflected in the above statistics, the 1994 Housing White Paper reiterated the preelection housing delivery promises, as it

set a National Housing Goal of increasing housing expenditure to 5% of the State budget and delivering one million houses in five years (National Department of Housing 1994:21). Cohen (1997:143) was of the opinion, however, that the promise of one million houses in five years was unrealistic, while The Helen Suzman Foundation (1996:6) also considered it an unbelievable target. There must have been some merit in their viewpoints, as the 1994 housing budget was only 1% of the State budget (National Department of Housing 1994:20). In his budget speech on 17 February 1999, Mr Trevor Manuel, the Minister of Finance, quoted a figure of 629 449 new homes built since 1994 (National Treasury 1999:28). While this was a substantial number, it was by no means in line with initial promises and goals. Because of funding constraints government has to focus the scarce housing funding on the poorest of the poor (National Department of Housing 1994:15–16).

### **2.3 SUBSIDISED HOUSING TERMINOLOGY**

Minister Tokyo Sexwale announced in May 2009 that the mandate of the National Department of Housing had been broadened and the department renamed the National Department of Human Settlements (National Department of Human Settlements 2009c:1). It was stated in the Report of the Portfolio Committee on Human Settlements (Parliamentary Monitoring Group 2010b:1) that the broadening of the mandate pertains to sanitation, which was transferred from the Department of Water Affairs to the Department of Human Settlements. According to a Draft Analysis by the Research Unit of Parliament (Parliament 2010:1), the name change and the inclusion of sanitation, defined as the provision of sewerage and water supply infrastructure, is a critical component of the provision of sustainable human settlements.

Sustainable human settlements are defined as “*well-managed entities in which economic growth and social development are in balance with the carrying*

*capacity of the natural systems on which they depend for their existence and result in sustainable development, wealth creation, poverty alleviation and equity*” (National Department of Housing 2004:11–12). The plan outlined in *Breaking New Ground* (National Department of Housing 2004) indicates that subsidised housing aims to alleviate asset poverty, but sustainable human settlements go beyond asset value as their goal is to create communities with access to job opportunities and infrastructure (National Department of Housing 2004:11). According to Minister Sexwale, the term “sustainable human settlements” originated from UN Habitat programmes, and was adopted at the United Nations’ global Habitat Summit held in Vancouver, Canada, in 1976 (National Department of Human Settlements 2009d:1).

The difference between providing housing and creating sustainable settlements becomes clearer when expressed in practical terms. Lombard (2004:2) observes that in the first decade after democracy the urban development strategy appeared to be preoccupied with targets – the number of houses built, jobs created, households with sanitation, water etc. Lombard (2004:2) is of the opinion that, at least in theory, a shift took place after the first decade towards a more holistic quantitative and qualitative drive to build communities, rather than simply building houses. The Department of Human Settlements is examining the implications of the broader definition of “human settlements” versus “housing” for their mandate, policies, procedures, programmes and capacity (National Department of Human Settlements 2009d:2).

In order to elucidate the housing documentation and the provisions of the Housing Act 107 of 1997 which are discussed in this study, the following section 1 definitions of this Act are provided:

- “housing development” means the creation and maintenance of *“habitable, stable and sustainable public and private residential environments”* in areas within reach of economic, health, educational and

social opportunities and facilities. On an increasing scale, citizens and permanent residents will have access to secure tenure in permanent residential structures with potable water, sanitary facilities and a supply of energy.

- “MEC” means the member of the Executive Council of the province who is responsible for housing
- “national housing policy” includes national norms and standards for housing
- “national housing programme” means any national policy framework facilitating housing development, or the upgrading of existing housing stock, or the provision of municipal services and infrastructure, to aid people who cannot meet their own housing needs

(Housing Act 107 of 1997).

## **2.4 THE NEW CONSTITUTION AND SUBSIDISED HOUSING**

The new Constitution of the Republic of South Africa was passed in 1996. While the Constitution covers a broad spectrum of issues, most of which are not related to housing at all, it has been included in this study because it is the supreme law of the land, and any legislation or action that does not comply with the Constitution is invalid. Under the Housing Code all housing legislation and practices must comply with the Constitution and it is essential that all obligations imposed by the Constitution are fulfilled (National Department of Housing 2000c:4–5).

The Constitution defines the cornerstone values, such as equality, human dignity and freedom of movement and residence. Chapter 2 of the Constitution, the Bill of Rights, includes section 26, which relates specifically to housing (National Department of Housing 2000c:5).



As discussed in paragraph 1.1, section 26(1) of the Constitution embeds the right of access to adequate housing for every person and section 26(2) of the Constitution lays the responsibility on the state to realise this right, subject to available resources. Section 26(3) of the Constitution stipulates that a court order is required before a home may be demolished or anyone may be evicted from his/her home (Constitution of the Republic of South Africa, 1996).

Before the present national housing legislation and directives are dealt with, the principles which housing policies should comply with are discussed.

## **2.5 FUNDAMENTAL PRINCIPLES FOR HOUSING POLICY DEVELOPMENT AND IMPLEMENTATION**

The 1994 Housing White Paper, *A new housing policy and strategy for South Africa – 1994* (National Department of Housing 1994:21–27), identifies fourteen points in total under “Basic Points of Departure” and “Underlying Policy Approaches and Considerations”, which appear to be the principles for housing development applied at the time. In addition to this, the general principles applicable to housing development which national, provincial and local government must comply with are legislated in section 2 of the Housing Act. These principles have been condensed and revised into six fundamental principles for housing policy development and implementation in the 2009 National Housing Code (National Department of Human Settlements 2009b:12–14), which are briefly explained below.

### **2.5.1 People-centred development and partnerships**

Government alone cannot meet the country’s housing needs, but acts as a facilitator by creating institutional frameworks and support structures – and providing subsidies. The environment created enables a housing process to

function where all parties acknowledge the role of government. The resultant housing process is one which is people-centred, in which partnerships thrive, and in which adequate housing can be delivered via the following essential activities:

- broad-based support and involvement of all key players to mobilise resources
- all role players share in the risks of housing development and in the rewards of improved housing options and a more vibrant housing market
- a housing process decentralised to local government level and participation by all role players

(National Department of Human Settlements 2009b:12–13).

### **2.5.2 Development of skills (skills transfer) and economic empowerment**

Housing policies and strategies must support community participation, leading to the development of skills (skills transfer) and economic empowerment. This will require consumer education and the development of private institutions which commit to providing training and support (National Department of Human Settlements 2009b:13).

### **2.5.3 Fairness and equity**

Housing policies must allow for equal and equitable access to housing and goods and services in urban and rural contexts. At the same time, housing policies should accommodate the disabled, single-parent families, hostel dwellers, the youth and all persons with special needs (National Department of Human Settlements 2009b:13).

#### **2.5.4 Choice**

Policies should allow for individual choice and should encourage collective efforts by people to improve their housing situation (National Department of Human Settlements 2009b:13–14).

#### **2.5.5 Transparency, accountability and monitoring**

Transparency guards against inequitable systems where certain people or groups benefit more than others. In addition, systems which monitor progress and ensure accountability are of equal importance. In view of this, a single national policy and an administration which is accountable for delivering on broad-based targets in a measurable manner are essential. A quantifiable division of these functions and targets between national, provincial and local government is required to enable obligations to be met and conflict over demands on scarce resources to be minimised (National Department of Human Settlements 2009b:14).

#### **2.5.6 Sustainability and fiscal affordability**

A policy which attracts outside investment in housing – including private sector and NGO investment – and one which promotes a vibrant and competitive housing market is crucial to sustainability. The housing process must be sustainable in the long term – economically, fiscally, socially, financially and politically. This requires a balance between fiscal allocations, the number of units required, the standard of housing, end-user affordability and the environmental impact (National Department of Human Settlements 2009b:14).

Following the identification of the fundamental housing policy principles above, the present national housing legislation and directives are discussed in the next paragraph.

## **2.6 PRESENT NATIONAL HOUSING LEGISLATION AND DIRECTIVES**

A former Minister of Housing, Sankie Mtembi-Mahanyele, argues that no single formula exists to meet the housing challenge, but that policy should continually evolve to effect the positive changes required (National Department of Housing 2000a:1). The evolution of policy referred to above is confirmed by the voluminous policies, legislation, frameworks, plans and agreements which relate to the formulation and development of subsidised housing after 1994. For the purposes of this study, only the present national legislation and directives will be discussed in this chapter. The national developments which are deemed relevant to informal settlements are discussed in chapter 3.

### **2.6.1 Housing Act 1997**

The provisions of the 1994 Housing White Paper were extended and legislated in the Housing Act 107 of 1997 (National Department of Housing 2008c:1). The importance of the Housing Act is confirmed by a remark made by a former Housing Minister, Sankie Mthembu-Mahanyele, to the effect that the Housing Act is the “supreme housing law in the land” (National Department of Housing 2000a:1). Cohen (1997:138) notes that the Housing Act creates a framework for housing development that will guide future sustainable housing development and allow access to reasonable houses with an acceptable infrastructure.

The Housing Act 1997 aligns the National Housing Policy with the Constitution. The Act also clarifies the functions of the three tiers of government, namely, national, provincial and local government (National Department of Housing

2008c:1). Local government is interchangeably referred to as municipalities in the documentation. The success of the Act will depend on the ability of provincial and local governments to rise to the challenge of meeting an ever-increasing demand for housing on limited budgets (Cohen 1997:139).

In 2001, an important amendment to the Housing Act inserted sections 10A and 10B, which deal with the voluntary and involuntary sale of state-subsidised houses. In terms of section 10A, no person who has received a housing subsidy under a national housing programme for the construction or purchase of a house/serviced site may sell or dispose of the house/site within eight years of acquisition – unless the property has first been offered to the provincial housing department (Housing Act 107 of 1997: s 10A(1)). Section 10A(2) and 10A(4) state that where the property is offered to the provincial housing department, the records will indicate that the person wishes to vacate the property and relocate. No compensation will be paid to the person vacating the property, but the person is entitled to be entered on the waiting list of beneficiaries for another subsidised housing property – provided that he/she still qualifies for subsidised housing (Housing Act 107 of 1997: s 10A(2) & (4)). Section 10B of the Housing Act prohibits a successor or creditor of a beneficiary from disposing of a subsidised property, unless the property has been offered to the provincial housing department at an amount less than the subsidy value – and has been rejected (Housing Act 107 of 1997: s 10B).

According to a former Housing Minister, Ms Sankie Mthembu-Mahanyele, the insertion of section 10A and 10B was intended to prevent beneficiaries from losing their state-subsidised houses because they were being sold voluntarily, at a fraction of their cost, to buyers who were not poor people. As a result of this practice, the number of houses available to the poor in the state pool decreased despite the fact that government had invested billions of Rands in low-cost housing (South African Government Information 2001:3–4). Wessels (2010:1)

reports that an Urban Landmark survey found that 11% of all subsidised houses had been “unofficially traded” over the past five years, contrary to the lock-in period of eight years. In over half of the houses “traded”, the “trading value” ranged from a mere R5750 to R17 000 per house. When this “value” is compared with the present cost of building a house on a serviced stand of approximately R88 000 (chapter 3), it becomes clear that solutions urgently need to be brainstormed. In addition, involuntary sales of houses have taken place, where houses have been sold by municipalities or other creditors to cover debts owed by the poor (South African Government Information 2001:3–4). Ngalwa (2008:3) argues that in both cases the effect has been that the poor have moved back to shacks, thereby contributing to the unregulated mushrooming of informal settlements and counteracting the progress made with housing delivery as a result of the continuously “shifting target” (Parliamentary Monitoring Group 2009c:3), a term explained in paragraph 3.2.

Ndaba (2008:2) reports that former Housing Minister Sisulu informed Parliament that occupancy audits were being implemented to confirm that the rightful beneficiaries were still living in the houses. According to Sisulu (Ngalwa 2008:1), recipients of houses who had sold them or let them would be criminally charged – and forced to reverse the sale or lease of the house, while occupiers who were not entitled to live in these houses would be evicted. Reports on occupancy audits completed in seven of the provinces reveal that the rightful beneficiaries were occupying the houses in about 70% of the cases checked (Parliamentary Monitoring Group 2009h:4).

## **2.6.2 Prevention of Illegal Eviction and Unlawful Occupation of Land Act 1998**

According to the *Annual report for the financial year ended 31 March 2009* (National Department of Housing 2009b:11), the Prevention of Illegal Eviction and Unlawful Occupation of Land Act 19 of 1998 makes provision for a process

which has to be followed to evict persons who have unlawfully invaded land. This Act relates largely to residents in informal settlements and is discussed in chapter 3.

### **2.6.3 Housing Consumers Protection Measures Act 1998**

According to South African Government Information (2008:5), the Housing Consumers Protection Measures Act 95 of 1998 creates a regulatory framework to ensure that all housing, including that of the poor, complies with minimum technical norms and standards. Before this Act was passed, properties of the poor did not qualify for protection against shoddy workmanship.

In chapter 1 of this study, various references were quoted regarding dissatisfaction with state-subsidised houses, many of which had structural and other quality defects. Cohen (1997:139–140) argues that it is essential that builders be held accountable for the quality of their work, that technical standards be laid down and that consumers be protected from unscrupulous or inexperienced builders. A more detailed discussion of this Act will be conducted in paragraph 2.10.2.6, where the NHBRC is dealt with as a facilitator of subsidised housing.

### **2.6.4 Rental Housing Act 1999**

Following on the Housing Consumers Protection Measures Act, the next important piece of housing legislation dealt with rental housing. Cohen (1997:142) quotes Billy Cobbett, the former Director-General of Housing, as saying in the August 1998 edition of *Housing in Southern Africa*, “*There is a real demand for tenure from people who want access to the city for a period, but not forever. Rent then becomes a very obvious form of tenure that can be used.*”

The Rental Housing Act 50 of 1999 has been effective since August 2001 (South African Government Information 2008:4). The Act identifies rental housing as a key component in the housing sector and defines the responsibility of government to promote rental housing. The Act provides for the rights of tenants and landlords and section 7 makes provision for the establishment of provincial Rental Housing Tribunals to assist in disputes between parties and to ensure that minimal costs are borne by the parties (Rental Housing Act 50 of 1999).

#### **2.6.5 Housing Code 2000**

Section 4 of the Housing Act 107 of 1997 requires the Minister to publish a National Housing Code, which must contain national housing policy and may include administrative or procedural guidelines in respect of the implementation or other matters relevant to housing. The first version of the Housing Code was published in March 2000 (National Department of Housing 2000b:1).

The intention with the publication of the Housing Code is to have a single document setting out the overall vision of housing in South Africa and how this vision should be implemented (National Department of Housing 2000a:1). In terms of section 4(3) of the Housing Act, the Minister must provide a copy of the National Housing Code to every provincial government and municipality and section 4(6) stipulates that the Code is binding (Housing Act 107 of 1997: s 4). It should be noted that the Housing Code is an overview of, but does not replace, the existing legislation and policy (National Department of Housing 2000b:1). Details will not be discussed, as that would be a duplication of acts and policies already discussed. The publication of the 2009 Housing Code (National Department of Housing 2009a:10) has not replaced the 2000 Housing Code because it remains valid for rules of programmes which are not covered in the 2009 Housing Code.



### **2.6.6 Home Loan and Mortgage Disclosure Act 2000**

The Home Loan and Mortgage Disclosure Act 63 of 2000 provides for the establishment of the Office of Disclosure and the monitoring of financial institutions by requiring them to disclose certain information that will identify discriminatory lending patterns (South African Government Information 2008:4).

### **2.6.7 *Breaking New Ground: a comprehensive plan for the development of sustainable human settlements (BNG plan), 2004***

At the time of launching the BNG plan, which was discussed in chapter 1, it was believed that a “new plan was required to redirect and enhance existing mechanisms towards a more responsive and effective delivery” (National Department of Housing 2004:7). According to the 2009 Housing Code (National Department of Human Settlements 2009b:7), the BNG plan is a “broad policy framework for the medium to longer term, paving the way for significant policy and strategy shifts”. This statement confirms the importance of the BNG plan. The detailed strategies contained in the BNG plan, which are illustrated in figures 2.1 to 2.10 of this study, have guided the National Department of Human Settlements from 2004 to date.

The BNG plan has set the following objectives:

- Accelerating the delivery of housing as a key strategy for poverty alleviation.
- Utilising provision of housing as a major job creation strategy.
- Ensuring property can be accessed by all as an asset for wealth creation and empowerment.
- Leveraging growth in the economy.
- Combating crime, promoting social cohesion and improving quality of life for the poor.

- Supporting the functioning of the **entire single residential property market** to reduce duality within the sector by breaking the barriers between the first economy residential property boom and the second economy slump.
- Utilising housing as an instrument for the development of **sustainable human settlements**, in support of spatial restructuring.

(National Department of Housing: *Breaking New Ground* 2004:7)

The National Department of Human Settlements (2010c:1) indicates that the BNG plan builds on the 1994 Housing White Paper, whereas Chenwi (2007:22) argues that the BNG plan was introduced in accordance with the *Grootboom* case (*Government of the Republic of South Africa and Others v Grootboom and Others* 2001 (1) SA 46 (CC)). The decision in this case was that housing is not just “bricks and mortar”, but incorporates factors such as access to land, appropriate services, financing, etc – all of which are dependent on social and economic realities.

Although the BNG plan appeared to be very ambitious when it was launched, it does appear to be helping to meet the first objective of accelerating housing delivery. Contradictory subsidised housing delivery figures from 1994 to 2009 have, however, been quoted. A case in point is a media release in March 2009, where the Director-General stated in March 2009 that 2,7 million houses had been delivered since 1994 (National Department of Housing 2009a:1), whereas former Minister Sisulu quoted a figure of 2,8 million at the same time (National Department of Housing 2009h:1). In June 2009, however, Human Settlements Minister Sexwale gave a figure of 2,3 million subsidised houses delivered by government since 1994 (National Department of Human Settlements 2009d:2). The website of the National Department of Human Settlements sheds no light on the matter as the figures quoted are for houses “completed and in the process of completion”, therefore providing data – mere facts or figures that

cannot be used for decision-making – but not information, because information can be used to inform decisions (Niven 2003:41). Whatever the delivery figures, the initial estimate that all of the 2,4 million informal settlements would be eradicated within 10 years of the launching of the BNG plan, therefore by 2014, as discussed in paragraph 1.1 of this study, has not materialised. Mabaya (2009:1) quotes the Director-General of the National Department of Housing as saying that, of the 2,7 million houses built since 1994, 1,2 million were built after the launching of the BNG plan. These figures equate to the building of 1,5 million houses in the first 10 years of democracy and 1,2 million houses in the 4,5 years after the launching of the BNG plan. This claim is, however, not supported by delivery figures provided in a presentation by Mr Johan Minnie, Chief Director: Management Information Services of the National Department of Human Settlements, and illustrated in table 2.2 below. While the delivery figures of 2,8 million since 1994 are quite close to the 2,7 million quoted, the figure of 1,2 million houses delivered since the launching of the BNG plan in the middle of the 2004/05 financial year is not supported by the figures provided in table 2.2. In fact, the sum of annual housing delivery figures for the financial years 2004/05 to 2008/09 is less than the 1,2 million claimed above from mid-2004 to 2008/09.

In agreement with delivery figures quoted for previous years, the 2009/10 delivery figures given on the website are for houses completed and in the process of completion. A distinction has, however, been made between completed serviced sites and houses, indicated as 64 362 and 161 854 respectively (National Department of Human Settlements 2011b:1). Total delivery of 226 216 units for the year is claimed on the website. It should be noted that this figure was arrived at by adding incomparable figures, that is: the figure for completed serviced sites has been added to the figure for completed houses. It is also notable that the housing delivery figure of 161 854 is much lower than that of previous years, as indicated in table 2.2.

**Table 2.2 Annual housing delivery figures**

<b>Financial period 1 April to 31 March</b>	<b>Number of houses delivered</b>
1994/98	721 813
1999/00	161 572
2000/01	190 463
2001/02	143 281
2002/03	203 588
2003/04	193 615
2004/05	217 348
2005/06	216 133
2006/07	271 219
2007/08	248 850
2008/09	238 585*
<b>Total 1994 to 2009</b>	<b>2 806 467</b>

\* Provisional figure

Source: Parliamentary Monitoring Group 2009b.

### **2.6.8 Housing Development Agency Act 2008**

The most recent development is the Housing Development Agency Act 23 of 2008, which established the Housing Development Agency (HDA). The HDA will facilitate the acquisition of land and fast-track land acquisition and housing development services for the purpose of creating sustainable human settlements (Housing Development Agency Act 23 of 2008: s 2).

### **2.6.9 Social Housing Act 2008**

The Social Housing Act 16 of 2008 was passed in August 2009, and came into effect from 1 September 2009. The main purposes of the Act are to define the functions of the three tiers of government regarding social housing; to establish

the Social Housing Regulatory Authority (SHRA), which will regulate the use of public funds by social housing institutions; to allow approved projects to be undertaken with public money by other delivery agents and to give statutory recognition to social housing institutions (Social Housing Act 16 of 2008).

#### **2.6.10 National Housing Code 2009**

The 2009 National Housing Code was published on the website of the National Department of Human Settlements between the end of February and April 2010. Contrary to the requirements of section 4(4)(b) of the Housing Act, which provides for a revised Housing Code to be published within three months of the end of the year in which policy was amended (Housing Act 107 of 1997: s 4(4)(b)), this is the first Housing Code to have been published since the 2000 Housing Code, which was discussed in paragraph 2.6.5.

The 2009 National Housing Code is a lengthy document of almost 1400 pages which is divided into three parts, with most parts being divided into various volumes. In essence, this document comprises: Part 1: *Simplified Guide*; Part 2: *The Policy Context*; and Part 3: *Technical and General Guidelines*. Part 3 also includes a whole volume for each of the four national housing intervention categories, namely Financial, Incremental, Rural and Social and Rental. Each volume comprises various sections, each of which contains detailed discussions of the requirements of each of the National Housing Programmes, as well as the present subsidy guidelines.

According to the 2009 National Housing Code (National Department of Human Settlements 2009a:10), this document aims to simplify the implementation of housing projects by providing clear guidelines, and is less prescriptive than the 2000 Housing Code. The sections of the 2009 Housing Code which are relevant

to this study are referred to extensively throughout this and the following chapter, and are therefore not discussed in detail here.

## **2.7 NATIONAL HOUSING VISION, MISSION AND CORE VALUES**

The website of the National Department of Human Settlements (2010b:1) gives the following information on the department:

**Vision:**

*A nation housed in sustainable Human Settlements*

**Mission:**

*To facilitate an environment that provides sustainable Human Settlements*

**Core values, based on the Constitution:**

- 1) Accountability
- 2) Fairness and Equity
- 3) Choice, Quality and Affordability
- 4) Sustainability
- 5) Innovation
- 6) Adherence to Batho Pele principles

It is noted that these core values are similar but not identical to the fundamental principles discussed in paragraph 2.5 of this study.

## **2.8 NATIONAL HOUSING STRATEGIES**

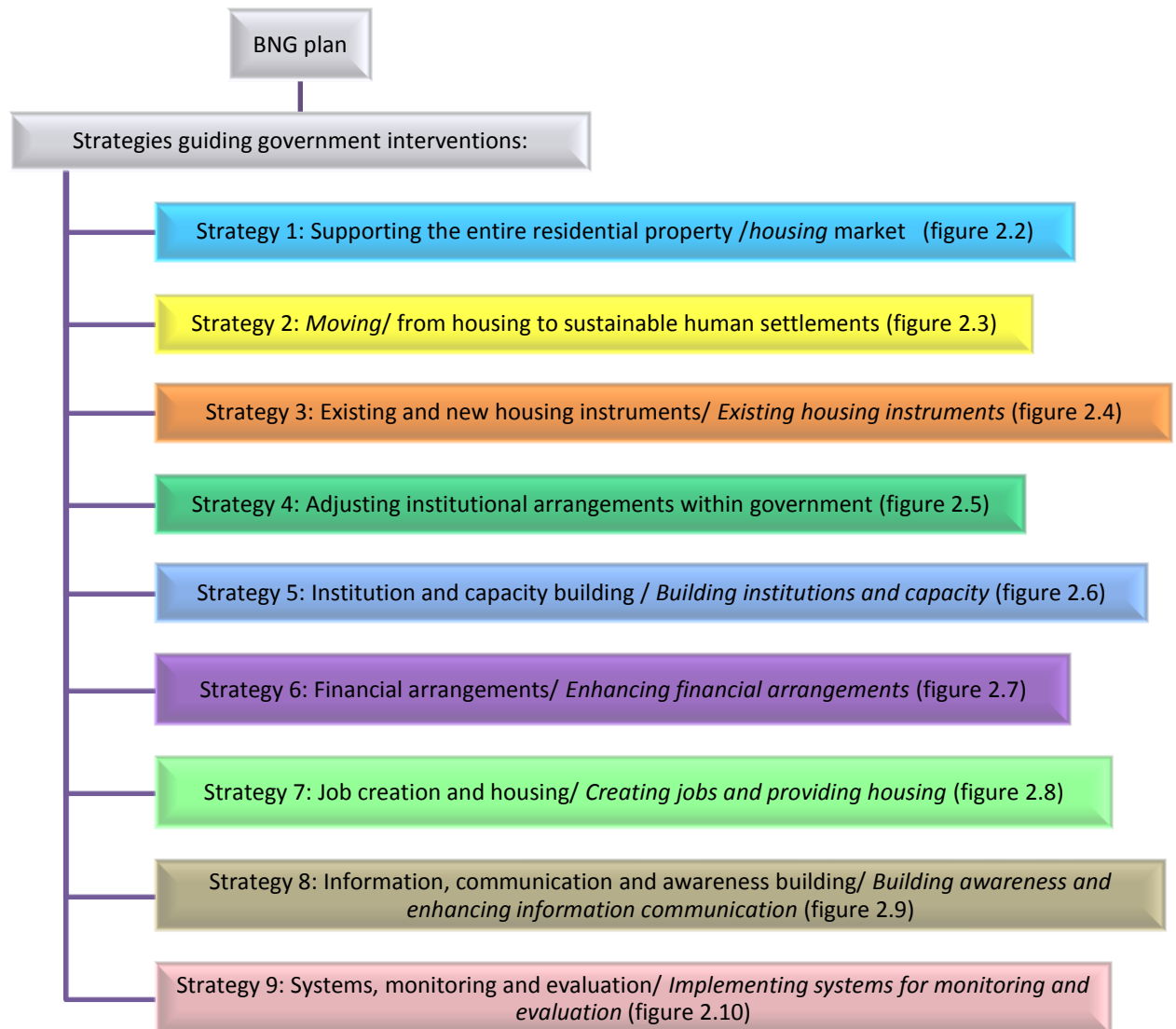
Since 2004 the strategies included in the BNG plan have guided, and continue to guide, the national government interventions in progressively meeting the objectives for the supply of subsidised housing. Because the strategies in the BNG plan are very comprehensive and lengthy textual discussions spanning 20

pages, they have been illustrated diagrammatically in figures 2.1 to 2.10 below to facilitate understanding. The decision to illustrate the strategies in diagrams and the design of the diagrams in figures 2.1 to 2.10 are an own initiative. The content of figures 2.1 to 2.10 reflects the researcher's understanding of the strategies and strategic themes taken from textual discussions in the sources acknowledged below every diagram.

Relatively minor changes in emphasis or wording of the strategies have occurred in the course of the progression from the BNG plan to the subsequent 2009 Housing Code (National Department of Human Settlements 2009b:19). As the 2009 Housing Code was published in 2010, it is assumed that it contains the latest strategies. The strategies in the BNG plan were therefore retained in figures 2.1 to 2.10, but the changes in emphasis and/or wording contained in the 2009 Housing Code have been added in italics to facilitate understanding.

The nine main strategies are listed in figure 2.1. Each strategy has been referenced to a supporting diagram. For ease of reference, the supporting diagrams have been done in the colour corresponding to that of the strategy in figure 2.1. Strategies solely involving the upgrading of informal settlements, the main focus of this study, have been highlighted in bright red and will be discussed in chapter 3 of this study, whereas those that merely refer to the upgrading of informal settlements have been highlighted in a light shade of red and will be referred to in that chapter.

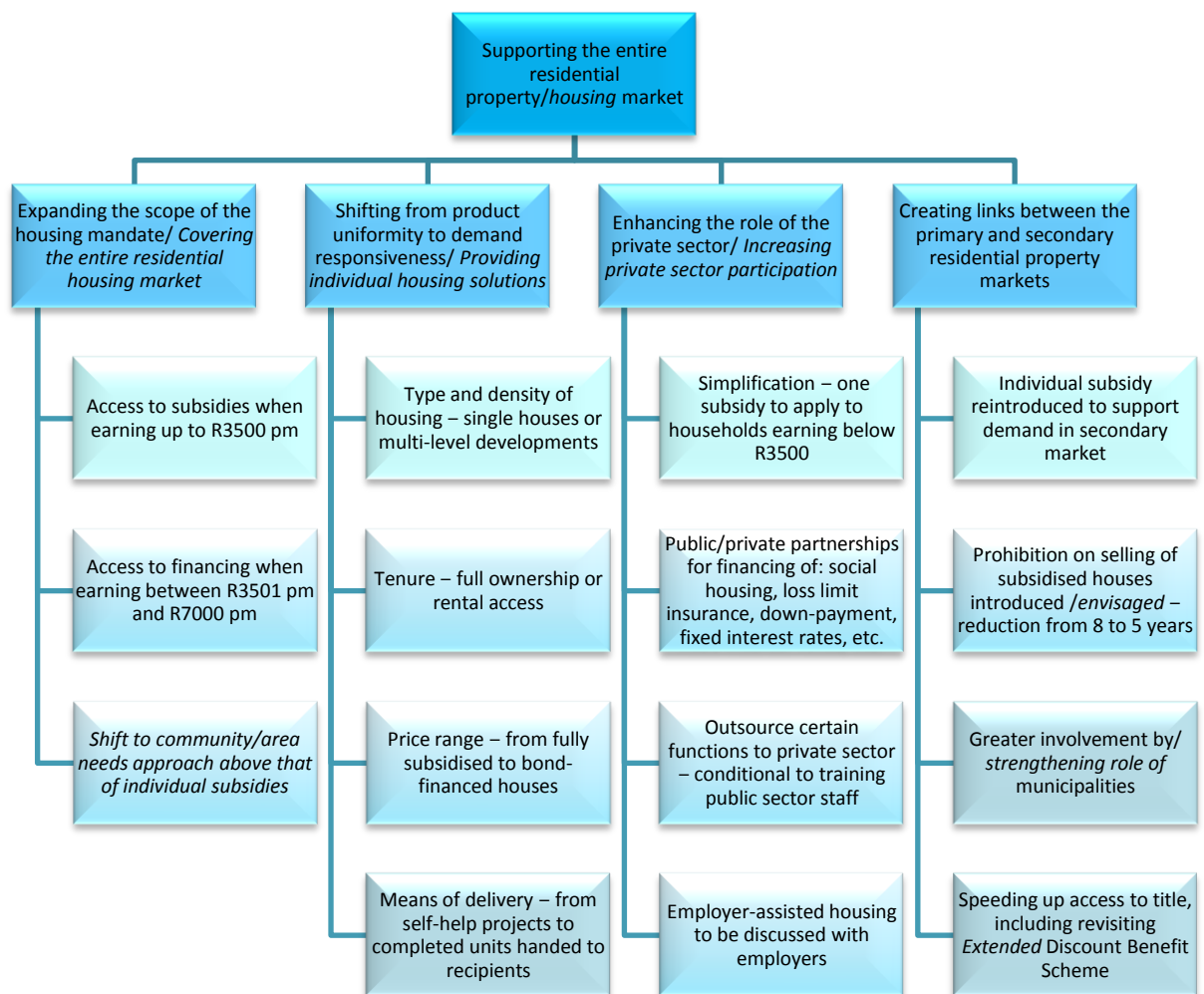
**Figure 2.1 The main national strategies set out in the Breaking New Ground (BNG) plan**



Source: Own observation – compiled from information in the BNG plan (2004:7–27). Where a change in wording or emphasis has taken place in the progression from the BNG plan to the 2009 Housing Code (2009b:19), it has been indicated in italics.

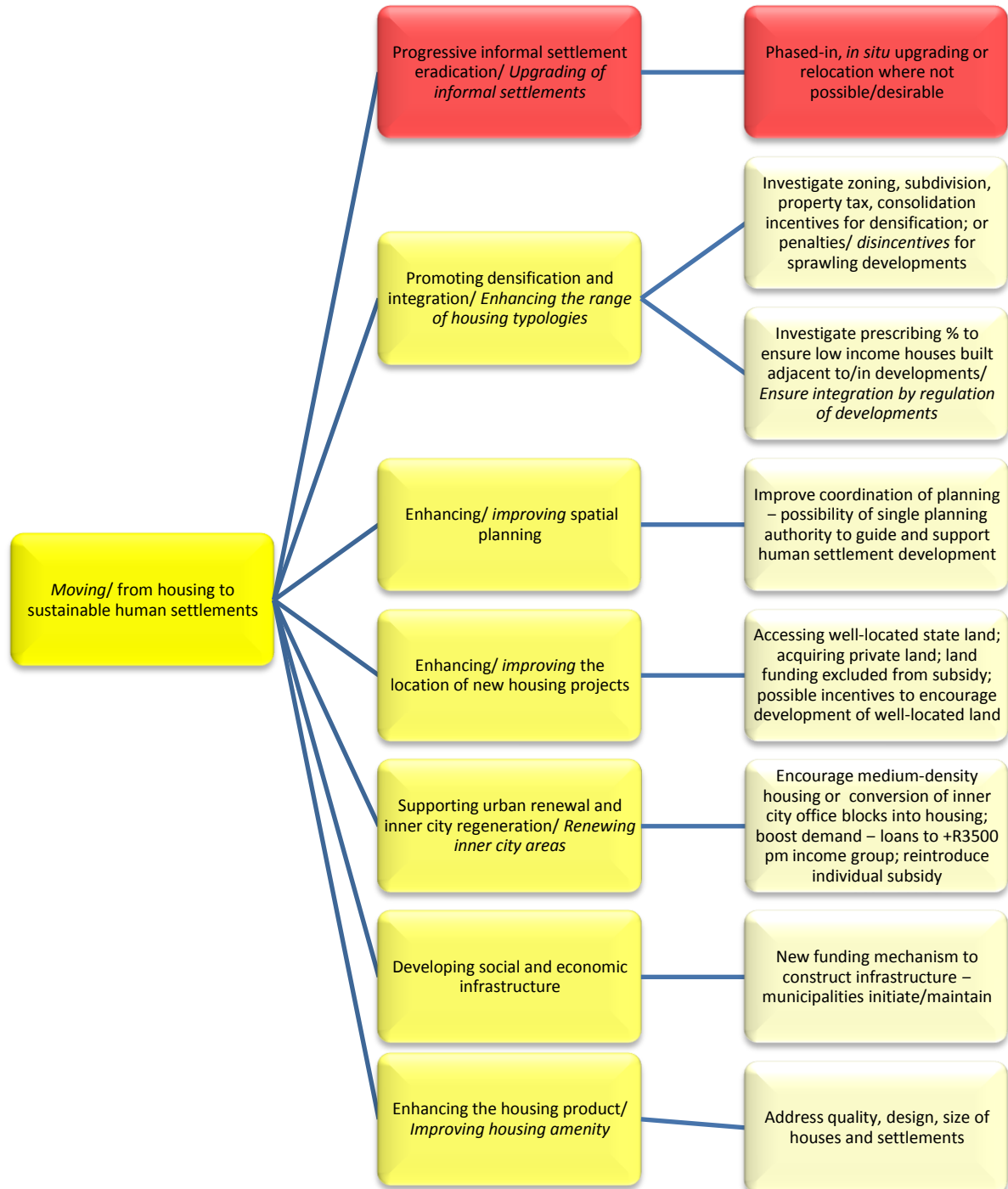


**Figure 2.2 Strategy 1 of the BNG plan: Supporting the entire residential property/housing market**



Source: Own observation – compiled from information in the BNG plan (2004:7–11). Where a change in emphasis has taken place in the progression from the BNG plan to the 2009 Housing Code (2009b:20–23), it has been indicated in italics.

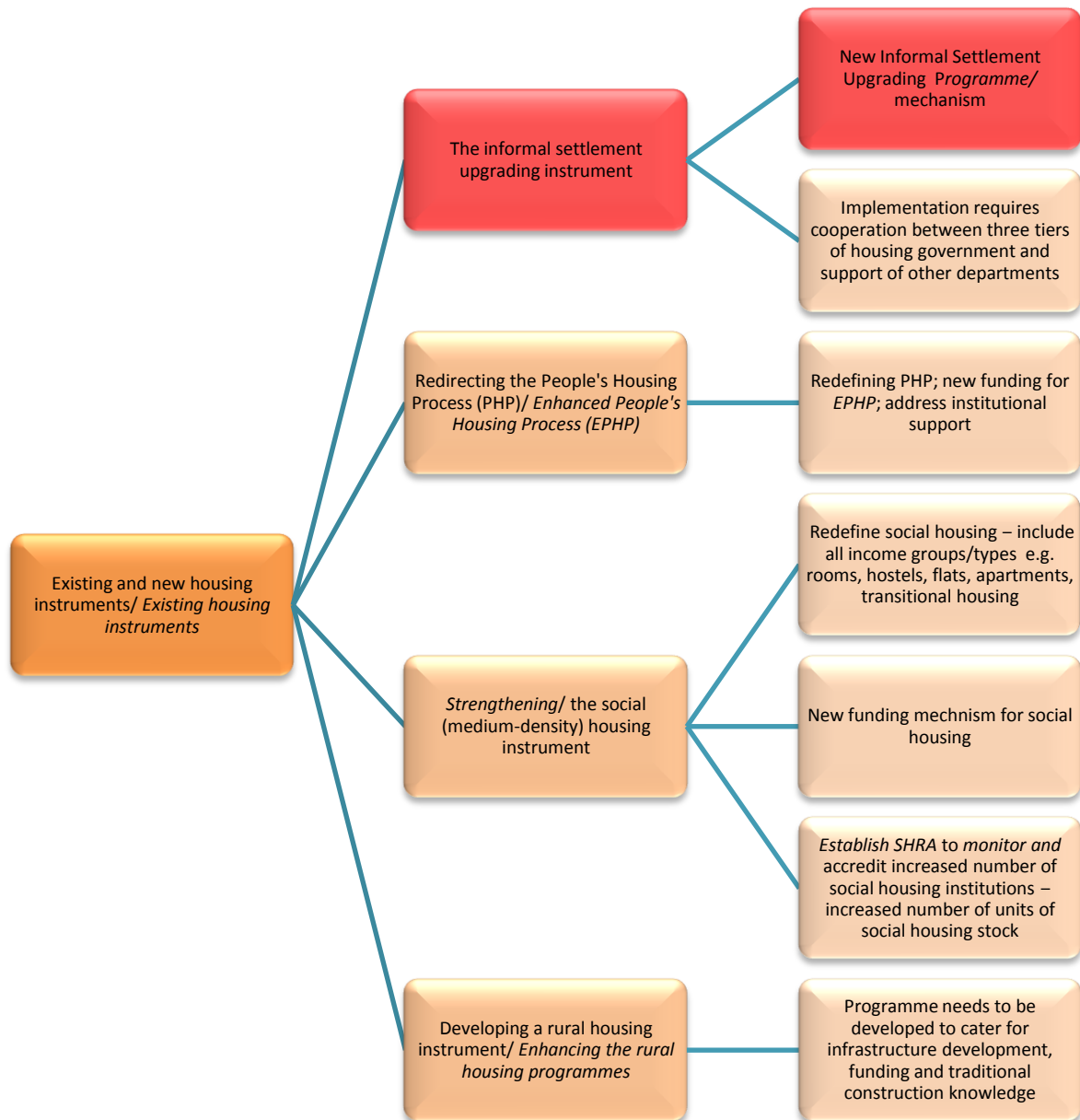
**Figure 2.3 Strategy 2 of the BNG plan: *Moving/* from housing to sustainable human settlements**



Source: Own observation – compiled from BNG plan (2004:11–16), with emphasis changes to the 2009 Housing Code (2009b:23–26) indicated in italics.

Key: Yellow indicates strategy 2 while red relates to the Upgrading of Informal Settlements Programme, which is discussed in chapter 3.

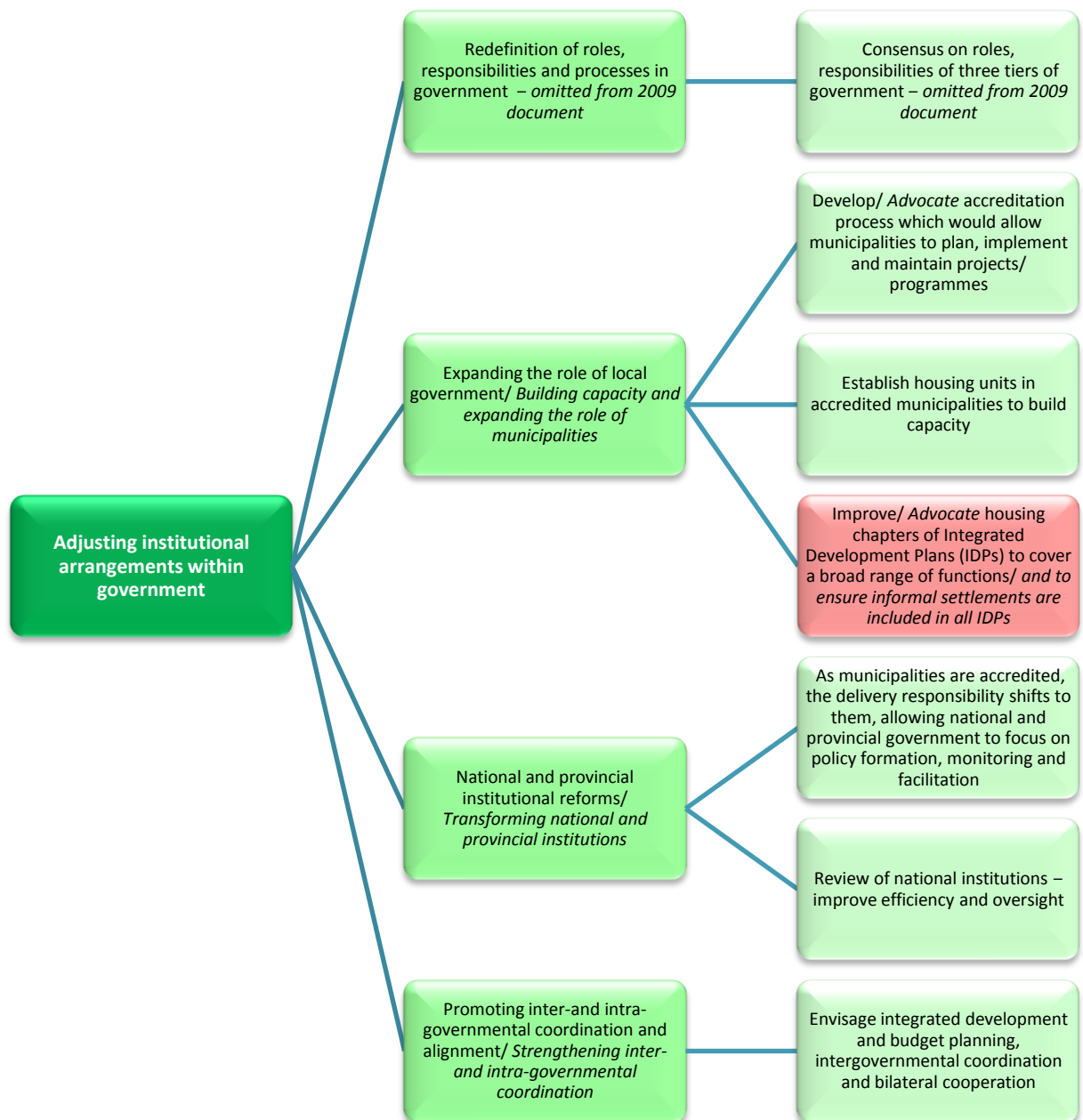
**Figure 2.4 Strategy 3 of the BNG plan: Existing and new housing instruments/ *Existing housing instruments***



Source: Own observation – compiled from information in the BNG plan (2004:16–20). Where a change in emphasis has taken place in the progression from the BNG plan to the 2009 Housing Code (2009b:26–28), it has been indicated in italics.

Key: Beige indicates strategy 3 while red relates to the Upgrading of Informal Settlements Programme, which is discussed in chapter 3.

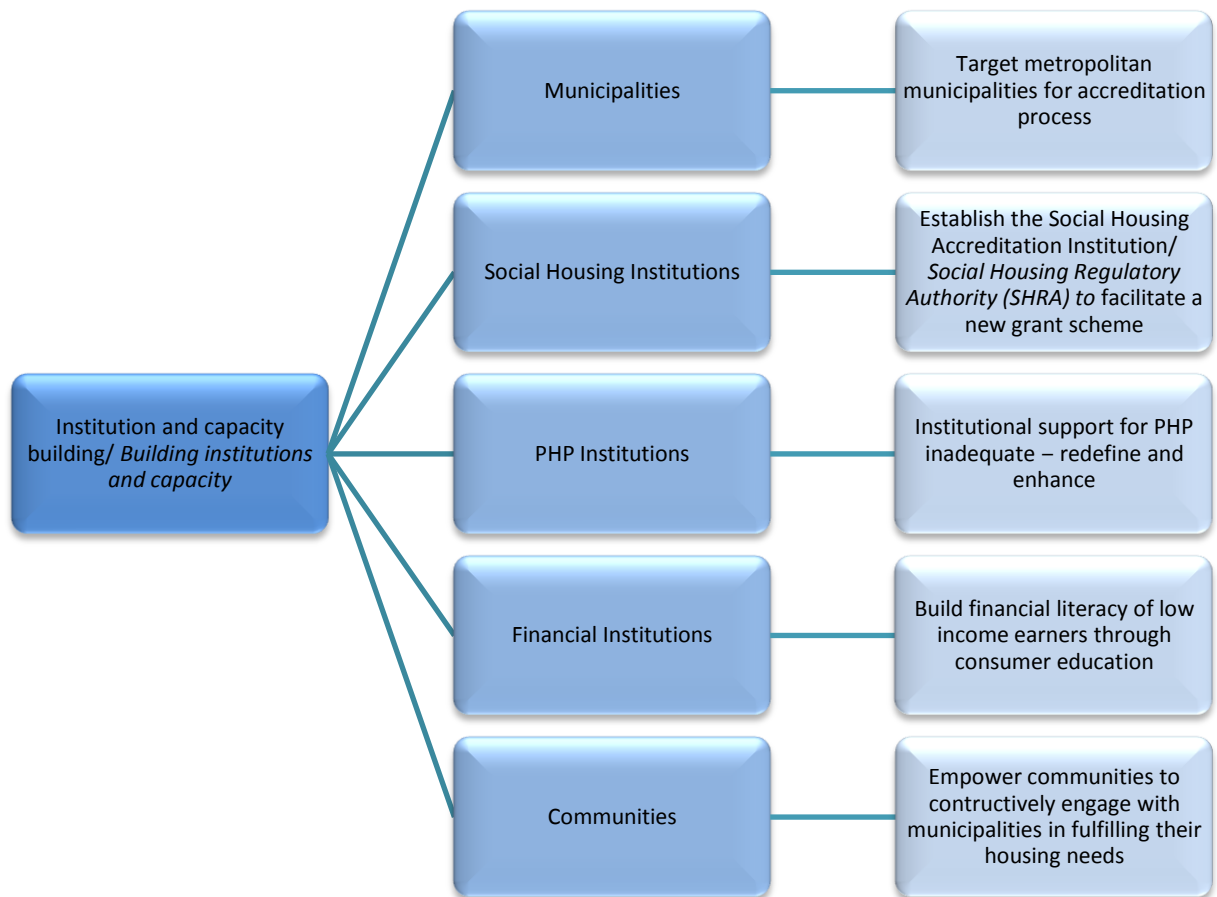
**Figure 2.5 Strategy 4 of the BNG plan: Adjusting institutional arrangements within government**



Source: Own observation – compiled from information in the BNG plan (2004:20–22). Where a change in emphasis has taken place in the progression from the BNG plan to the 2009 Housing Code (2009b:28–29), it has been indicated in italics.

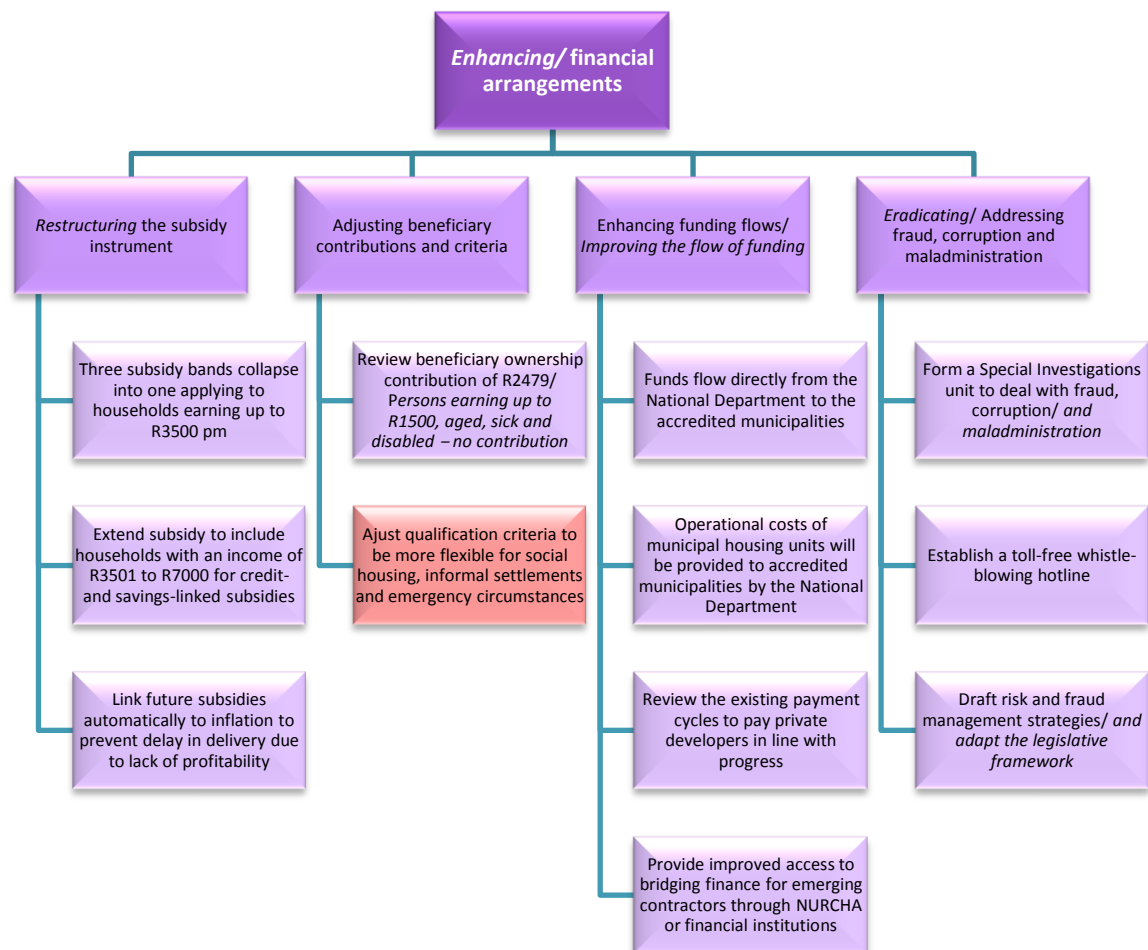
Key: Green indicates strategy 4 while light red relates to the Upgrading of Informal Settlements Programme, which is discussed in chapter 3.

**Figure 2.6 Strategy 5 of the BNG plan: Institution and capacity building/  
*Building institutions and capacity***



Source: Own observation – compiled from information in the BNG plan (2004:22–23). Where a change in emphasis has taken place in the progression from the BNG plan to the 2009 Housing Code (2009b:29–30), it has been indicated in italics.

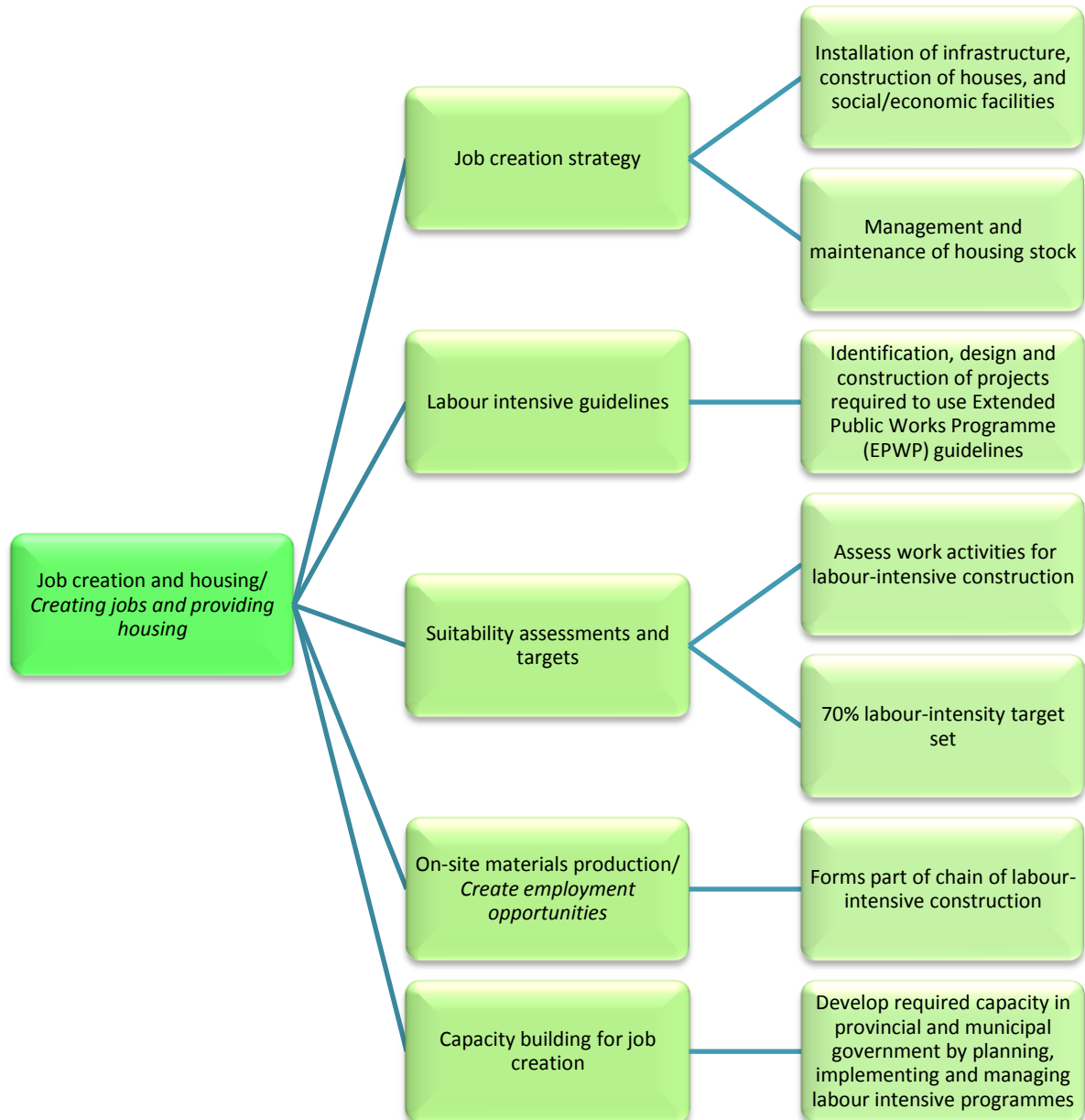
**Figure 2.7 Strategy 6 of the BNG plan: *Enhancing/* financial arrangements**



Source: Own observation – compiled from information in the BNG plan (2004:20–22). Where a change in emphasis has taken place in the progression from the BNG plan to the 2009 Housing Code (2009b:30–31), it has been indicated in italics.

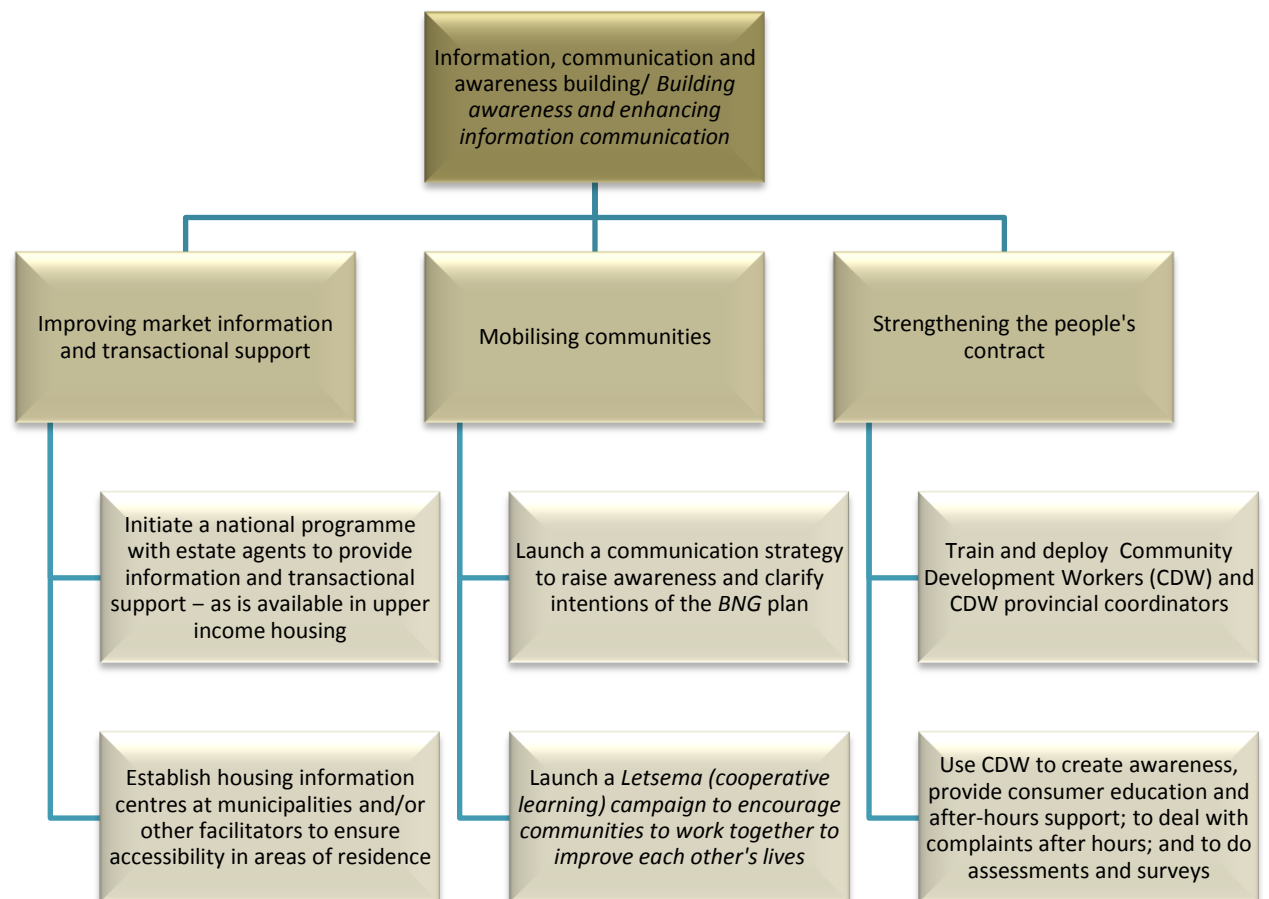
Key: Purple indicates strategy 6 while light red relates to the Upgrading of Informal Settlements Programme, which is discussed in chapter 3.

**Figure 2.8 Strategy 7 of the BNG plan: Job creation and housing/  
Creating jobs and providing housing**



Source: Own observation – compiled from information in the BNG plan (2004:25–26). Where a change in emphasis has taken place in the progression from the BNG plan to the 2009 Housing Code (2009b:32), it has been indicated in italics.

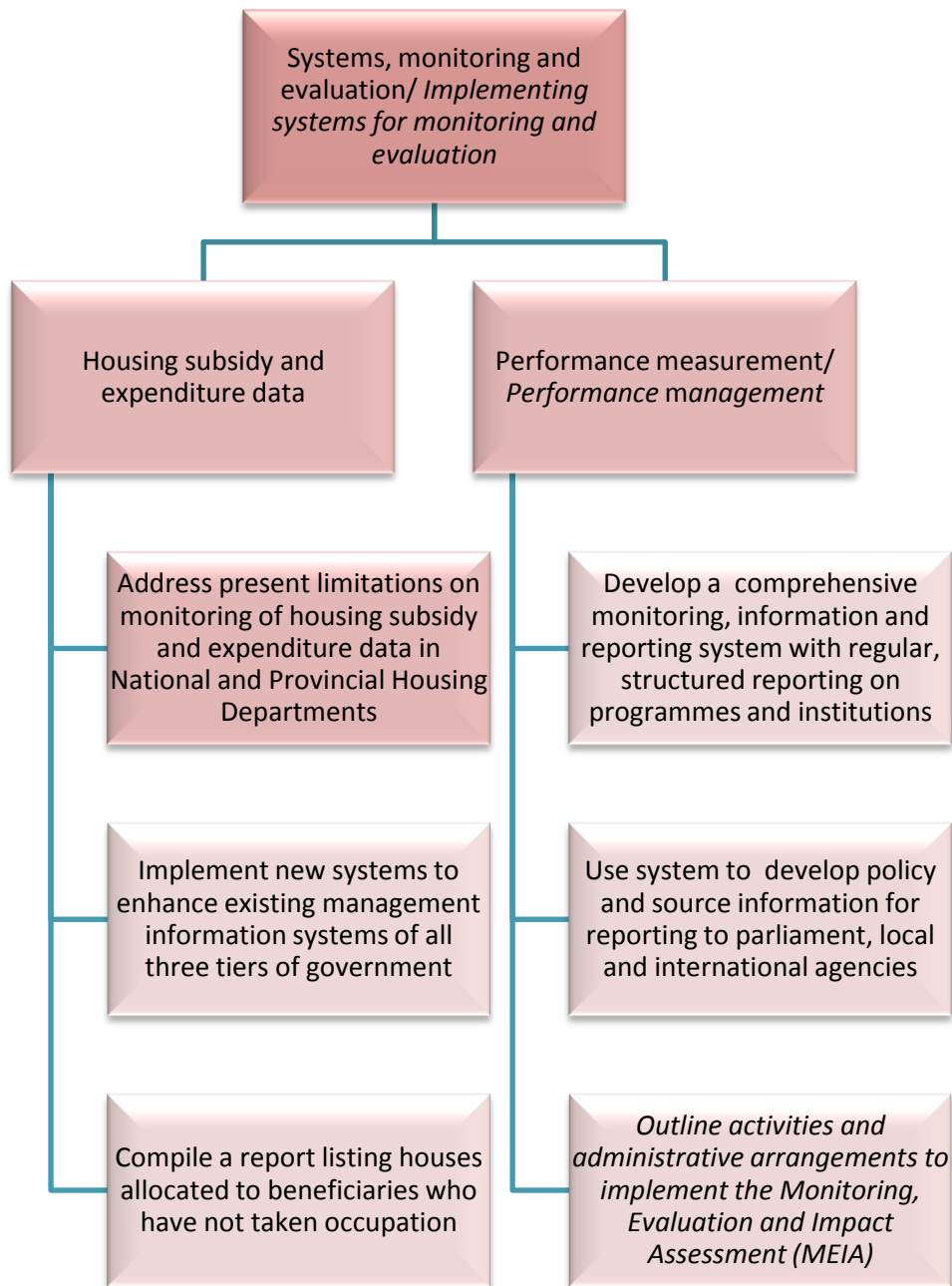
**Figure 2.9 Strategy 8 of the BNG plan: Information, communication and awareness building/ *Building awareness and enhancing information communication***



Source: Own observation – compiled from information in the BNG plan (2004:26) and Sentabale (2009:1). Where a change in emphasis has taken place in the progression from the BNG plan to the 2009 Housing Code (2009b:32–33), it has been indicated in italics.



**Figure 2.10 Strategy 9 of the BNG plan: Systems, monitoring and evaluation/ *Implementing systems for monitoring and evaluation***



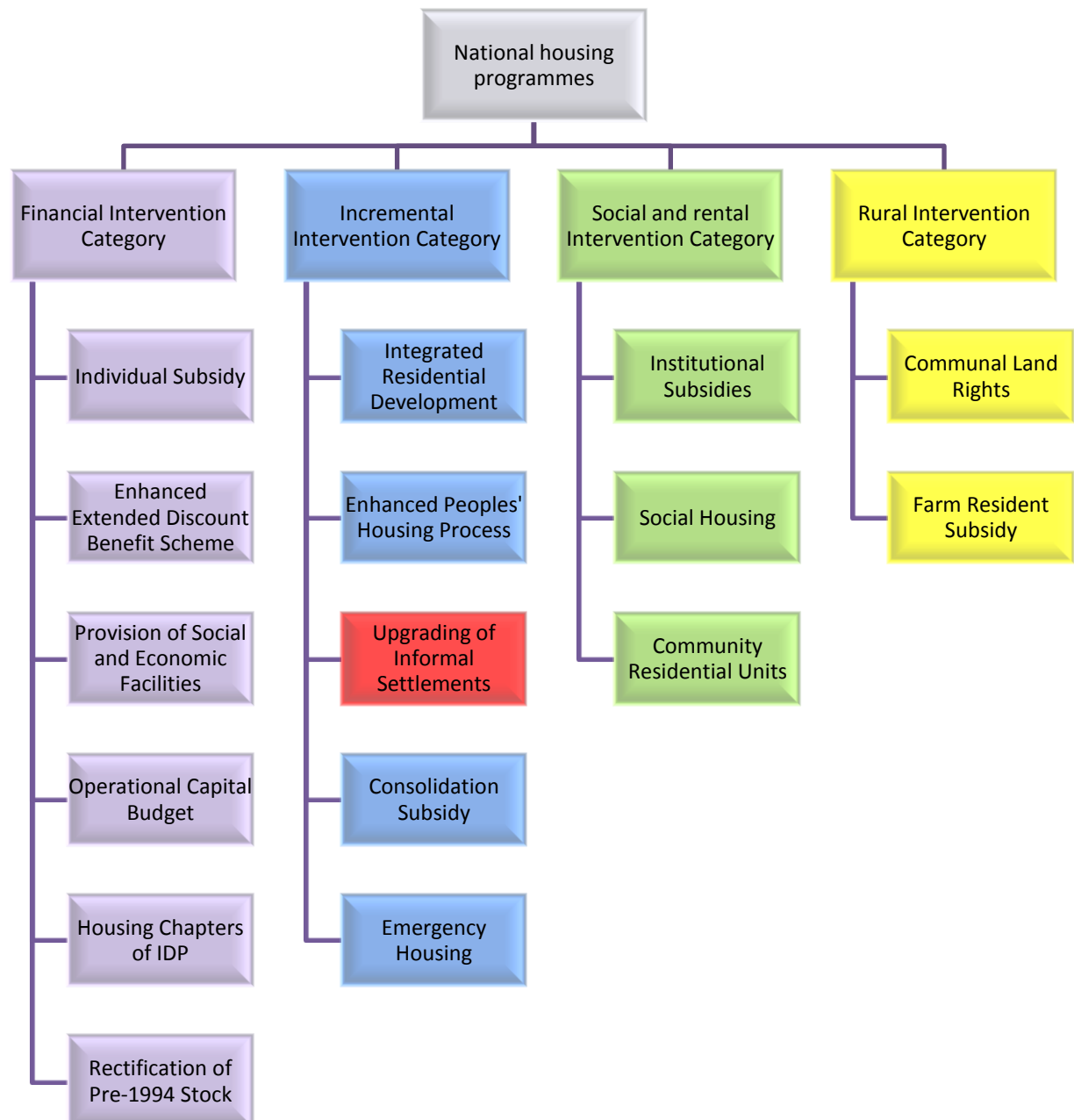
Source: Own observation – compiled from information in the BNG plan (2004:27). Where a change in emphasis has taken place in the progression from the BNG plan to the 2009 Housing Code (2009b:33–34), it has been indicated in italics.

## 2.9 NATIONAL HOUSING PROGRAMMES

Figure 2.11 below provides an overview of the national housing programmes. The design of figure 2.11 is an own initiative based on an own understanding of the textual discussion of the intervention categories and the available subsidised housing programmes. As indicated in figure 2.11 below, there are sixteen national housing programmes, which fall into the following four intervention categories:

- *Financial Intervention.* As explained in *Sustainable human settlement planning*, this category facilitates immediate access to housing goods and services and provides implementation support (National Department of Housing 2008a:95).
- *Incremental Intervention.* Incremental housing programmes facilitate access to housing opportunities through a phased process (National Department of Housing 2008d:2).
- *Social and Rental Intervention.* This category focuses on rental housing, urban restructuring and integration (National Department of Housing 2008d:2).
- *Rural Intervention.* It is difficult to define urban and rural areas with precision, as areas range from the dense metropolitan areas to towns of various sizes, right down to scattered houses in remote areas. The Rural Subsidy Programme covers cases which have not been dealt with in the first three intervention categories, namely where the Minister of Land Affairs holds land in trust for certain communities, a system known as communal tenure. Traditional leaders allocate land to households or persons for settlement, but freehold tenure cannot be secured (National Department of Housing 2008a:110). In terms of the Rural Intervention: Rural Housing Subsidy: Communal Land Rights section of the 2009 Housing Code (2009h:7), land is held by community members subject to the rules or customs of the specific community.

**Figure 2.11 Diagrammatic representation of the national housing programmes**



Source: Own observation – compiled from information in *Sustainable human settlement planning* (2008a:95–110) and the 2009 Housing Code.

As will be noted from figure 2.11, the Upgrading of Informal Settlements Programme is one of five housing programmes in the Incremental Intervention category and has been highlighted in red to distinguish it from the other incremental housing programmes. The specifics of this programme are discussed in chapter 3.

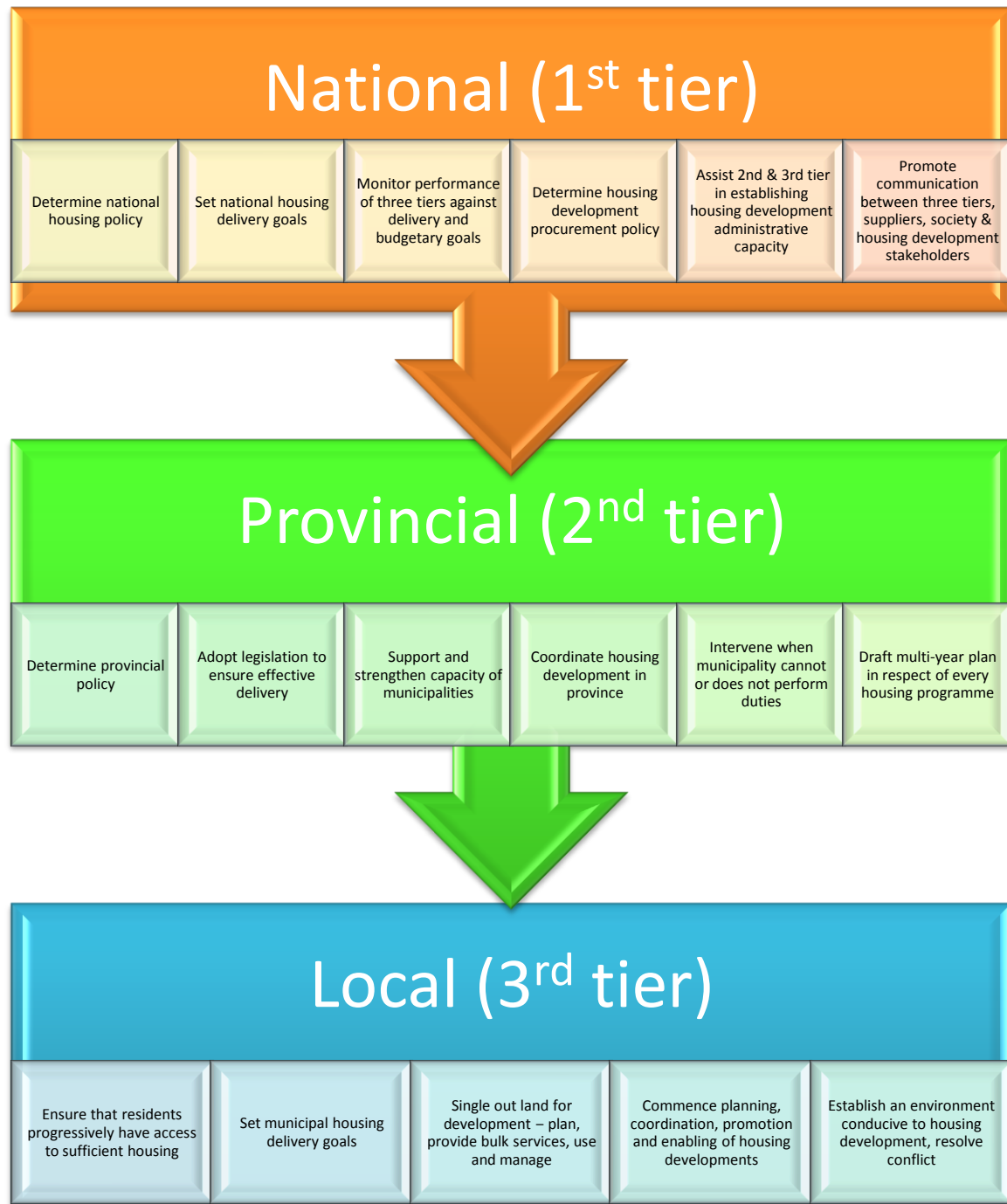
## **2.10 FACILITATORS AND FUNDING**

### **2.10.1 Three tiers of government**

A substantial part of the Housing Act is dedicated to the functions of and the interrelationship between the three tiers of government as facilitators of subsidised housing (National Department of Housing 2000c:7). The principle behind the allocation of roles is that government functions should be performed at the lowest possible level, closest to the people. To ensure sustainable national housing development, the devolution of functions and powers will be carried out subject to national processes and policies being in place (National Department of Housing 2000c:7). One of the processes that must be in place before the devolution of housing functions can take place is that the municipality must apply for and be granted accreditation, which is provided for under section 10(1) to (3) of the Housing Act 107 of 1997.

The envisioned functions of and interrelationship between the three tiers of government, namely national, provincial and local government, once the processes and policies referred to above are in place, are illustrated in figure 2.12. The decision to illustrate the functions of the three tiers of government in a diagram and the design of figure 2.12 are an own initiative. The content of the diagram is an own observation and understanding and is based on textual information contained in the Housing Act.

**Figure 2.12 Department of Human Settlements (Housing): main functions of the three tiers of government**



Source: Own observation – compiled from sections 3(2), 7(2) and 9(1) of the Housing Act 107 of 1997.

In figure 2.12, it appears that the National Department of Human Settlements is responsible for the determination of the procurement policy. Magoro and Brynard (2010:7–8) state, however, that different provincial housing departments have different policies for awarding contracts, an observation which appears to deviate from the provisions of the Housing Act.

In order to be accredited, municipalities have to “demonstrate their capacity to plan, implement and maintain both projects and program[me]s in terms of the Municipal Finance Management Act (MFMA)” (USAID 2006:6). There are four different accreditation scenarios (USAID 2006:22) which are summarised in table 2.3. The content of table 2.3 is an own observation based on information in a complex diagram and a textual discussion of the levels of accreditation in the source literature.

**Table 2.3 Role of the municipality and province, based on accreditation status**

<b>Municipality accreditation level</b>	<b>Institutional and funding role per project</b>			
	<b>Identify project, draft and submit application to province</b>	<b>Prioritise projects</b>	<b>Approve and register or reject project</b>	<b>Funding administration</b>
Non-accredited	▲	■	■	■
Level 1	▲	▲	■	■
Level 2	▲	▲	▲	■
Level 3	▲	▲	▲	▲

▲ indicates the role of the municipality, while ■ denotes the role of the province

Source: Own observation from USAID. 2006. *Accreditation framework for municipalities to administer national housing programmes.*

As will be noted from table 2.3 above, where no accreditation has been granted, the relevant provincial housing department is at the core of housing delivery, because the municipality only identifies the project and drafts and submits the application to the province. Once an application has been received from a municipality, the role of the provincial housing department is to: prioritise, approve and register/reject, and then do the funding administration of projects for housing developments. Because this is the norm at present, funding for housing programmes is transferred annually to provinces from the National Department of Human Settlements as a conditional grant in terms of the Division of Revenue Act (DORA) of that year. The provincial housing department only transfers housing funding for approved projects to the municipality as and when predetermined milestones are reached; the left side of figure 2.13 illustrates this scenario. Progress payments to suppliers of goods and services pertaining to projects will be made by the provincial housing department or the municipality, depending on the capacity of the specific municipality (National Department of Human Settlements 2009f:17–18; 43).

As illustrated in table 2.3 above, level 3 accreditation will allow municipalities to exercise powers and perform the duties of the provincial housing departments in the administration, planning and management of national housing programmes (Housing Act 107 of 1997: s 10(1) to (4)). In terms of section 10(4) of the Housing Act, funds may then be transferred directly from the National Department of Human Settlements to level 3 accredited municipalities to administer housing programmes, as illustrated on the right side of figure 2.13. The choice of design and the decision to illustrate the flow of funds in a diagram are an own initiative. The content of figure 2.13 is an own understanding of the combined textual information found in documents acknowledged as sources.

**Figure 2.13 Department of Human Settlements (Housing): flow of funds for subsidised housing development**



Source: Own observation. Compiled from the Financial and Fiscal Commission. 2008. *Annual submission for the division of revenue 2009/10:23* and section 10(1) to (3) of the Housing Act 107 of 1997.

The accreditation of municipalities in the nine metropolitan areas is firstly envisaged, followed by the accreditation of municipalities in secondary towns and ultimately by the accreditation of all municipalities (USAID 2006:6). The *Annual submission for the division of revenue 2009/10* (Financial and Fiscal Commission 2008:25) voices concern over the extremely slow pace at which the accreditation process is progressing, citing the fact that not a single municipality has received either level 1, 2 or 3 accreditation. A 2011 media statement (National Department of Human Settlements 2011a:1) indicates progress in that level 2 accreditation has been granted to five metropolitan and two district municipalities. The metropolitan municipalities are Johannesburg, Ekurhuleni, Tshwane, Nelson Mandela Bay and Cape Town, and the district municipalities are Frances Baard and Pixley ka Seme in the Northern Cape.

De Visser and Christmas (2007:14) support the increased involvement of municipalities as they regard housing as one of the most “vulnerable” functions and one which calls for high-intensity community involvement. The *Annual*

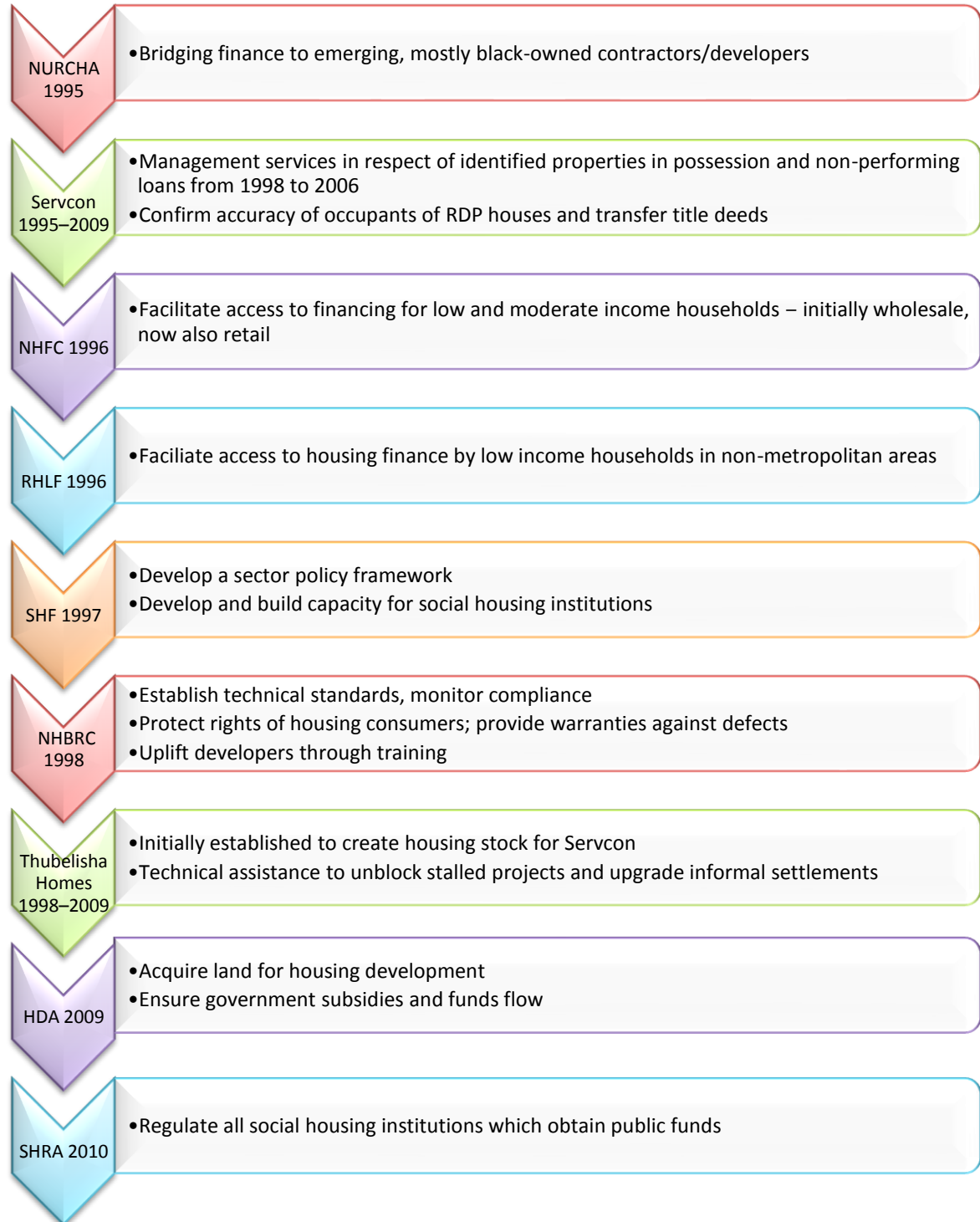


*submission for the division of revenue 2009/10* (Financial and Fiscal Commission 2008:20, 23) supports the transfer of the housing function to municipalities which have the capacity, claiming that the transfer of funds between provincial and local spheres “adds an unnecessary bureaucratic layer”.

### **2.10.2 Governmental housing institutions**

As reflected in the summary in figure 2.14 below, various governmental housing institutions have been established since 1994 to assist the three tiers of government to deliver subsidised housing. The content of figure 2.14 is an own understanding of textual information obtained from the various sources acknowledged. The layout and design of figure 2.14 are an own initiative. The housing institutions which have been established by and report to the National Department of Housing/Human Settlements are listed in chronological order, ranging from those established earlier to the most recent. Where institutions have recently been closed, they have been retained in the discussion so that a complete picture is provided, but the closure date has been indicated next to the date of establishment. Figure 2.14 is followed by a brief discussion of each institution. Where the National Department of Human Settlements is not the sole source of funding of these institutions, any additional source of funding is mentioned, which in certain cases includes external donors.

**Figure 2.14 Summary of governmental housing institutions and intended purpose**



Source: Own observation from various sources as acknowledged in paragraphs 2.10.2.1 to 2.10.2.9, which include the full names of the institutions.

#### 2.10.2.1 *National Urban Reconstruction and Housing Agency (NURCHA) – 1995*

NURCHA is a section 21 company which was established in 1995 and provides bridging finance to contractors and developers for the construction of subsidy housing, affordable housing, community facilities and infrastructure. NURCHA specialises in financing contractors/developers who cannot easily access finance from banks, therefore the smaller, mainly black-owned businesses. Where these are emerging contractors/developers, NURCHA also provides support and project management via intermediaries (NURCHA 2009:1).

NURCHA is mainly financed by the South African government in partnership with the Open Society Institute of New York, a Soros Foundations Network. Finance has also been raised from the Swedish, United States and Norwegian governments as well as through the Futuregrowth Fund, Overseas Private Investors Corporation, Shared Interest and Rand Merchant Bank and other South African financial institutions (National Department of Housing 2009d:1).

#### 2.10.2.2 *Servcon Housing Solutions (Servcon) – 1995–2009*

Servcon was established in 1995 after the signing of a record of understanding between the Department of Housing, the Banking Association of South Africa (BASA) and participating banks to address the problems banks were experiencing with defaults by low-income households. Servcon's mandate was to provide management services in respect of a portfolio comprising 33 506 identified properties in possession and non-performing loans of R1,277 billion from April 1998 until March 2006 (South African Government Information 2008:11). During the period of the mandate, two-thirds of the affected households either signed new agreements based on revised payment schedules or interim rentals, or were moved to more affordable accommodation.

However, two-thirds of the households that signed new agreements broke them immediately after signing them (Housing Finance 2000:4). In the remaining one-third of the households initially affected, the properties were transferred to the occupiers through a combination of relocation subsidies provided by the Department of Housing and the writing off of the remainder of the debt by the participating banks. In May 2006, the shares of the Banking Association of South Africa and the participating banks' claims in Servcon were sold to the National Department of Housing (South African Government Information 2008:11). Since then, Servcon has been involved in service-level agreements with the four provincial housing departments to clean up the housing database by confirming the accuracy of their particulars with occupiers, rectifying defects in houses, confirming whether the original owners of RDP houses are occupying them and transferring title deeds (South African Government Information 2008:11).

It was stated in a briefing by the National Department of Housing, recorded by the Parliamentary Monitoring Group (2008a:2) that Servcon's mandate had matured and would be terminated in view of the establishment of the Housing Development Agency (HDA). It was expected that the last remaining properties would have been transferred by the end of March 2009 and Servcon would have handed a portfolio over to the HDA. The minutes of the Parliamentary Monitoring Group (2009f:11) reflect that Servcon was to cease operations on 30 September 2009 and the administrative closure was to be completed by 31 March 2010.

#### 2.10.2.3 *National Housing Finance Corporation (NHFC) – 1996*

The NHFC is a state-owned development finance institution which was founded by the National Department of Housing in 1996 to ensure that every low and middle income household has access to finance. The NHFC earns its revenue

from interest and service charges on its wholesale lending and financial services (South African Government Information 2008:10). The NHFC was established to deliver on the following specific functions:

- initiate and manage programmes aimed at increased involvement of the banking sector in housing finance for low and middle income households
- fund or underwrite alternative lenders who are equipped to function in the market the banks are having difficulties with
- fund or underwrite the institutions providing housing other than individual freehold
- manage programmes building financial capacity at retail level to broaden access to housing finance and funds for the housing process in the low to medium income market (NHFC 2008a:1).

Initially, the NHFC did not lend directly to individuals, but only to social housing institutions and approved lenders (NHFC 2008b:1). Hamlyn (2006:1) and South African Government Information (2008:10) report that the NHFC has become a home loan bank for middle and lower income earners. Hamlyn also reports that this facility has made it possible for low income earners to buy a house in a commercially driven development which would create integrated and diverse mixed-income communities.

#### *2.10.2.4 Rural Housing Loan Fund (RHLF) – 1996*

The RHLF was established by the South African government as a section 21 company in 1996, after receiving a grant of R150 million from the German government. The purpose of the fund is to facilitate access to housing finance in nonmetropolitan areas by low-income households. The RHLF operates as a wholesale financial institution by lending to intermediary housing lenders, who in turn lend to individuals (South African Government Information 2008:12). The

loans are for incremental purposes, and enable people to build or improve their housing over a period of time (National Department of Housing 2009e:1).

#### 2.10.2.5 *Social Housing Foundation (SHF) – 1997*

The SHF is a section 21 company which was established by the National Department of Housing in 1997 to develop a policy framework for the sector and to develop and build capacity for social housing institutions (South African Government Information 2008:11; National Department of Housing 2009f:1). According to the SHF website (2009a:1), their mission and mandate is to “develop a vibrant and sustainable social housing sector for South Africa”. Social housing is defined as follows: “High quality and well-located subsidised housing managed by viable, sustainable, independent institutions on participatory management principles.” Social housing provides for various tenure options, excluding full ownership, and is aimed at the low to middle income households (The Social Housing Foundation 2009c:1).

Since 2001, the work of the SHF has been assisted by continued financial and technical support from the following donors: United States Agency for International Development (USAID); the Royal Netherlands Embassy; the Dutch Ministry of Housing (VROM); Rooftops Canada; Norwegian Agency for Development Co-operation (Norad); the Dutch umbrella body of SHIs (Aedes) and the European Union (EU) (The Social Housing Foundation 2009b:1). The grants received from the EU for the past seven years have now ceased (Parliamentary Monitoring Group 2009g:4). According to the Social Housing Foundation Annual Report for 2008/09, with the passing of the Social Housing Act 2008 the operations of the SHF will “wind-down” and some of these functions will be transferred to the Social Housing Regulatory Authority (SHRA) (Parliamentary Monitoring Group 2009g:9).

#### 2.10.2.6 *National Home Builders Registration Council (NHBRC) – 1998*

The NHBRC is a section 21 company established in terms of the Housing Consumers Protection Measures Act 95 of 1998. The purpose of the NHBRC is to provide housing consumers with warranty protection against defects and to protect them from builders who have defaulted or who have not complied with the required standards. As from 1 April 2002, the Housing Consumers Protection Measures Act 95 of 1998 affords protection to all new subsidised houses constructed as part of projects. Sections 2 and 10(1) of the Housing Consumers Protection Measures Act require that all persons building houses should be registered with the NHBRC. Consequently, the NHBRC generates most of its funds from registration fees (National Department of Housing 2009c:1).

Section 3 of the Housing Consumers Protection Measures Act sets out the following main objectives of the NHBRC:

- serve the interests of consumers by providing warranties against defects in new houses, including state-subsidised houses
- “regulate the home building industry”
- protect consumers by ensuring compliance by home builders with the Act
- establish technical standards and monitor compliance
- improve structural quality of houses
- do training and inspections to assist home builders to reach technical standards
- promote housing consumer rights and provide information

(Housing Consumers Protection Measures Act 95 of 1998: s 3)

Section 13(2)(b) of the Housing Consumers Protection Measures Act lays down the following minimum warranties that homebuilders need to provide to housing

consumers, failing which the NHBRC will provide assistance to home owners for that purpose:

- major structural defects – 5 years
- noncompliance with: agreement; plans; deficient workmanship or material – 3 months
- roof leaks – 12 months

The warranties are automatically transferred with a change of ownership (Housing Consumers Protection Measures Act 95 of 1998: s 5(4)(d), s 13(2), s 13(4) –(5)).

#### *2.10.2.7 Thubelisha Homes – 1998–2009*

Thubelisha Homes is a section 21 company which was established in June 1998 with a mandate to create housing stock for Servcon; this mandate was revised once the former properties in possession had been dealt with (National Department of Housing 2009g:1). The revised mandate of Thubelisha Homes was formulated in line with the BNG plan and included the provision of technical assistance to provinces and municipalities to unblock stalled projects and upgrade informal settlements (South African Government Information 2008:12).

According to a briefing by the National Department of Housing, recorded by the Parliamentary Monitoring Group (2008a:2), the mandate of Thubelisha Homes had matured and would be terminated in 2009 in view of the establishment of the Housing Development Agency (HDA). It was noted that Thubelisha Homes was technically insolvent, had not reached any of its targets, had multiple resignations at top management level, had a lack of capital and was facing numerous challenges as a result of the N2 Gateway project for the upgrading of informal settlements. The closure of Thubelisha Homes was to take effect on 31 July 2009 (Parliamentary Monitoring Group 2009j:1).



#### 2.10.2.8 *Housing Development Agency (HDA) – 2009*

The Housing Development Agency (HDA) was officially launched on 2 March 2009 (Mabaya 2009:1; SabinetLaw 2009:1). The HDA was established in terms of the Housing Development Agency Act 23 of 2008. The HDA's main role is to acquire land for housing development (Engineering News 2009:1). According to *Housing in Southern Africa* (2009a:1), former Minister Sisulu identified access to land as a major bottleneck in housing delivery which was compounded by "intergovernmental weaknesses". Further, the former Minister explained that as soon as a project had been approved and the land or land and buildings identified, the HDA would undertake the sourcing, negotiating, acquisition, planning and proclamation process and it would add to government capacity by ensuring that government subsidies and funds flowed. During the planning process, the HDA would coordinate and facilitate feasibility studies, environmental impact assessments and geotechnical studies for township proclamation. Once all processes had been completed, the HDA would hand the land over to the owner for development. Former Minister Sisulu is quoted in *Housing in Southern Africa* (2009a:1) as saying that the HDA would be project-driven, with five projects allocated to it, including an Upgrading of Informal Settlements Programme.

#### 2.10.2.9 *Social Housing Regulatory Authority (SHRA) – 2010*

In terms of section 7 of the Social Housing Act 16 of 2008, the SHRA has been established as a legal entity. The SHRA was inaugurated on 26 August 2010 (South African Government Information 2010:1), so it is in its infancy (Parliamentary Monitoring Group 2009g:5). In terms of Notice 1199, the purpose of the SHRA is to regulate all social housing institutions which obtain public funds (Social Housing Act 16 of 2008, Notice 1199). According to the Social Housing Foundation Annual Report for 2008/09, upon the closure of the

SHF, which is expected to take place in 2010, most of its operations will be transferred to the SHRA (Parliamentary Monitoring Group 2009g:7; 53).

## **2.11 SUMMARY**

This chapter firstly dealt with the origin of subsidised housing in post-1994 South Africa. The origin was found to lie in the 1994 Election Manifesto, which undertook to provide and prioritise housing for the poor. Next, the various definitions of housing terminology as determined by the Housing Act 107 of 1997 and other sources were studied. This discussion included the extension of the mandate of the Department of Human Settlements which accompanied the name change discussed in chapter 1. The extension of the mandate entailed transferring sanitation from the Department of Water Affairs to the Department of Human Settlements.

It was then established that the Constitution, the supreme law of the land, legislates access to adequate housing as a right (see s 26). The government is responsible for providing housing, subject to fiscal constraints. Thereafter the six principles which all housing policies have to comply with were briefly discussed. It was found from the number of documents – and the volume of every one – that a great deal of attention has been given to developing a post-1994 housing framework. The discussion was therefore limited to the present national legislation and directives, which form the mandate within which the Department of Human Settlements functions.

The vision, mission, core values and strategies of the National Department of Human Settlements were then studied. The nine strategies as set out in the BNG plan and the 2009 Housing Code were illustrated in ten diagrams to ensure that an overall picture is presented, without going into exhaustive detail. It was found that the diagrams have the added benefit of facilitating the

identification of information pertaining to the Upgrading of Informal Settlements Programme. It was noted that Strategy 2 of the 2009 Housing Code contains a change in emphasis, namely from “progressive eradication” to “upgrading” of informal settlements.

A diagrammatic overview found that the sixteen subsidised national housing programmes were classified into four intervention categories, namely Financial, Incremental, Social and Rental and Rural. The diagrammatic representation of the housing programmes provides a clear indication of where the Upgrading of Informal Settlements Programme fits into the big picture.

The facilitators and funding of these programmes were then established. The three tiers of government, namely national, provincial and local government, are all tasked in terms of the Housing Act to collectively ensure the delivery of sustainable human settlements. In addition, certain functions are assigned to certain levels. It was found that the roles and functions were in a transition phase, as responsibility for human settlement delivery would be transferred to certain municipalities as soon as certain criteria for accreditation had been met. In addition to the three tiers of government, nine government-owned housing institutions are facilitating various aspects of human settlement delivery. Two of these institutions are in the process of being terminated and one new facilitator, the Social Housing Regulatory Authority, has recently been inaugurated.

This chapter has provided an overview of the national framework for the delivery of subsidised housing. Chapter 3 will focus on the upgrading of informal settlements scenario.

## **CHAPTER 3**

### **THE UPGRADING OF INFORMAL SETTLEMENTS**

#### **3.1 INTRODUCTION**

In the previous chapter, an overall picture of the national framework for the delivery of subsidised housing was provided. In this chapter, the complexity of the informal settlements scenario is investigated. The investigation commences with the concept of informal settlements. This is followed by a brief study of the background to and development of informal settlements to throw light on the historical roots and complexity of the present situation.

The focus then shifts to the detailed provisions of the Upgrading of Informal Settlements Programme, one of sixteen national housing programmes illustrated in figure 2.11 of this study. This is followed by a brief discussion of the two other housing programmes that could be used to provide economic, social and community facilities in the process of progressively creating sustainable human settlements from former informal settlements. Lastly, departmental factors hampering delivery are organised and combined into various sections, each of which commences with overall housing delivery and then provides examples pertaining to the Upgrading of Informal Settlements Programme.

#### **3.2 CONCEPT OF INFORMAL SETTLEMENTS (ALSO KNOWN AS SLUMS OR SQUATTER CAMPS)**

As in most developing countries with limited resources, in South Africa informal settlements have arisen as a result of a process of rapid urbanisation of the poor, who have flocked to the cities in search of work and a better life (National

Department of Housing 2008a:104). Lombard (2004:2) concurs, stating that poverty, social disorder, deprivation and environmental degradation have been the stark consequences of urbanisation. Despite decisions to tackle the problem, *Housing in Southern Africa* (2009b:1) refers to a recent UN-Habitat report which estimates that three out of ten households in South Africa are slum dwellings.

The BNG plan (2004:3–4) indicates that despite the delivery of 1,6 million houses between 1994 and 2004, the significant change in the demand and the pace of urbanisation have resulted in an increased housing delivery backlog. The statistics indicating the changes between 1996 and 2001 are as follows:

- The number of households living in shacks in informal settlements or backyards increased from 1,45 million to 1,84 million.
- The population increased by 11%.
- The number of households increased by 30% as a result of the drop in average household size from 4,5 people per household in 1996 to 3,8 in 2001.
- Urban populations increased – in fact 20% of urban residents were first-generation residents – and housing and service provision did not keep up with household formation (National Department of Housing 2004:3–4).

The trend indicated in the above statistics has continued because, according to a National Department of Human Settlements workshop held at the end of 2009 (Parliamentary Monitoring Group 2009c:1; 3), the South African context at large is distinguished by:

- population growth
- rapid and irreversible urbanisation coupled with migration from rural to urban areas

- smaller households resulting in an increased number of households, and “*dual residence*” where households temporarily stay in urban areas while retaining a rural base

The effect of the above factors on human settlements is an increase in informal settlements, lack of access to basic services, unbalanced property markets and unsustainable development choices (Parliamentary Monitoring Group 2009c:1, 3).

The rapid migration of people from rural to urban areas is seen as creating a “shifting target” in the delivery of services, which may partly explain the dramatic increase in informal settlements, because housing delivery cannot keep up with unplanned and increased demand. In fact, most of the informal settlements are concentrated in the larger cities and their outskirts. Cape Town, Johannesburg, Pretoria and Durban are specifically mentioned (Parliamentary Monitoring Group 2009c:1, 3). The Development Action Group (2007:1) suggests a reason for this state of affairs. In their opinion, economic growth in cities has contributed to the rapid urbanisation, which in turn has led to an increase in the number of informal settlements. The Development Action Group (2007:1) quotes as follows from the 2006 *State of the Cities Report*:

- 44,1% of the national number of jobs were provided by five of the major cities, namely Johannesburg, Cape Town, Tshwane (Pretoria and surrounds), eThekweni (Durban area) and Ekurhuleni (Germiston and surrounds).
- The economic growth in cities has not provided enough jobs because:
  - 46,5% of national unemployment and
  - 77,31% of people “living under the minimum living line” live within 60 km of these cities.

According to Minister Sexwale (National Department of Human Settlements 2009d:2), people living in shacks make up the “lion’s share” of the housing backlog, therefore the housing backlog will be used in this study as the gauge of the number of informal settlement households which need some form of upgrading. As was found to be the case with housing backlog and delivery figures quoted in chapters 1 and 2 respectively of this study, the estimated informal settlement figures often contradict one another.

### **3.3 BACKGROUND TO AND DEVELOPMENT OF INFORMAL SETTLEMENTS**

The challenge of housing people living in informal settlements was identified as early as in the 1994 Election Manifesto, where one of the promises made by the ANC, as discussed in paragraph 2.2, was to house 7 million squatters (African National Congress 1994:4). At the projected average household size in 1995 of 4,97 people per household (National Department of Housing 1994:8), approximately 1,4 million houses would have had to be provided to house the squatters.

The post-1994 developments in policy, legislation, procedures, practice and commitments pertaining to informal settlements are briefly discussed in order of occurrence, from the oldest to the most recent.

#### **3.3.1 *A New Housing Policy and Strategy for South Africa (1994 Housing White Paper)***

The 1994 Housing White Paper attributed the massive growth in informal settlements to high rates of household formation and low rates of housing delivery. It also indicated that the increase in land invasions would have to be addressed in future policy at all levels of government. As stated in paragraph

2.2, the 1994 Housing White Paper refers to projected figures for 1995 of 1,06 million households living in squatter housing on the outskirts of towns and cities and in the backyards of formal houses (National Department of Housing 1994:8).

### **3.3.2 Development Facilitation Act 1995**

To give effect to the RDP White Paper (South Africa 1994:67), the Development Facilitation Act 67 of 1995 was passed (Enviro Leg CC 2009:1). One of the aims of the Act was to introduce exceptional measures to speed up the implementation of RDP projects for land. Section 3 of the Development Facilitation Act deals with general principles for land development, which include the following provisions pertaining to informal settlements, namely that policy, practice and legislation should:

- facilitate the development of land for informal settlements
- discourage the illegal occupation of land

(Development Facilitation Act 67 of 1995: s 3).

### **3.3.3 Housing Act 1997**

In terms of section 2(1)(e) of the Housing Act, the following provision pertaining to informal settlement development must be promoted by the three tiers of government in respect of housing development, namely:

- the creation, development and maintenance of socially and economically viable communities and of safe and healthy living conditions to prevent slums

(Housing Act 107 of 1997: s 2(1)(e))



### **3.3.4 Prevention of Illegal Eviction and Unlawful Occupation of Land Act 1998**

The next major development in informal settlements was the Prevention of Illegal Eviction and Unlawful Occupation of Land Act 19 of 1998. According to the minutes of the Parliamentary Monitoring Group (1999:2), landlords were evicting tenants unlawfully and intervention was required. The Act strikes a balance between the needs of landowners who are faced with illegal occupations and those of the landless, who are often victims of wrongful evictions. The Act sets out the procedures that must be followed to evict unlawful occupiers of land while at the same time prohibiting the arbitrary or illegal eviction of occupiers (South African Government Information 2008:5).

### **3.3.5 United Nations Millennium Development Goals (2000)**

It appears that the first step in attempting to upgrade or eradicate informal settlements in South Africa was taken as a result of a United Nations initiative. The United Nations Millennium Development Goals were signed in 2000 by numerous countries and leading development institutions in the world – all committing to a global partnership. There are eight Millennium Development Goals, ranging from halving extreme poverty to preventing the spread of HIV/AIDS and providing universal primary education – all by 2015 (United Nations Millennium Development Goals 2009a:1). In terms of United Nations Millennium Development Goal 7, “Ensure Environmental Sustainability”, Target 4 (2009b:1), a significant improvement must be achieved worldwide in the lives of 100 million slum dwellers by 2020. According to Macgregor and Smit (2007:1), this would mean halving the number of people living in slums.

The indicators for the Millennium Development Goals are the proportion of people who have access to secure tenure and improved sanitation (Chenwi

2007:25). Government's response to the Millennium Development Goals was to include specific strategies pertaining to informal settlements in the BNG plan, as discussed in paragraph 3.3.7 of this study, as well as to make an extremely ambitious commitment, which is discussed in the next paragraph.

### **3.3.6 South African government commitment (2004)**

At the Public Policy Forum Meeting of Cities Alliance (South African Government Information 2004:1–3), the then Minister of Housing, Lindiwe Sisulu, stated that government had decided to contribute to the Millennium Development Goals by committing itself to achievable targets for the eradication of informal settlements. The targets set at the time were to upgrade or eradicate informal settlements within a period of ten years from the launch of the BNG plan, therefore by 2014.

Government has on many occasions reiterated its commitment to the eradication or upgrading of informal settlements by 2014 (South African Government Information 2005:5; National Department of Housing 2006a:1; 2006c:1; 2006d:1; 2007a:31; 2009a:1). Examples of commitment statements are: seeing it as a priority; “there is no issue more urgent and critical”; we are committed even though it will be a “rocky climb”; and, on introducing the new Director-General, saying that his task was to eradicate informal settlements by 2014 (National Department of Housing: 2006c:1; 2006a:1). In fact, while the BNG plan sets out various strategies, according to the strategic statement on the website (National Department of Human Settlements 2010c:1), the BNG's prime objective is the eradication or upgrading of all informal settlements by 2014/15.

While Millennium Development Goal 7 aims for a target date of 2020 and aims to halve the number of slum dwellings, the earlier date of 2014 appears to come

from former Minister Sisulu's statement that, as African ministers, government would like to see the world making an increased commitment to the target date of 2020 for Target 4 of Millennium Development Goal 7 (South African Government Information 2005:3). In addition to the earlier target date, upgrading appears to have been abandoned at some point and the commitment changed to the eradication of all informal settlements by 2014.

From a delivery perspective, Huchzermeyer (2009:1) argues that the campaign to upgrade or eradicate informal settlements by 2014 is a misinterpretation of the Millennium Development Goals and is unrealistic. She supports her opinion by referring to the Informal Settlements Upgrading Programme pilot projects, which should have been completed by 2007/08. Long after the target date for completion, not one of them has been completed.

From a financial perspective, Misselhorn (2008:21–22) projects that, even without taking all cost variables into account, a minimum amount of R27 billion per annum would be required from 2008 to 2014 to eradicate 1,2 million informal settlement households. Based on the backlog figure of 2,4 million informal settlement households provided by the National Department of Housing (SabinetLaw 2009:2), the minimum amount required annually to eradicate all informal settlements by 2014 would be at least R54 billion.

Misselhorn (2008:7) argues that informal settlement residents make “conscious choices” about where to live, usually linked to the cost of living, transport and proximity to jobs. In further motivation of his point, Misselhorn (2008:8) quotes from a 2007 Urban LandMark survey which found that in 47% of the cases the respondents' situation had improved because of moving to an informal settlement; in 30% it had stayed the same and in only 20% of cases had it worsened, according to the respondents.

### **3.3.7 Breaking New Ground (BNG plan) (2004)**

Before the launching of the BNG plan, no policy provision was specifically made for informal settlements, other than in section 3 of the Development Facilitation Act, which appears to have encouraged the formation of informal settlements, as it provided for the facilitation of the development of land for formal and informal settlements (Development Facilitation Act 67 of 1995: s 3).

#### **3.3.7.1 *Progressive informal settlement eradication***

“Progressive informal settlement eradication”, which is represented by the area shaded in red in figure 2.3 of this study, forms part of Strategy 2 of the BNG plan, namely “From housing to sustainable human settlements”. The broader intention of Strategy 2 of the BNG plan is to address part of the poverty scenario, which comprises three elements, namely: income, human capital (services and opportunity) and assets (National Department of Housing: *Breaking New Ground* 2004:11).

Regarding “Progressive informal settlement eradication” in terms of the BNG plan (National Department of Housing 2004:17), the time had come to acknowledge the existence of informal settlements and to shift official policy on informal settlements from one of conflict or neglect to one of cooperation – and to integrate these areas into the urban structure. When the BNG plan was launched, there were no existing housing programmes that made specific provision for the upgrading of informal settlements. It was decided to take vigorous measures to upgrade informal settlements and implement a subsidised housing programme that would deliver sufficient houses to progressively decrease the formation of informal settlements (*Breaking New Ground* 2004:17).

### 3.3.7.2 *[Developing and implementing] [t]he Informal Settlement Upgrading Programme*

“The informal settlement upgrading instrument”, which is represented by the area shaded in red in figure 2.4 of this study, forms part of Strategy 3 of the BNG plan, namely “Existing and new housing instruments”. This strategy indicates that a “New Informal Settlement Upgrading Programme/ *mechanism*” should be developed and that implementation requires cooperation between the three tiers of government (National Department of Housing 2008a:103).

Macgregor and Smit (2007:1) are of the opinion that, from 1994 to 2004, the government’s response to informal settlements was characterised by disaster management strategies, but since 2004 when the BNG plan was launched, programmes have been put in place to eradicate informal settlements through large capital-intensive interventions. However, Smit (2005:1) expresses the concern that the approach appears to be top-down, focused on targets, and that this has resulted in insufficient community participation.

### 3.3.7.3 *More flexible qualification criteria*

In figure 2.7, which depicts Strategy 6 of the BNG plan, under “Adjusting beneficiary contributions and criteria”, informal settlements have been identified as one of the three areas which should have more flexible qualification criteria than those of other housing programmes. This forms part of Strategy 6, namely “Financial arrangements”, which aims to address increased demand for housing and improve response to this demand (National Department of Housing: *Breaking New Ground* 2004:19–20).

### **3.3.8 Housing Consumer Education Framework (2007)**

The next development was the Housing Consumer Education Framework, which identifies the invasion of land and the creation of unsustainable settlements and shacks with a lack of security of tenure as a problem which has developed owing to a lack of knowledge of the choices available to the invaders, as well as the rights and responsibilities that are attached to home ownership. The purpose of the Housing Consumer Education Framework is to establish a comprehensive, uniform and integrated document which creates awareness and educates consumers and other key role players regarding housing matters (National Department of Housing: *Housing Consumer Education Framework* 2007b:6–7).

### **3.3.9 Sustainable human settlement planning: a resource book on housing chapters (2008)**

*Sustainable human settlement planning: a resource book on housing chapters* provides municipalities with a practical resource to strengthen their planning for housing delivery in terms of the BNG plan. More specifically, the resource book provides information, guidance and direction to municipal officials in preparing a housing chapter that sets out the housing sector plan as part of the municipal Integrated Development Plan (National Department of Housing: *Sustainable human settlement planning* 2008a:1; Mpumalanga Department of Housing 2010:9). This book, *Sustainable human settlement planning* (National Department of Housing 2008a:104), is an important development in relation to informal settlements because it contains details, albeit in the form of a summary, of what was then known as the Informal Settlement Upgrading Programme, the first publication to do so subsequent to the strategy included in the BNG plan of 2004.

### **3.3.10 Housing Code (2009)**

Under the 2009 Housing Code, what was previously known as the Informal Settlement Upgrading Programme became known as the National Housing Programme: Upgrading of Informal Settlements, generally referred to as the Upgrading of Informal Settlements Programme (National Department of Human Settlements 2009f:9).

As discussed in paragraph 2.6.10, a revised Housing Code should have been published by June 2005 incorporating the major changes to policy included in the BNG plan. No housing code was published between the 2000 version and the 2009 Housing Code, which was minuted as having been approved on 5 March 2010 (Parliamentary Monitoring Group 2010c:3) and subsequently published. Because this is the first Housing Code published since the launch of the BNG plan in 2004, it is also the first official document providing detailed information on the Upgrading of Informal Settlements Programme, the concept of which was initiated in terms of the BNG plan.

The Upgrading of Informal Settlements Programme is dealt with in Part 3, Volume 4, of the 2009 Housing Code. According to the 2009 Housing Code (2009f:9), the purpose of the informal settlements chapter is to deal with the procedures and processes for the upgrading of informal settlements, specifically relating to the grants provided to municipalities to do informal settlement upgrading in a structured manner.

As indicated in italics in the red shaded areas of figures 2.3, 2.4 and 2.5, there has been a change in emphasis and/or wording applicable to informal settlements between the publication of the BNG plan and the 2009 Housing Code. It was decided to summarise an own observation of the changes between the textual documents referred to above, in table 3.1.

**Table 3.1 Summary of changes affecting informal settlements, from the BNG plan to the 2009 Housing Code**

Strategy number	Figure number	BNG plan 2004	2009 Housing Code
2	2.3	From housing to sustainable human settlements	<i>“Moving from housing to sustainable human settlements”</i>
2	2.3	Progressive informal settlement eradication	<i>“Upgrading of informal settlements”</i>
3	2.4	Existing and new housing instruments	<i>“Existing housing instruments”</i>
3	2.4	Informal Settlement Upgrading mechanism	Informal Settlement Upgrading <i>“Programme”</i>
4	2.5	-	<i>Informal settlements are to be included in all IDPs</i>

Source: Own observation from figures 2.3, 2.4 & 2.5, compared with the 2009 Housing Code (2009b:23; 26; 28)

IDPs are Integrated Development Plans.

The only change in emphasis pertaining to informal settlements is the second one listed in table 3.1. No media releases reflecting the change in emphasis from progressive “eradication” to “upgrading” only have been found, but a revised government commitment is discussed in paragraph 3.3.11. The change in emphasis will no doubt be welcomed by Misselhorn (2008:16), who argues that the concept of “slums eradication” or “slums clearance” is perceived to be an anti-poor action which creates the impression that informal settlements are illegal and need to be removed with immediate effect – by any means possible.



### **3.3.11 Revised government commitment (2010)**

The Parliamentary Monitoring Group (2010a:1, 3) noted a discussion on an unannounced shift away from the 2004 commitment of government to eradicate all informal settlements by 2014. During the discussion, Mr Dlabantu, the Acting Director-General of the National Department of Human Settlements (Parliamentary Monitoring Group 2010a:3), justified the shift in commitment by stating that the Department “needed to focus on issues in a realistic and pragmatic manner, dealing with issues one by one and paying adequate attention to each”.

The focus for 2014 will be on upgrading 500 000 dwellings (National Department of Human Settlements 2010a:2) in well-located informal settlements and will include the provision and upgrading of bulk infrastructure networks to informal settlements which have been identified for upgrading (Parliamentary Monitoring Group 2010c:1, 3). According to the address by Minister Sexwale to the National Assembly (National Department of Human Settlements 2010a:2), the upgrading target set for 2014 does not detract from the eradication of informal settlements, which has now become a long-term objective.

## **3.4 THE UPGRADING OF INFORMAL SETTLEMENTS PROGRAMME**

### **3.4.1 Concept and objectives**

As discussed above, the concept of the Upgrading of Informal Settlements Programme was introduced in 2004 as part of Strategies 2 and 3 of the BNG plan (National Department of Housing 2004:17–18), as illustrated in figures 2.3 and 2.4 of this study. The Upgrading of Informal Settlements Programme was instituted in terms of section 3(4)(g) of the Housing Act 1997 (National

Department of Human Settlements 2009f:9), which authorises the Minister to implement and finance new national housing programmes (Housing Act 1997: s3(4)(g)).

According to the 2009 Housing Code (National Department of Human Settlements 2009f:9, 13), the “primary” objective of the Upgrading of Informal Settlements Programme is to cater for the unique development requirements of informal settlements. The “key” objective is intended to achieve the following interrelated and complex policy objectives:

- tenure security – to acknowledge and formalise the tenure rights of informal settlement residents as a means of strengthening the broader concept of citizenship, which includes the rights and responsibilities of citizens
- health and security – to advance the development of healthy and secure living environments in formal settlements by providing affordable and sustainable municipal engineering infrastructure which allows for future upgrading
- empowerment – to promote the social and economic integration of communities by addressing broader social needs and building social capital through participative processes

As initially envisaged in the BNG plan (National Department of Housing 2004:12) and identified in the 2009 Housing Code (National Department of Human Settlements 2009f:9; 13) as a key objective, the Upgrading of Informal Settlements Programme supports a phased, *in situ* upgrading of informal settlements in line with international best practice. The *Concise Oxford Dictionary* (Fowler 1976:559), defines the term *in situ* as: “In its (original) place”. Therefore *in situ* upgrading takes place on the site of the informal settlement. *In situ* upgrading has the advantages of: enhancing community participation in all facets of the development, maintaining fragile community networks, and

minimising disruption (National Department of Housing: *Breaking New Ground* 2004:17; *Sustainable human settlement planning* 2008a:104; National Department of Human Settlements: *Housing Code* 2009f:13). The relocation of communities will be carried out where *in situ* upgrading is not possible or desirable (National Department of Housing 2004:12), for example where flooding occurs or other factors are present which necessitate relocation (National Department of Housing 2008d:2). The 2009 Housing Code stipulates that before any relocation can be carried out, approval must be obtained from the affected community and the area to which the relocation is to be done must be a designated area which is included in an approved municipal Integrated Development Plan (National Department of Human Settlements 2009f:14). The Upgrading of Informal Settlements Programme has been designed to be flexible enough to allow for specific local development needs and to become a specialised funding mechanism (National Department of Human Settlements 2009f:25).

Since the implementation of the Informal Settlement Upgrading Programme, government has taken a hard line on the Millennium Development Goal of eradicating informal settlements – by evictions or infrastructure development (Macgregor & Smit 2007:1).

### **3.4.2 Informal settlement prioritisation and qualification criteria**

According to the 2009 Housing Code (National Department of Human Settlements 2009f:25), the following broad principles should be applied when deciding the upgrading priority of each potential informal settlements project:

- reach as many households as possible to achieve the national goal of upgrading all informal settlements by 2014 (unchanged in spite of revised commitment)

- focus on settlements in areas where health and safety are being threatened
- promote spatial restructuring and integration
- prioritise settlements subject to a court judgement or those threatened with eviction
- respect the principle that community participation is the key to success and relocation should be avoided

In addition to the above, the 2009 Housing Code (National Department of Human Settlements 2009f:16; 26) identifies the following characteristics, one or more of which should be applicable for a specific informal settlement to qualify and therefore to be identified for the Upgrading of Informal Settlements Programme: informality and illegality, inappropriate location or other environmental factors, restricted public and private sector investment, poverty and vulnerability or social stress.

The upgrading of informal settlements will be done on the basis of the whole settlement, therefore a whole area rather than individual households would be upgraded (National Department of Housing 2004:17; National Department of Human Settlements 2009f:13). Municipalities need to identify informal settlements for upgrading. The Upgrading of Informal Settlements Programme only applies to residents of informal settlements and does not apply to people residing in informal houses in the backyards of formal settlements (National Department of Human Settlements 2009f:16).

### **3.4.3 Household qualification criteria**

It was stated previously that the qualification criteria applicable to the Upgrading of Informal Settlements Programme need to be more flexible. The reason for this is that it is necessary to keep the fragile community networks and support

structures intact (National Department of Human Settlements 2009f:13). As a result, certain benefits are available to residents of informal settlements who are excluded from the Housing Subsidy Scheme (National Department of Human Settlements 2009f:14), as illustrated in figure 3.1.

Provided that the municipality identifies the area for upgrading (National Department of Human Settlements 2009f:13), persons living in informal settlements who meet the criteria illustrated in figure 3.1 will generally benefit from the Upgrading of Informal Settlements Programme. The benefit the household or person qualifies for is determined by the specific situation of the household, as indicated in figure 3.2, which follows directly on figure 3.1. The decision to use diagrams and the specific design of figures 3.1 and 3.2 are an own choice. The content of figures 3.1 and 3.2 are an own understanding of the textual stipulations found in the sources acknowledged below the figures.

**Figure 3.1 Criteria to be met by households/persons in order to qualify for benefits**

Households that qualify for the Housing Subsidy Scheme, namely those meeting the following criteria:

- The gross monthly household income of the applicant may not exceed R3500.
- The applicant must be a citizen of South Africa or a person in possession of a permanent residence permit.
- The applicant must be legally competent to contract, that is over 18 years, married or divorced and of sound mind.
- An applicant or anyone else in the household must not have received previous government assistance for housing, except for disabled persons and applicants who qualify for a consolidation subsidy. This applies to applicants who were beneficiaries of serviced stands under the previous housing dispensation. The consolidation subsidy is equivalent to the individual subsidy and is intended to enable the applicant to construct a house.

Households that qualify for the Housing Subsidy Scheme, except for the monthly income exceeding the limit (presently R3500)

Households headed by minors, therefore persons who are not legally competent to contract, assisted by the Department of Social Development

The following persons will be considered on a case-by-case basis:

- Previous/existing owners of residential property and previous beneficiaries of state-assisted housing schemes
- Illegal immigrants, subject to the conditions laid down by the Department of Home Affairs

Single persons without financial dependants, including persons of pensionable age qualifying for government old age social grants

Source: Own observation from National Department of Housing (2008e:1); National Department of Housing: *Sustainable human settlement planning* (2008a:104); National Department of Human Settlements: 2009 Housing Code (2009a:16–17; 2009f:16–17).

**Figure 3.2 Summary of benefits households/persons could qualify for**

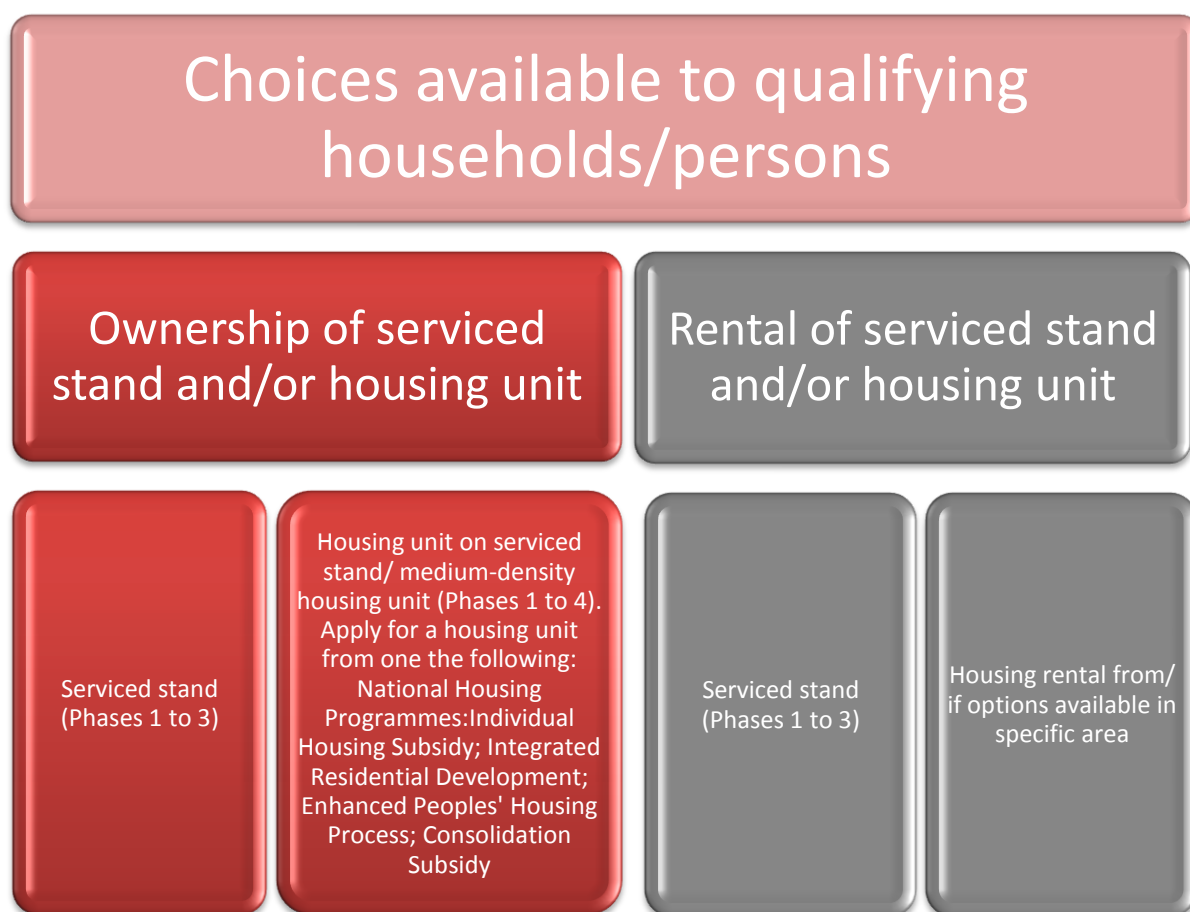
Household/person	Phase 1 to 3 – serviced stand			Phase 4 – housing	
	Fully subsidised ownership	Purchase from municipality @ total cost	Rental	Fully/partially subsidised ownership	Rental
Qualifies for Housing Subsidy Scheme					
Qualifies for Housing Subsidy Scheme, except earns >R3500 p.m.					
Households headed by a minor, assisted by the Department of Social Development					
Previous/existing owners of residential property and previous beneficiaries of state-assisted housing schemes					
Illegal immigrants, subject to the conditions laid down by the Department of Home Affairs					
Single persons without financial dependants, including persons of pensionable age qualifying for government old age social grants					

Source: Own observation from National Department of Housing (2008e:1); National Department of Housing: *Sustainable human settlement planning* (2008a:104) National Department of Human Settlements: 2009 Housing Code (2009a:16–17; 2009f:16–17; 67–68).

Key: Brown shading represents general applicability.  
Beige shading represents a case-by-case consideration – also guided by recommendations/directives from other departments noted above.

It will be noted from figure 3.2 that people falling into certain beneficiary categories qualify to purchase a stand for ownership. If they choose to do so, they may purchase it from the municipality. The purchase price is defined as the cost of acquiring the land and all development costs to provide services etc (National Department of Human Settlements 2009f:67–68). It is also clear that all households/persons qualify for more than one possible benefit. The actual benefit will then be determined by the choice exercised by the household/person, as illustrated in figure 3.3, provided that the chosen option is available in that specific area.

**Figure 3.3 Choices available to qualifying households**



Source: Own observation – compiled from the 2009 Housing Code (National Department of Human Settlements 2009f:28; 38; 44; 58; 67–68).



Figure 3.2 shows that households complying with all the Housing Subsidy Scheme qualification criteria are the only ones that qualify for benefits in terms of ownership or rental of all four phases of the Upgrading of Informal Settlements Programme. As illustrated in figure 3.3, the first choice available to these households is between ownership and rental. Where rental is chosen, a stand or housing unit can be rented. Where ownership of a serviced stand is chosen, it is fully subsidised, regardless of household income. The next choice is whether the household wishes to apply to one of the National Housing Programmes indicated in figure 3.3 for a housing unit. Where the household income is less than or equal to R1500 per month, the housing unit is fully subsidised. Where the monthly household income is between R1501 and R3500 per month, the general rule is that a beneficiary contribution of R2479 is payable and the remainder of the cost of the housing unit is subsidised. (National Department of Human Settlements 2009e:3; 2009g:3). The two household income levels are disregarded, however, resulting in the housing unit being fully subsidised, in the following circumstances:

- If the unit is for the indigent as envisaged in Strategy 6 of the BNG plan, illustrated in figure 2.7 of this study. The indigent are the poor/need, defined as the aged, disabled and health stricken.
- If the beneficiary decides to apply to the Enhanced Peoples' Housing Process Programme. This exemption also flows from the BNG plan – in fact from Strategy 3 as illustrated in figure 2.4 of this study (National Department of Human Settlements 2009e:3; 2009g:3).

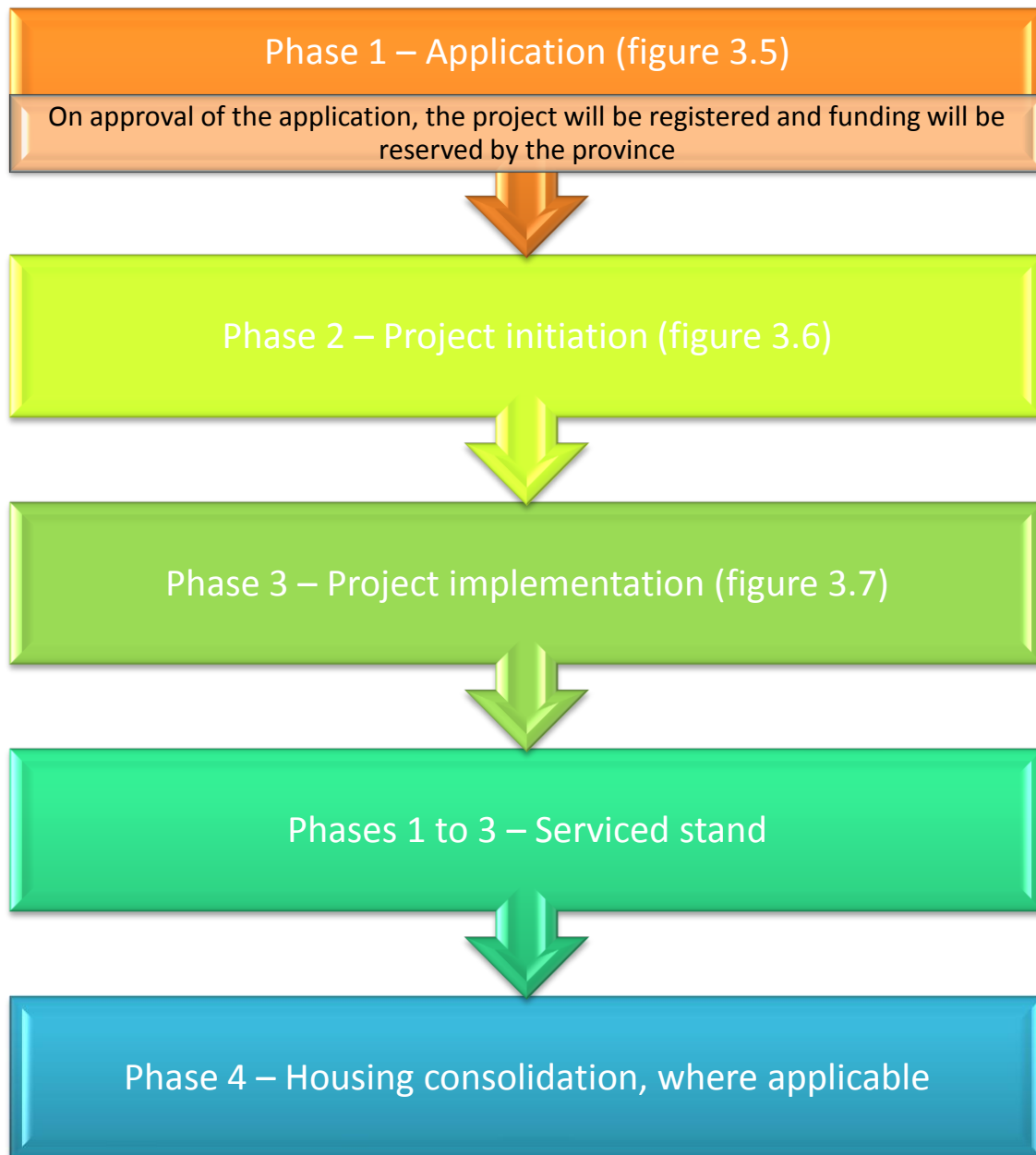
#### **3.4.4 Various phases**

The Upgrading of Informal Settlements Programme comprises three or four phases, depending on the specifics of the beneficiary, as discussed above. Phases 1 to 3 involve community participation in the supply of basic services and tenure security for all residents, regardless of rental or ownership choices.

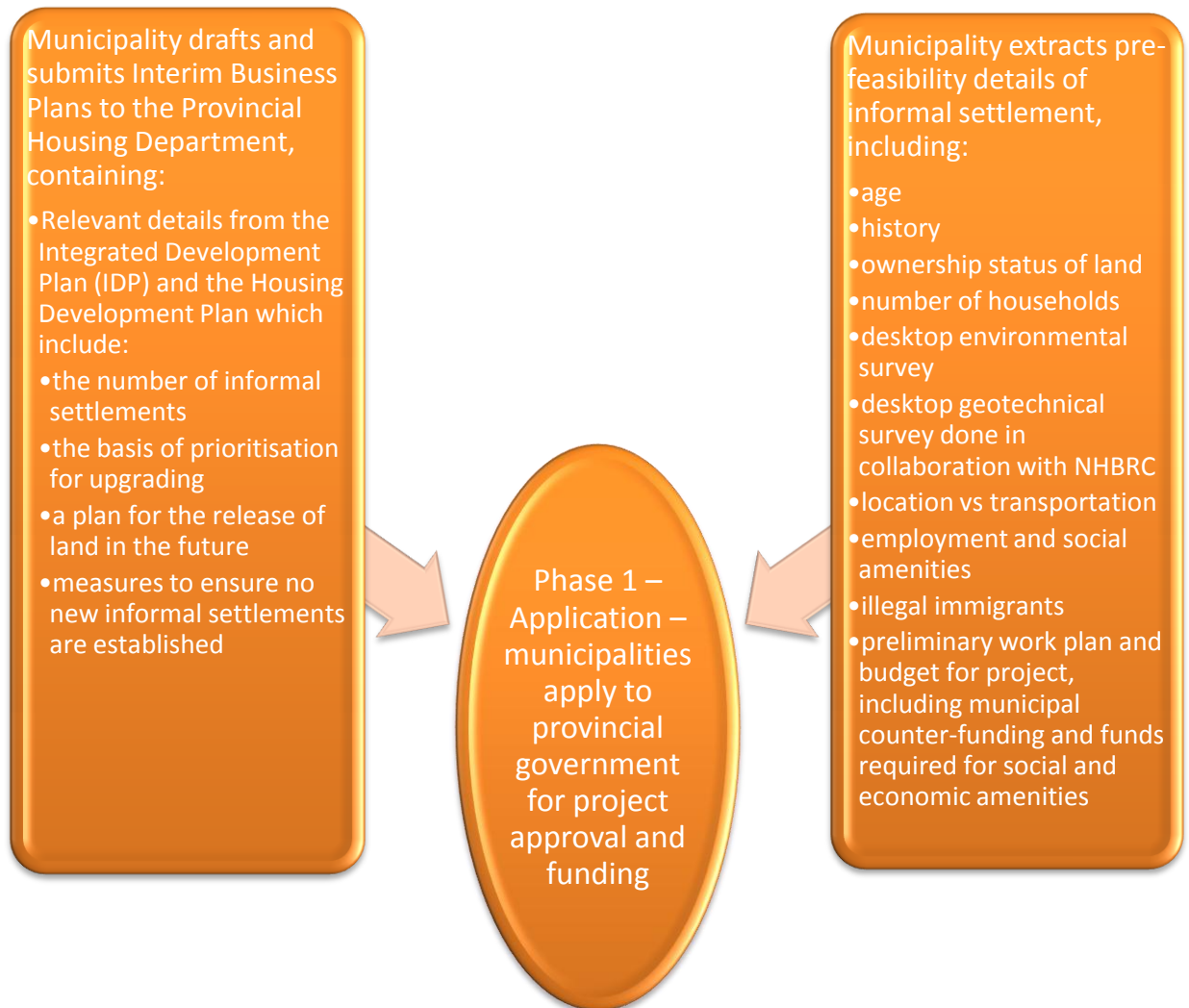
In Phase 4, housing is provided to qualifying beneficiaries, as illustrated in figure 3.2 above (National Department of Human Settlements 2009f:27).

Figure 3.4 summarises the four phases of the Upgrading of Informal Settlements Programme. Phases 1 to 3 have been referenced to supporting diagrams which have been shaded in the corresponding colour, for ease of reference. Figures 3.4 to 3.7 are own designs and insights gained on studying the textual discussions in the sources acknowledged below each of the diagrams.

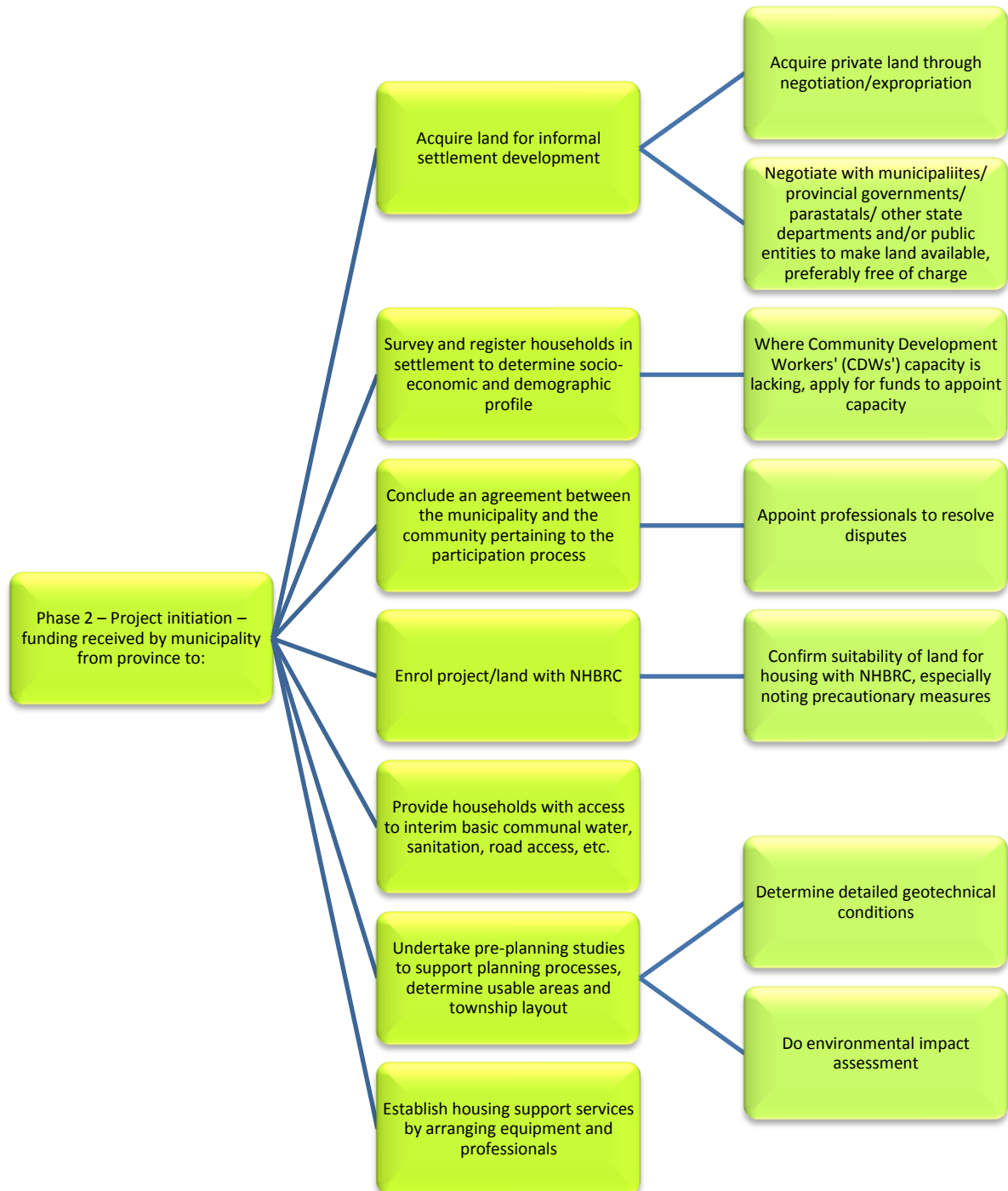
**Figure 3.4 Phases of the Upgrading of Informal Settlements Programme**



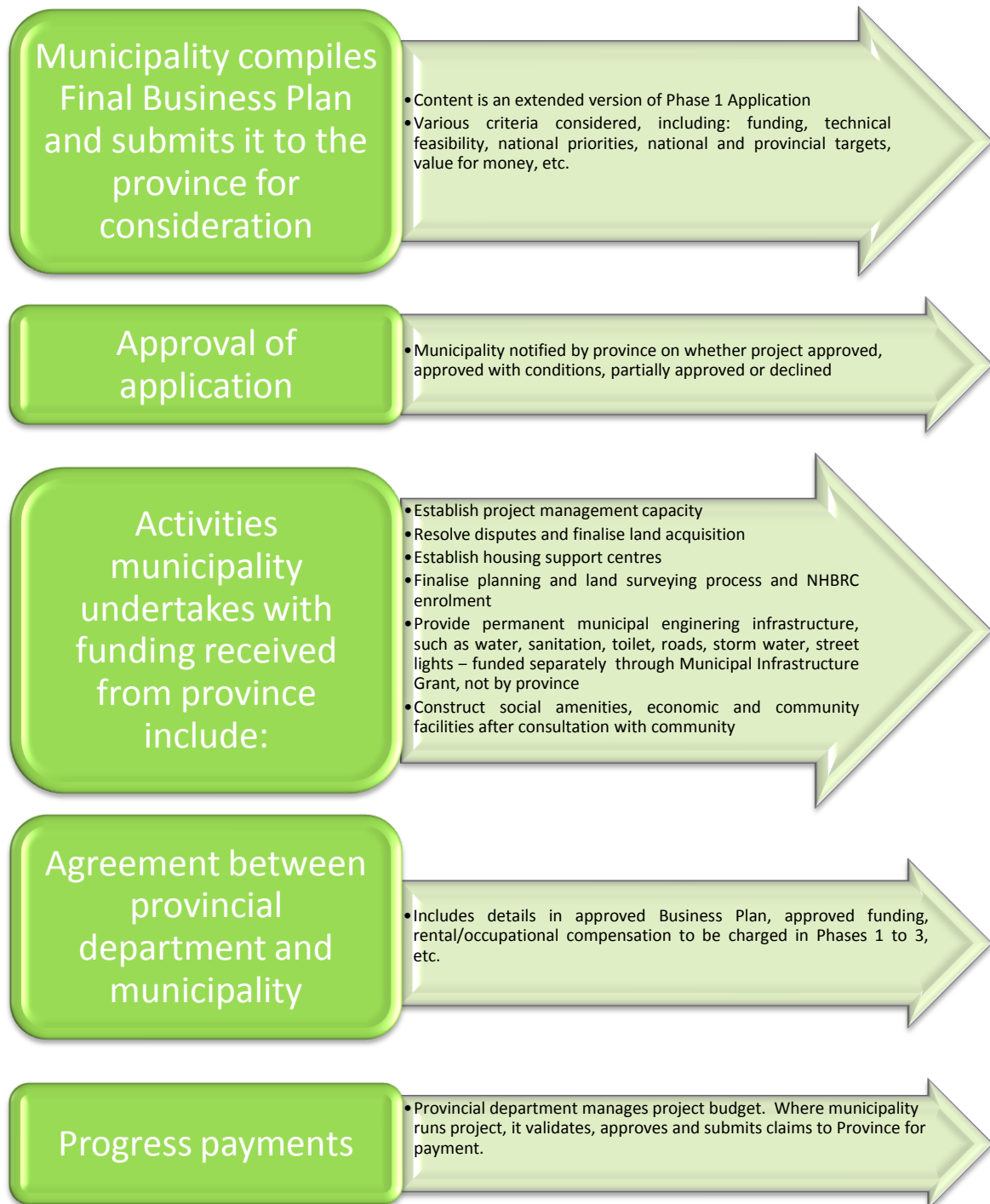
Source: Own observation – compiled from information in the 2009 Housing Code (National Department of Human Settlements 2009f:17; 21; 43–44; 51; 68).

**Figure 3.5 Phase 1 – Application**

Source: Own observation – compiled from information in the 2009 Housing Code (National Department of Human Settlements 2009f:20; 43; 47–48).

**Figure 3.6 Phase 2 – Project initiation**

Source: Own observation – compiled from information in the 2009 Housing Code (National Department of Human Settlements 2009f:43; 51; 61).

**Figure 3.7 Phase 3 – Project implementation**

Source: Own observation – compiled from information in the 2009 Housing Code (National Department of Human Settlements 2009f: 21; 43–44; 55–63).

Figures 3.5 to 3.7 above illustrate an own understanding of the main steps in Phases 1 to 3, the complex and lengthy process required to gain approval and to apply the Upgrading of Informal Settlements Programme. In addition to the steps in each phase, the responsibilities of the municipalities and provincial housing departments are set out in the illustrations in figures 3.4 to 3.7. It is notable that social and economic amenities are regularly mentioned in the above steps. This element is crucial to the concept of sustainable human settlements and two specific National Housing Programmes that provide for facilities of this nature are briefly discussed in paragraph 3.5 of this study.

Phase 4, the housing consolidation phase, comprises the finalisation of township establishment, the registration of ownership (where relevant) and the construction of houses. Any outstanding social amenities will also be constructed during this final phase (National Department of Human Settlements 2009f:44). Figure 3.3 lists an own understanding of the National Housing Programmes which qualifying persons may apply to for Phase 4 top structures (houses/multilevel apartments), which are not discussed further in this study.

Once a formal house is ready for occupation, the developer must demolish the informal settlement structure and secure the vacated land to ensure that the land is not invaded or reoccupied (National Department of Human Settlements 2009f:16; 68–69).

### **3.4.5 Facilitators and funding**

#### **3.4.5.1 *Three tiers of government***

Overall, the duties of the three tiers of government for the Upgrading of Informal Settlements Programme correspond to those in the Housing Act, which are illustrated in figure 2.12 of this study. A more detailed illustration of the responsibilities of the second and third tiers of government specifically relating

to the Upgrading of Informal Settlements Programme is included in figures 3.4 to 3.7. It is clear from all these figures that municipalities must take the initiative in and bear the responsibility for the Upgrading of Informal Settlements Programme. The pivotal role of the provincial housing departments indicated in these figures is also very clear. The basis for this role is that municipalities may lack accreditation. As municipalities gain accreditation, the role of provincial housing departments in housing development projects will decrease, as is illustrated in table 2.3. The 2009 Housing Code (National Department of Human Settlements 2009f:24) states very clearly that provincial governments must only assume the responsibility of the municipality where the municipality is not able to meet its obligations.

The Upgrading of Informal Settlements Programme is funded by the National Department of Human Settlements from the Integrated Housing and Human Settlement Redevelopment Grant (National Department of Human Settlements 2009f:27). As discussed in paragraph 2.10.1 and illustrated in figure 2.13, at present funds are allocated annually and transferred to the provincial departments. However, once a municipality has earned a level 3 accreditation, the funds are transferred directly from the national department to the municipality. Only the establishment of serviced stands (Phases 1 to 3) will be financed from the Upgrading of Informal Settlements Programme. Applicants need to apply to other housing programmes for the construction of houses (Phase 4) (National Department of Housing 2008a:104; National Department of Human Settlements 2009f:14–15).

Municipalities are required to fund a minimum capital contribution of 10% of the total cost of projects under the Upgrading of Informal Settlement Programme from own funds before funding can be accessed from the provincial human settlement department. Municipalities will be allowed to use the Municipal Infrastructure Grant to finance this capital contribution (National Department of



Human Settlements 2009f:19). After completion of the projects, municipalities are responsible for funding the operational and maintenance costs of social, community and economic facilities as well as those of engineering services established in terms of the Upgrading of Informal Settlements Programme (National Department of Human Settlements 2009f:19–20).

#### **3.4.5.2      *Governmental housing institutions***

Because the purposes of the various housing institutions discussed in chapter 2 differ, the specific housing projects within the Upgrading of Informal Settlements Programme will determine which institution(s) will be used. As discussed in paragraph 2.10.2.8, the Housing Development Agency will be used in many of the projects to acquire the land and carry out the planning and proclamation processes. The NHBRC (paragraph 2.10.2.6) would, however, be involved in Phase 1 to 3 projects carried out in terms of the Upgrading of Informal Settlements Programme, as indicated in figures 3.5 to 3.7. In addition, regardless of the National Housing Programme chosen for the provision of the top structure, the enrolment of the Phase 4 houses at the NHBRC (National Department of Human Settlements 2009f:15) is essential to ensure that they carry the intended warranties.

#### **3.4.6 Subsidy guideline**

Table 3.2 is an own understanding and calculation which gives the 2008/09 and 2009/10 subsidy guidelines for the Upgrading of Informal Settlements Programme. While the unit costs may come as a surprise to the uninformed, they do not appear to be overstated. According to Misselhorn (2008:21), a total cost of approximately R70 000 per unit for Phases 1 to 4 is optimistic, because, as noted in chapter 1, the cost in eThekweni was approximately R80 000 at the time he made this comment.

It will be noted from the own calculation done in table 3.2 below that a serviced stand in terms of the Upgrading of Informal Settlements Programme costs R30 466 for 2009/10, whereas the guideline amount for most of the other programmes is R22 162 (National Department of Human Settlements 2009g:7, 16; 2009h:7; 2009i:6). Part of the difference appears to be that the Upgrading of Informal Settlements Programme seems to be the only programme where the approved project funding allows for the provision of internal municipal engineering services. In the case of the other programmes, alternative funding sources must be found by the municipality (National Department of Human Settlements 2009g:6, 12; 2009h:6; 2009i:5).

**Table 3.2 Subsidy guidelines – 2008/09 and 2009/10**

Phase	Subsidy guideline per household	
	2008/09	2009/10
	R	R
Phase 1	5 830	7 289 ■
Phases 2 & 3	18 580	23 177 ♦
Cost of a serviced stand	24 410	30 466
Relocation grants	938	1 178
Cost of serviced stand and residents relocated	25 348	31 644
Phase 4 (40 m <sup>2</sup> house)	43 506	55 706 ♣
Norm value per household	68 854	87 350

Source: Own observation from Misselhorn (2008:17) and 2009 Housing Code (National Department of Human Settlements 2009e:3; 2009g:3, 10–11, 39).

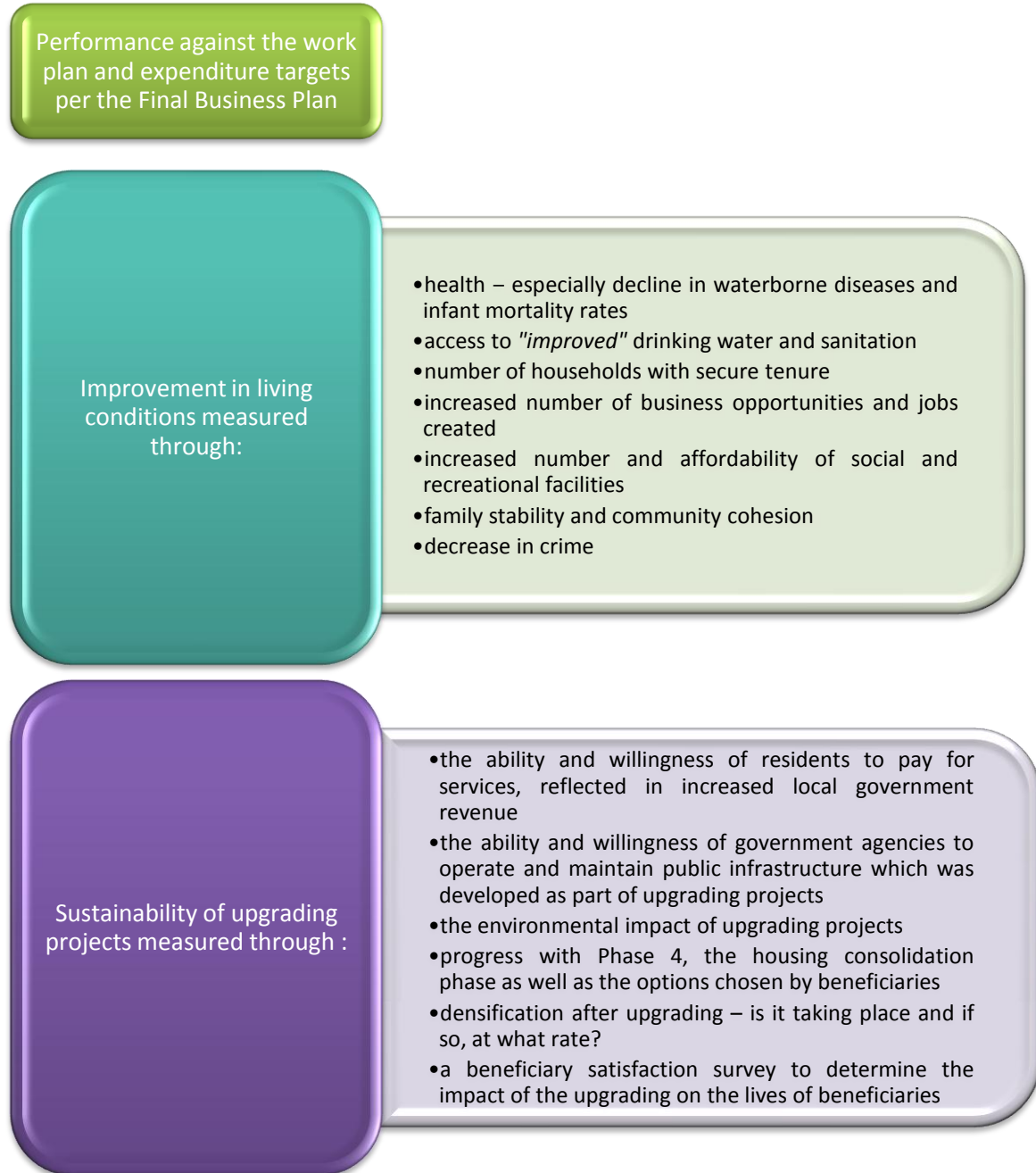
- R6465,18 + approximated survey, etc. costs @ 3% of project cost, assumed to be Phase 1–3 costs.
- ♦ R20 980,96 + approximated project management costs @ 8% of Phase 1–3 costs.
- ♣ Maximum – differs from R54 650 to R55 706 per housing unit, depending on the National Housing Programme chosen for Phase 4.

Table 3.2 is an own initiative compiled from an own understanding of the combined textual information found in the sources acknowledged.

#### **3.4.7 Performance measurement**

According to the 2009 Housing Code (National Department of Human Settlements 2009f:35–36), performance measurement must be done on every project and must be part of the approved Business Plan. Figure 3.8 is an own design in which the content is an own observation made from the textual discussion of the performance measurement indicators in the source acknowledged. The indicators illustrated in figure 3.8 will be used to regularly evaluate and report on the impact that each project in terms of the Upgrading of Informal Settlements Programme is having on the community (National Department of Human Settlements 2009f:35–36). Developing countries have to set measurable targets which serve as indicators of whether policy is practical and progress is being made in achieving goals and objectives (Phago 2010:102). Phago (2010:102) argues that measurable targets could assist in identifying problems that call for solutions to accelerate the provision of subsidised housing.

**Figure 3.8 Upgrading of Informal Settlements Programme performance indicators**



Source: Own observation – compiled from the 2009 Housing Code (National Department of Human Settlements 2009f:35–36).

### **3.5 OTHER INTERRELATED NATIONAL HOUSING PROGRAMMES**

As indicated in figures 3.5 to 3.7 and the discussion following these figures, two other national housing programmes are available as part of the drive to create sustainable communities, as briefly discussed below.

#### **3.5.1 Provision of Primary Social and Economic Facilities Programme**

As discussed earlier in this chapter, the reworded Strategy 2 of the BNG plan is “Moving from housing to sustainable human settlements”, illustrated in figure 2.3. Part of this strategy is the development of primary social and economic facilities to help to create a sustainable community. The Provision of Primary Social and Economic Facilities Programme has been implemented because backlogs exist in this area in most new housing projects, which now have to be prioritised (National Department of Housing 2008a:98). There is a need for social and economic facilities in existing and new housing areas as well as in upgrading projects in informal settlements (National Department of Housing 2008d:1). Where no other funds can be sourced by the municipality for facilities needed by residents, funds may be provided through the Primary Social and Economic Facilities Programme (National Department of Human Settlements 2009i:13).

The primary social and economic facilities include:

- schools and crèches
- medical care facilities, including municipal clinics
- community halls
- community parks/playgrounds
- taxi ranks and transportation hubs
- sports fields and facilities

- informal trading and small business facilities
- basic ablution facilities for the above, where needed

(National Department of Housing 2008a:98; National Department of Human Settlements 2009i:13).

### **3.5.2 Operational Capital Budget Programme**

The Operational Capital Budget Programme has been implemented with the specific purpose of providing funds to provincial housing departments to appoint external expertise to extend the existing capacity of housing delivery in order to achieve the housing development goals of the province (National Department of Housing 2008a:99; National Department of Human Settlements 2009j:7). The Operational Capital Budget Programme deals mainly, but not exclusively, with the following:

- the Upgrading of Informal Settlements Programme
- the provision of primary social and economic facilities
- the unblocking of stalled projects

(National Department of Housing 2008a:99; National Department of Human Settlements 2009j:7).

## **3.6 DEPARTMENTAL FACTORS HAMPERING DELIVERY UNDER THE UPGRADING OF INFORMAL SETTLEMENTS PROGRAMME**

This study has shown that, from 1994 to date, the National Department of Housing/Human Settlements has delivered on its responsibility to establish a national framework for the delivery of subsidised housing. Although the “national framework” is in place, it appears that delivery challenges remain. It is documented in paragraph 1.2 that a former Housing Minister disclosed in 2008 that delivery is being hampered by intergovernmental weaknesses; in 2010,

Minister Sexwale confirmed the existence of bottlenecks affecting every step of housing delivery.

Various parties concur with these opinions, as discussed in paragraphs 3.6.1 to 3.6.8. More than twenty departmental factors hampering delivery were identified from the literature study, some being specific arguments – and others general opinions, for example: “coordination should be improved between government departments”. To assess the suitability of the BSC against twenty different departmental factors hampering delivery would result in repetitive discussions. Another problem faced was that the general opinions given could relate to various factors hampering delivery because of various underlying causes. The decision was therefore taken to link general opinions with more detailed arguments and to reduce the number of factors to fewer than ten. The departmental factors hampering delivery were therefore organised and classified under eight chosen headings. Even though personal bias could have partly influenced the choice of headings, the focus of the suitability assessment will be on the detailed arguments rather than purely on the chosen headings. This will limit the effect that the choice of headings could have on the outcome of the suitability assessment. Each of these paragraphs begins by discussing departmental factors pertaining to the overall delivery of subsidised housing which are perceived to be hampering delivery; this is followed by an example relating to the Upgrading of Informal Settlements Programme. To provide an overview of the factors perceived to be hampering delivery, the headings of paragraphs 3.6.1 to 3.6.8 are summarised in figure 3.9.

**Figure 3.9 Summary of departmental factors hampering delivery under the Upgrading of Informal Settlements Programme**



Source: Own observation from sources acknowledged in paragraphs 3.6.1 to 3.6.8.

### **3.6.1 Disjuncture between long-term visions and actual actions on the ground**

Boraine (in Lombard 2004:3) is of the opinion that “the disjuncture between long-term visions and actual action on the ground” is one of three major obstacles which have to be overcome for a successful “South African urban century”. While welcoming the ambitious BNG plan, Kothari (2007:34), the Special Rapporteur on adequate housing of the UN Commission on Human Rights, cautioned that very few mechanisms are in place to ensure that well-intentioned policies are actually implemented, raising precisely the same point as that raised by Boraine.

In a recent Portfolio Committee discussion on the Strategic Plan 2009 to 2014 (Parliamentary Monitoring Group 2010c:5–7), committee members expressed



concern that provincial and municipal structures were not aligned and that often what was actually being done on the ground did not agree with what was documented or with legislated roles. It is noted that this situation occurs because national government has to intervene where provinces or municipalities are unable to perform the documented roles. Even the Chairperson of the Portfolio Committee is of the opinion that various problem areas on the ground are not being dealt with by the Department and that consequently committee members are being approached for solutions, whereas it is the duty of the department to sit down and strategise on how to resolve the issues.

Misselhorn (2008:3, 16, 19–20, 23–24) is of the opinion that, while the National Department of Housing had the best intentions in formulating the BNG plan, which is innovative, “flexible, participative, and integrated”, the policy shifts have not been applied and translated into changed delivery on the ground, nor have systems, mechanisms and regulations been adapted accordingly. Misselhorn (2008:29) argues that the concept of a house with a title is still being pursued on the ground while the BNG plan is much wider than that, aiming to create an integrated and sustainable environment with access to education, transport, health care, etc.

In spite of the detailed strategies included in the BNG plan of 2004, the actions on the ground still do not appear to have been adapted accordingly. In 2006, the then Housing Minister stated that the only way to address the challenge of creating a South Africa free of slums was by means of targeted, major projects, with immediate impact (National Department of Housing 2006c:3). Yet Misselhorn (2008:19–20) argues that it is clear from draft provincial business plans and medium-term expenditure frameworks that there is a reluctance by provincial housing departments to deal with informal settlement issues. Some provincial housing departments openly indicate that they will not address the

informal settlement issue, while others state an intention to do so, but do not allocate any funds for this purpose.

At municipal level, Venter (2008:11) claims that municipalities are reluctant to apply the Upgrading of Informal Settlements Programme, allegedly preferring individual subsidy programmes, which Misselhorn (2008:19) concurs with. Huchzermeyer (2009:1) is of the opinion that most provinces and municipalities do not even know that the informal settlement programme exists, but have nevertheless been brainwashed by the campaign to eradicate informal settlements by 2014.

When considering the above discussion, it appears that there is validity in Misselhorn's (2008:23) claim that while the best of intentions are present at national level, there is an "acute disjuncture" when it comes to activating and implementing the new thinking as contained in the BNG plan at provincial levels. Misselhorn (2008:19) adds that there is an acute disjuncture between what national government believes is being done and the actual actions of the second and third levels of government. In a study focused on the implementation of the procurement policy in subsidised housing, a significant disjuncture was noted between official policy and actual practice in departments (Mogoro & Brynard 2010:6).

### **3.6.2 Lack of detailed strategy for prioritised national housing programmes**

According to Kotsoane, a former Director-General of the National Department of Housing (Parliamentary Monitoring Group 2008b:6), the department needs to explore and adopt alternative approaches to improve the management of priority housing projects. Trouble-shooting mechanisms should also be in place for priority projects. It has been shown in this study that the Upgrading of

Informal Settlements Programme is a priority. Despite this and the government eradication and upgrading commitments of 2004 and 2010 respectively, this matter does not appear to have received the required attention.

In the presentation of the Department of Housing's Updated Strategic Plan 2008/11 (Parliamentary Monitoring Group 2008b:5, 7, 10, 38) to the Select Committee on Public Services, the following are mentioned as considerations, priorities and planned activities for the progressive eradication of informal settlements (the implication being that they were not being followed at the time of the presentation): have an improved understanding of the demand and backlog; develop an enhanced informal settlement upgrading strategy, linked to targets.

### **3.6.3 Outdated information on income and needs of targeted beneficiaries**

As recently noted by the Parliamentary Monitoring Group (2009i:3), beneficiaries must qualify for a subsidised house at the time of application, not the time of delivery. In the period it takes for delivery, the applicant's financial status or income may have improved drastically and he/she may no longer qualify, yet a subsidised housing unit would be allocated, based on the initial application. Wessels (2010:1) quotes Kecia Rust of FinMark as follows: "[The black market] is an indication of failure on the part of the delivery system – they're either targeting the wrong people or building houses in the wrong areas." According to Rust, people accept a house, let it and continue to live in an informal settlement closer to work. S'bu Zikode, chairman of the KwaZulu-Natal shack dwellers' association *Abahlali Basemjondolo*, confirms Rust's opinion that one of the reasons people sell their houses and move back to shacks is that houses are built far away from the city centres and people need to be closer to work (Ngalwa 2008:2). Radebe of Soweto's Anti Privatisation Forum, quoted in

Ngalwa (2008:2), expresses a different view: “Even though they get houses, poor people cannot afford to pay for electricity and for rates and are trying to find ways to survive.”

#### **3.6.4 Lack of buy-in to, understanding of and compliance with policies by staff**

Boraine, quoted in Lombard (2004:3), warns that “complacency amongst all stakeholders; the near-sightedness of policy makers and civil servants” needs to be overcome for a successful “South African urban century”.

Kotsoane (Parliamentary Monitoring Group 2008b:5–6, 8) states that the department needs to do the following:

- Clarify housing development regulations, ensuring compliance with minimum norms and standards and focusing on expediting delivery.
- Find ways to work smarter; closely manage progress.
- Improve the understanding of all staff in all spheres of government (but especially at provincial and municipal level) pertaining to the policies and changes to policies applicable to housing.

Although the provisions of the Upgrading of Informal Settlements Programme require funding to be reserved once the application is approved, as illustrated in figure 3.4, Campbell (2010:1–2) reports on a case where four projects have been halted because the province cannot pay the contractor the R65 million due to him. A spokesperson for the specific Provincial Department of Human Settlements acknowledged that there were financial problems and that they had consequently asked contractors to slow down the pace of building. This is not only contrary to policy, but actually retards delivery, despite the fact that accelerating delivery is one of the national priorities.

According to the Report of the Portfolio Committee on Human Settlements (Parliamentary Monitoring Group 2010b:5, 8), provincial departments and municipalities are not complying with legislation and policy dictating the enrolment of land/houses with the NHBRC. In fact, a startling figure is mentioned: only 7000 of the 2 700 000 subsidised houses built to date have been enrolled with the NHBRC. Pertaining to the Upgrading of Informal Settlements Programme, the various phases illustrated in figures 3.5 to 3.7, as well as the Phase 4 discussion, clearly prescribe the level of NHBRC involvement in every phase, culminating in the enrolment of all projects/land/stands/houses with the NHBRC. Obviously, where this requirement has not been complied with, the envisaged monitoring of compliance with technical standards as well as warranty protection will not be provided by the NHBRC.

According to the Report by the Public Service Commission (2007:44–45), many of the beneficiaries appear to be dissatisfied, with 89% of the respondents complaining about the poor quality of houses and 50% indicating that the issue has not been resolved. Logically, in a subsidised housing situation, any losses surrounding failure to register stands/houses would ultimately result in the various housing departments carrying the risk in the event of any quality problems. The risk could be one of non-delivery/delayed delivery and financial loss. Pertaining to the delivery risk, where structural and other quality problems are experienced which prevent or delay delivery, there is obviously no recourse to the NHBRC structures or guarantees to address the problem. This could substantially delay housing delivery, thereby adding to the housing backlog (Parliamentary Monitoring Group 2010c:5). Regarding the risk of financial loss, the Financial and Fiscal Commission cautions that improved monitoring of compliance is required because repairs/reconstruction would result in additional funding or costs (Parliamentary Monitoring Group 2010b:8), money which could have been spent on housing delivery.

In a recent Portfolio Committee discussion on the Strategic Plan 2009–2014 (Parliamentary Monitoring Group 2010c:7), it was noted that there have been cases where provincial officials ignore national government directives.

Misselhorn (2008:24–25) is of the opinion that while there are very dedicated, skilled and hard-working employees, in general low levels of staff motivation and a lack of work ethic to the point of dereliction of duty are more prevalent. Misselhorn (2008:24–25) explains that staff are more concerned with procurement and other regulations or with the pursuit of personal advantage, rather than having a passion to assist the poor. The personal advantage could take the form of positioning themselves for promotion, direct kick-backs or pursuing parallel business interests. Mogoro and Brynard (2010:4, 6–7) believe that slow progress by provincial and local departments of human settlement in reducing the housing backlog can largely be attributed to the “incompetent implementation of the procurement policy”.

Misselhorn (2008:25) argues that corruption is widespread and includes undeclared conflicts of interest or vested interests, bribes and procurement corruption. Mogoro and Brynard (2010:15) concur. Misselhorn (2008:25) is of the opinion that because of corruption, “competence and performance are seriously compromised” on projects, and that this is counterproductive to delivery.

### **3.6.5 Bureaucratic and inefficient funding sources and transfers**

The *Submission for the Division of Revenue 2009/10* (Financial and Fiscal Commission 2008:20) indicates that there are bottlenecks in the process of transferring housing funds between provincial and local spheres, citing that the process is bureaucratic and inefficient. This results in municipalities’ not receiving funds timeously, or “fiscal dumping”, where large amounts are

transferred close to financial year-end, leaving no time to spend the funds (Financial and Fiscal Commission 2008:21).

Misselhorn (2008:27) is of the opinion that the coordination required between multiple government departments and sources of funding is hampering delivery under the Upgrading of Informal Settlements Programme. A case in point is the Cottonlands project, where it took over eight years to secure funding from the Department of Land Affairs. In a period of over eight years, land costs had risen steeply and the informal settlement density increased substantially, making upgrading extremely difficult. Misselhorn (2008:22) also found that municipalities are being advised by provincial housing departments to obtain funds from the Department of Land Affairs for the acquisition of land, which causes long delays. According to Misselhorn, this is in direct contrast to the intention of the BNG plan that funding from the Department of Human Settlements should cover land acquisition, servicing and top structure costs.

### **3.6.6 Lack of accountability for decision-making and delivery failures**

In his report to the Presidency on informal settlements, Misselhorn (2008:24) identifies various constraints in the functioning of top and senior management, including: tendencies to overcentralise decision-making; failure to respond to written correspondence, including major funding applications; failure to hold regular committee meetings; and extremely slow turnaround times on decision-making. In addition, there is a lack of skills in general management, project management and technical spheres. According to Misselhorn (2008:25, 28), capacity and employees are affected by a continual change in staff, especially senior staff, coupled with a lack of standardised approval and decision-making processes. The problem with changes in the senior staff complement is that they barely get to understand the particular challenges and functions of a job before they are redeployed, or the department is restructured. In addition, the

processes are often based on the personal preferences of managers rather than on best practice and tend to change with management changes. Decision-making is often overcentralised as a result of personal preferences, but there is no accountability for failures in delivery or decision-making. The continual changes create difficulties for staff as well as for other stakeholders pertaining to partnerships and cooperation with other tiers of government and facilitators.

Even in 1997, Cohen (1997:147) was citing a lack of provincial accountability and the need for more “checks and balances”. It appears that Kotsoane (Parliamentary Monitoring Group 2008b:7) concurs with Cohen, when calling for the improved use of and reporting on the resources and budget in the housing sector and increased project tracking in the provinces. The basis for Kotsoane’s call is understood in the context of Misselhorn’s argument. Misselhorn (2008:27–28) argues that it is not uncommon for assessment and decision-making processes by the provincial housing departments to take between a year and two years. Generally, no acknowledgement of receipt of the application is sent by the provincial housing department and there is no way of tracking progress other than through personal follow-up.

### **3.6.7 Misalignment of priorities and budgets between sector departments**

In the BNG plan it was stated that the poor alignment in budgets and priorities between line function departments and municipalities remained a challenge and that municipalities lacked the capacity to streamline funding sources and apply progressive planning (National Department of Housing 2004:4, 6). Although six years have passed since then, when looking at the discussion below, this still appears to be the case. Kotsoane (Parliamentary Monitoring Group 2008b:5–6), argues that planning processes must be improved and streamlined for effective delivery and that a more inclusive approach to carrying out the departmental mandate must be developed. Dlabantu contends that the present mandate must



be “fine-tuned” to enable the inclusion of all the sectors in a stream-lined process to enhance delivery (Parliamentary Monitoring Group 2009d:3).

At the end of 2009, Dlabantu (Parliamentary Monitoring Group 2009d:2) argues that the delivery of human settlements has been hampered by the “lack of ... alignment and the prioritisation of funds and projects between sector departments”. According to the Report of the Portfolio Committee on Human Settlements (Parliamentary Monitoring Group 2010b:9–11), there is a misalignment between national and provincial priorities. The strategic plans of provincial departments have to be aligned to national plans, which is not the case at present. One of the points noted is that in the Strategic Plan, “on percentage terms, the budget allocated for the eradication of informal settlements and the rental stock does not match the target pronounced in the State of the Nation Address”. The budgetary allocations in the Western Cape, Gauteng and KwaZulu-Natal were of special concern, because these provinces have the biggest concentration of slums.

According to the presentation by the Department of Housing on the Updated Strategic Plan, 2008/11 (Parliamentary Monitoring Group 2008b: 54 & 78–79), the estimated funds specifically allocated to the Upgrading of Informal Settlements Programme (serviced stands) and Phase 4 of the programme (top structure construction) for 2008/09 are estimated at 25% (or R2,68 billion) out of the total allocated funding of R10,59 billion. This is stated as representing an output target in units of 104 000 for the Upgrading of Informal Settlements Programme and 15 000 units for the Phase 4 top structure construction, out of a total output target of 302 000 units. Delivery of 104 000 serviced stands and 15 000 houses is clearly not going to enable the eradication of approximately 2,4 million informal settlement households by 2014. This deduction has been found to be true and a revised commitment was made in 2010. It appears that this trend will continue in future, because, according to Misselhorn (2008:20), in

the 2008 Estimates of National Expenditure, only 15% of the total national housing subsidy was earmarked for the upgrading of informal settlements in the years 2008/9; 2009/10 and 2010/11.

In paragraph 2.10.2.8, the main role of the Housing Development Agency was identified as being the acquisition of land for housing development. At the 2009 launch of the Housing Development Agency, Kotsoane stated that, in order to eradicate informal settlements by 2014, the Housing Development Agency would work with all stakeholders in the housing sector to fast-track housing delivery and build integrated communities in terms of the BNG plan (South African Government Information 2009:1). Yet, according to the Report of the Portfolio Committee on Human Settlements (Parliamentary Monitoring Group 2010b:7), no capital funding has been allocated to the Housing Development Agency to carry out its mandate.

### **3.6.8 Lack of coordination and communication between sector departments**

In 2004, Lombard (2004:2) expressed concern that a lack of coordination and communication existed between the affected parties, which often resulted in duplication or counterproductive actions. Kothari (2007:36), the Special Rapporteur on adequate housing of the UN Commission on Human Rights, recommends that coordination be improved between government departments regarding housing and Chenwi (2007:24) concurs. Chenwi elaborates, stating that a lack of adequate interdepartmental and intergovernmental relations exists and that monitoring the progress of these complex processes in providing housing is crucial (Chenwi 2007:21, 24).

Kotsoane (Parliamentary Monitoring Group 2008b:6, 8) is of the opinion that closer collaboration must be fostered between the provincial and municipal tiers

and that communication between these parties must be improved. At the end of 2009, approximately eighteen months after the presentation by Kotsoane, Dlabantu argued that the delivery of human settlements had been hampered by the “lack of coordination . . . between the sector departments” (Parliamentary Monitoring Group 2009d:2). It is clear from this that the same problems that were identified in 2008 still persist. The lack of coordination is confirmed by the Bosberaad Submission document, in which it was stated that micro-coordination requires that the “silo mentality” be changed (Parliamentary Monitoring Group 2009e:2–3).

### **3.7 SUMMARY**

In this chapter, it was firstly found that informal settlements tend to form in developing countries, where resources are limited and the poor rapidly move to urban areas, especially large cities, in search of work. In South Africa, people living in shacks represent the largest part of the housing backlog, therefore this number is used as a measure of the number of informal settlement dwellings to be upgraded or eradicated. Whereas the number of informal settlement households increased from 1,4 million in 1994 to 2,4 million in 2005, it was found that the number remained constant at 2,4 million between 2005 and 2009, despite a quoted delivery figure of 2,7 million houses delivered between 1994 and 2009.

Secondly, the discussion revolved around the background to and development of informal settlements in post-1994 South Africa. Numerous lengthy documents and acts were found to be relevant. The initiative to upgrade or eradicate informal settlements came from the 2000 United Nations Millennium Development Goals, one of the aims of which is to improve the lives of slum dwellers worldwide by 2020. Government made an initial commitment in 2004 to upgrade or eradicate all informal settlements within ten years, by 2014 – six

years before the MDG target date. This initial target was later changed to the eradication of informal settlements by 2014. The discussion found that the BNG plan, which was launched in 2004, was the first step taken by government towards achieving the Millennium Development Goals. In 2010, there was an unannounced shift in the government commitment from the eradication of all informal settlements by 2014 to the upgrading of 500 000 dwellings in well-located informal settlements, as well the upgrading of bulk infrastructure and services to these settlements by 2014.

The most recent document to be published, the lengthy 2009 Housing Code, was published in 2010 and is the first publication containing detailed provisions of what is presently known as the Upgrading of Informal Settlements Programme. The discussion then focused on detailed provisions of the Upgrading of Informal Settlements Programme, a programme found to have been initiated in terms of Strategies 2 and 3 of the BNG plan, adapted under the 2009 Housing Code. The Programme was found to focus on phased *in situ* upgrading of whole areas, identified by the local municipalities for upgrading. It was found that criteria which households/persons must comply with to secure rental tenure of a serviced stand or housing unit are very flexible, as envisaged in Strategy 6 of the BNG plan. Much stricter criteria are applied to secure subsidised ownership of a stand and even stricter ones for ownership of a housing unit. The four phases of the Upgrading of Informal Settlements Programme were found to be very complex, with Phases 1 to 3 involving the delivery of a serviced stand, and Phase 4 that of a housing unit. Many detailed procedures are required in each phase – from consulting communities, to finally dismantling and removing existing shacks once houses have been handed over to beneficiaries – and preventing the erection of new informal structures afterwards.

The discussion then focused on housing facilitators and funding. It was established that, over and above the three tiers of government, the Housing Development Agency would be involved in most projects and the NHBRC would be involved in all phases of all projects. Pertaining to funding, Phases 1 to 3 would be financed from the Upgrading of Informal Settlements Programme, whereas beneficiaries qualifying for Phase 4 housing units had to apply to one of many other national housing programmes for funding. Also, the municipalities had to secure a minimum of 10% of the total cost of projects, before central housing funds would be allocated to them, via provincial structures. The 2009/10 subsidy guideline was found to be R30 466 per serviced stand and approximately R55 706 for a housing unit. The points included in the Upgrading of Informal Settlements Programme for performance measurement were illustrated diagrammatically and focus on the impact each project has on the community.

Next, the discussion moved to other interrelated housing programmes which could be used for the provision of primary social and economic facilities as part of the creation of sustainable communities. Lastly, the numerous departmental factors that are hampering delivery under the Upgrading of Informal Settlements Programme were identified, organised and combined under eight chosen headings, with a brief explanation of how they are hampering delivery.

The next chapter will clarify the use of the Balanced Scorecard as a performance measurement tool in the public sector and do a preliminary appraisal of whether the BSC or Monitoring and Evaluation is better suited to addressing the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme.

## **CHAPTER 4**

### **THE BALANCED SCORECARD AS A PERFORMANCE MEASUREMENT TOOL FOR THE UPGRADING OF INFORMAL SETTLEMENTS PROGRAMME**

#### **4.1 INTRODUCTION**

As a contribution to the critical assessment of the suitability of the Balanced Scorecard (BSC) as a tool for addressing the factors hampering delivery under the Upgrading of Informal Settlements Programme, chapter 2 of this study produced the overall picture of the national framework for the delivery of subsidised housing in South Africa. This was followed by chapter 3, which investigated various aspects surrounding the upgrading of informal settlements, ending with a discussion of eight departmental factors hampering delivery under the Upgrading of Informal Settlements Programme.

In this chapter, traditional and recent performance measurement systems are clarified in the context of the change in the business environment. The background to and development of the BSC are then outlined. A discussion of why the BSC is used for performance measurement in both the private and public sectors is provided and the various terms used in the discussion are defined. An explanation of the BSC concept and framework, which were initially developed for performance measurement in the private sector are also given. The manner in which the BSC has been adapted for use in the public sector is described. This is followed by a discussion of the four BSC perspectives adapted for public sector use. The process suggested for translating the mission and strategy of a public sector entity into objectives and measures, via the BSC, is explained; this includes a discussion of the interrelationship between the four perspectives. The chapter concludes with a preliminary

appraisal of the suitability of the BSC versus the present Monitoring and Evaluation for addressing the collective departmental factors hampering delivery under the Upgrading of Informal Settlements Programme.

The general discussion in this chapter commences with an analysis of the situation in the private sector and then proceeds to identify aspects or developments pertaining to the public sector. This is because performance measurement and the BSC were initially developed for challenges faced by the private sector, but when the non-profit and public sectors were faced with similar challenges, the BSC was adapted for their use. During the adaptation process, basic common ground remained between the private sector and public sector applications and therefore both are discussed.

## **4.2 CHANGES IN PERFORMANCE MEASUREMENT SYSTEMS**

The focus of this study is on the BSC as a performance measurement tool, not on the broader discipline of performance measurement. The discussion in this section will therefore focus on the changes in the business environment which triggered the change from traditional performance measurement systems to more recent systems. Paragraphs 1.2 and 1.4 substantiated why the BSC was chosen for this study and limited the study to the BSC as a performance measurement tool. For this reason other recent performance measurement systems will not be discussed. The shortcomings of traditional performance measurement because of changes in the business environment and the characteristics of recent performance measurement systems will, however, be discussed.

In 1991, Eccles (1991:131) predicted that within five years every company would have to redesign the way it measures its business performance. He based the prediction on observations that executives were reconsidering how to

measure performance in their businesses after realising that changes in competition and strategies required new performance measurement systems. Before the 1990s, most of the performance measurement innovations originated from attempts by practitioners to close the performance gap created by the changing needs of managers in response to changes in the business environment (Srimai, Radford & Wright 2011:662, 664, 676). The 1991 prediction by Eccles (1991:131) came true, because between 1994 and 1996, an astounding 3 615 articles on performance measurement were published and listed on the ABI Inform Database (Neely 1999:207).

Academics and business managers from different disciplines continue to publish articles on performance measurement (Paranjape, Rossiter & Pantano 2006:11) in which accountants, business strategists, human resource managers and marketers are mentioned (Neely 1999:224–225). In a more recent publication, strategy management, operations management, human resources, organisational behaviour, information systems, marketing and management accounting and control are identified as contributing to research in the field of performance measurement (Franco-Santos, Kennerley, Micheli, Martinez, Mason, Marr, Gray & Neely 2007:784). Academics in different disciplines base their research on the frameworks familiar to them. Therefore the approaches they follow differ and they also tend to confine themselves to references from authors within their own discipline (Neely 1999:225). Researchers from the different disciplines have not even been able to agree on a definition for performance measurement which limits generalisability and comparability of research in this area (Franco-Santos *et al.* 2007:785). From an accounting perspective, the focus on performance measurement is seen as an admission that financial information is no longer sufficient for management and control purposes (Amaratunga, Baldry & Sarshar 2001:179). While business performance measurement was referred to above, a survey showed that



performance measurement in the non-profit sector was consistently rated as one of the top three concerns (Kaplan 2001:357).

#### **4.2.1 Changes in the business environment**

Kaplan and Norton (1996b:2) say that the industrial age extended from 1850 to 1975 and has been followed by the information age. During the industrial age, competition was limited, one reason being that many industries were protected by government regulations. Companies that used new technology for the efficient mass production of standard products, while effectively managing financial assets and liabilities, were successful. During that period, financial control systems were developed to allocate and monitor efficient allocations of financial and physical capital (Kaplan & Norton 1996b:2–3).

Smith (2007:2–5) expresses agreement with Kaplan and Norton (1996b:2–3) and expands at length on the business environment of the 1970s. At the time, employees were not mobile, but tended to spend entire careers working for the same organisation. Process knowledge was not documented, but was transferred from one employee to his or her successors. The managers in senior positions had spent a considerable amount of time working their way up the ranks to reach those positions and therefore they relied on their extensive experience to deal with process difficulties as these emerged. Employees only had knowledge of their direct area of responsibility and were rewarded on how well they performed in their own specific area. Communication across sections was not essential, resulting in silos being created, where one section had no idea what impact their actions were having on other sections – or on the organisation. The BSC which was subsequently developed by Kaplan and Norton called for a balance between silo and organisation-wide measures (Nair 2004:17–19; Niven 2003:8).

In the information age which originated around 1975 and has continued to date, the emphasis has shifted from an organisation using tangible assets for competitive success to the ability of an organisation to mobilise and manage its intangible assets (Kaplan & Norton 1996b:2–3; Nair 2004:18). Nair (2004:18) is concerned that tangible assets are being measured in traditional financial statements – but that the future of the organisation is sustained by the intangible assets which presently account for 85% of the assets. Kaplan and Norton (1996b:2–3) contend that the mobilisation and management of intangible assets empower an organisation to develop customer relationships that retain loyalty; introduce new products and services; produce high quality, customised products at low cost with short lead times; mobilise employee skills and motivation to continuously improve processes, quality and response time; and utilise information technology, databases and systems.

In 1978, the late leader of China (The Economist 2008:1), Deng Xiaoping, stated that China's closed-door policy to the West was being reversed (Lusk, Halperin & Zhang 2006:101). Multinational corporations could not resist the urge to invest in China, with its enormous pool of highly skilled labour available at a low cost. Multinational corporations clambered to be the first to invest in China, with all companies having to reconsider global cost competition (Lusk *et al.* 2006:101). This explains why a new global competitive environment emerged in the 1980s with new key competitive variables such as product quality, delivery, after-sales service and customer satisfaction (Drury 2008:576).

In the 1990s, the development of the internet set the scene for another change in the business environment, the emergence of “dot-com” companies (Lusk *et al.* 2006:101). A dot-com company is defined as one whose operations are primarily or even entirely internet-based, a company which would not be able to operate without the existence of the internet (InvestorWords.com 2012:1). At the time, dot-com companies were characterised by a limited asset base, no

foreseeable profit prospects and negative cash flows, yet the possibility of high returns lured the usually conservative investment bankers into investing in them (Lusk *et al.* 2006:101). While the bankers recognised the risks, they also realised that the share prices would rise and they could not afford to lose out, so they invested. This set a process in motion where the “dot-coms” attracted so much investment capital that the results of other companies were being manipulated to compete for capital in the rising market (Lusk *et al.* 2006:101).

The trading operations of Enron, the seventh largest company in the United States in 2000 and the company named by Fortune magazine for six consecutive years from 1996 to 2001 as “America’s Most Innovative Company”, relied heavily on complicated transactions (BBC News 2006:3). Cunningham and Harris (2006:29, 31) argue that as Enron grew, the focus for many top executives was not on selling goods and services, but on managing the earnings and the reported cash flow, which gave rise to a situation where outsiders were being misled and the financial situation was being misrepresented. Enron was started in 1985, after the merger of two companies which sold and transported natural gas. As Enron grew, it began to trade in gas commodities, contracting to sell gas at a future date at an agreed price and hedging the transaction by contracting to purchase gas at the same future date. Enron’s assets shifted from pipelines (fixed assets) to contractual rights (intangible assets). The trading in gas commodities soon expanded to trading in electricity, internet broadband and other goods and services in transactions which became more and more complicated. After a letter from an employee to the CEO in which it was claimed that the financial reporting had become too misleading and that action needed to be taken, Enron and its auditors, Arthur Andersen, announced in October 2001 that Enron’s financial results in previous years would be restated to show lower profits and a less favourable financial position. After the restated results were released, the share price declined and Enron filed for bankruptcy (Cunningham & Harris 2006:31–32, 34). After the

Enron disclosure, government and the legal and financial worlds stepped in to tighten regulations to restore confidence in the markets (Lusk *et al.* 2006:101).

Smith (2007:8) adds that since the beginning of the 21st century, global competition has become the norm. Murphy (2003:4) says that internationalisation and globalisation have made the physical location of a business irrelevant. Smith (2007:8–12) observes that mergers and acquisitions have resulted in fewer, larger, and better capitalised companies. New technology like cellular telephones and the internet is being used to access customers – even globally – at minimum cost. Customers have become less loyal to brands and have ever-increasing expectations, placing pressure on organisations to do everything faster, better and more cheaply. Technology has also resulted in the workforce becoming more mobile, so many members of staff are no longer working from the office, but from remote locations. In addition to mobility within organisations, the mobility of all levels of employees between organisations has increased to the point where job-hopping has become the norm and staying in one company is seen as a sign of stagnation. As a result of this, the knowledge and experience of existing staff can no longer be relied on as before, and it has therefore become crucial that all processes should be documented and followed, to ensure consistency with an ever-changing workforce and management team (Smith 2007:8–12). Rapid technological changes, global expansion and worldwide economic uncertainty highlight the unique role of people in the organisation (Whitaker & Wilson 2007:59), Smith (2007:1) also says that in the past organisations identified and corrected process weaknesses, whereas in today's marketplace they must be able to leverage process strengths for strategic advantage.

When compared with organisations in the private sector, public sector organisations tend to show less awareness of the changing environments (Srimai, Damsaman & Bangchokdee 2011:60). Constituents and donors are

better informed than ever before and they are demanding accountability and transparency (Niven 2003:4). A global public management reform movement known as the “new public management” (NPM) is developing, focused on instilling private sector financial practices into public decision-making (Jones & Kettl 2003:2–3). While there are critics, NPM practices in financial management and accounting are well-established and have been proven to be successful (Jones & Kettl 2003:2–3, 14). Non-profit organisations are facing increased competition because more institutions are competing for scarce donor and government funding (Kaplan 2001:353). Chan (2004:204) posits that slow economic growth and reduced federal funding have resulted in local governments in the United States of America having limited resources for years. In addition to having limited resources, taxpayers and the provincial and state governments are demanding greater accountability and results for their tax dollars. As a result, municipal administrators are adopting management tools from the private sector – and operating more like a business than ever before (Chan 2004:204).

#### **4.2.2 Criticism of traditional performance measurement**

Traditional performance measures focus on financial measures – mainly on profit – and then on costs and revenues as they result in the profit (Correia, Langfield-Smith, Thorne & Hilton 2008:662). Kaplan and Norton (1996b:6–7) express disappointment that a financial reporting process that is anchored to an accounting model developed centuries ago is being used by modern organisations which are operating in the information age. Olve, Roy and Wetter (2000:12–13) concur, adding that traditional management control has not changed since 1925, while industry has undergone massive technological changes since World War II. Drury (2008:576) argues that traditional management accounting performance measurement systems have not taken the new global competitive environment that emerged in the 1980s into account.

Traditional measurement ignores people, innovation, leadership and service excellence, core elements of a competitive advantage (Whitaker & Wilson 2007:59). The profit measurement process is seen as an imperfect measure of corporate performance because it was not designed to be used to measure the performance of the entire business (Curtis 1985:59, 62). Financial results are lagging metrics; they are the results of past decisions which are too old to use for operational purposes (Ghalayini & Noble 1996:65) and are not suitable for decision-making purposes (Weinstein 2009:46). The traditional practice of directing close attention to financial measures is progressively being faulted because of major changes in the environment in which organisations operate (Olve *et al.* 2000:12–13). Another criticism of conventional performance measurement systems is that systems based essentially on financial performance measures are not sufficiently focused and vigorous for internal management and control (Atkinson, Waterhouse & Wells 1997:25). According to Meyer (2002:xi–xii), until recently organisations could use profit to measure performance, but that simplicity no longer exists. Meyer (2002:xi–xii) says that Enron was earning pre-tax profits of \$1,5 billion from the third quarter of 2000 to the third quarter of 2001, but filed for bankruptcy in the fourth quarter of 2001, which clearly indicates that performance measurement has become complex and is no longer simply about measuring profit. The realisation that a largely financially based performance measurement system undercut its strategy served as a catalyst for change (Eccles 1991:131).

Traditional performance measurement based on financial measures is not always suitable for non-profit organisations, because the emphasis usually falls on social factors and costs rather than on profit (Correia *et al.* 2008:664). This opinion applies equally to the public sector. Niven (2003:31) posits that, traditionally, non-profit organisations have been misdirected in focusing their attention on reporting the proportion of funds being spent on administration. This practice evolved because large donors do not tolerate funds being used for

administration, rather than the main purpose they were intended for. Niven (2003:31) quotes Jeffrey Bradagh, a consultant to non-profit organisations, as saying that: *“Generally, they (nonprofits) are vastly undercapitalised, understaffed, and poorly managed ... There’s little, if any investment in organizational infrastructure or staff development. Compared to the for-profit sector, the non-profit world is back in the late 1970s and early 1980s ... It’s only beginning to understand that if you want good outcomes, you have to invest in building strong organisations.”* Ironically, governments were the first to identify and respond to the shortcomings of the financial measurement system, investing substantial amounts in performance measurement systems in the hope of improving on decision-making and efficiency (Atkinson *et al.* 1997:26).

#### **4.2.3 Recent performance measurement systems**

The origin of the recent performance measurement systems could most likely be traced back to the 1980s, when many managers started realising that financial measures were failing to provide long-term strategic guidance, and that reporting on various aspects of a business was essential to remain competitive (Olve *et al.* 2000:13; Smith 2007:6–8). Various performance measurement innovations have sprung from the shortcomings of profit-based performance measurement, ranging from improved financial metrics such as economic value measures to BSCs which integrate financial and non-financial measures (Ittner & Larcker 1998:205). The shift from financial figures to a broader set of measures was viewed as a “radical decision”, part of a performance measurement “revolution” (Eccles 1991:131).

Recent Strategic Management Accounting developments have emphasised the role of Management Accounting in supporting the overall competitive strategy of an organisation. Before the BSC was conceived, various performance measures were available, but they were of an *ad hoc* nature and did not

integrate financial and non-financial measures (Drury 2008:576). Examples of new concepts and tools which emerged are *Kaizen* Costing, Total Quality Management (TQM) and Business Process Redesign (BPR) (Olve *et al.* 2000:13). *Kaizen* implies small, continuous improvements as a result of constant efforts, rather than major improvement programmes (Davies & Boczeko 2005:348). TQM became popular as it relied on good processes to reduce costs and a greater focus on BPR focuses on the complete redesign of business processes to improve critical performance areas such as costs, quality and delivery. Common processes in BPR include acquiring customer orders and customers and worker involvement in improving processes and output (Smith 2007:6–8) developing both human resources and new products (Correia *et al.* 2008:715).

Nonfinancial performance indicators provide more timely information which is less susceptible to manipulation and interpretation than financial performance indicators (Davies & Boczeko 2005:355). Many organisations recently began using nonfinancial performance measures as they found that staff performance improved because they were being measured on criteria that are within their control, rather than on profit, which they are not able to identify with (Weil & Maher 2005:657–658; Garrison, Noreen & Seal 2003:696–697). There is a gap between what we would like to measure and what we can measure, largely due to the multiplicity of present-day organisations (Meyer 2002:xii). It is human nature to exploit this predicament by delivering what can be measured, rather than the performance sought, but which cannot be measured (Meyer 2002:xii). The difference in approaches between Weil and Maher and Garrison *et al.* appear to lie in the fact that Meyer (2002:81) links performance measurement directly to monetary compensation for performance whereas Kaplan and Norton (1996a:81) caution on using performance measures for financial compensation before certain challenges have been addressed.



Weil and Maher (2005:658) identify the following two parts to recent performance measurement systems:

- The attention of all employees is drawn to the objectives of the organisation and their contribution to the objectives, either individually, or as part of a unit.
- The degree to which each level in the organisation can affect results becomes visible.

Smith (2007:1) is of the opinion that process performance has become the most critical driver of organisational success. Niven (2006:xii) argues, however, that intangible assets such as employee knowledge, customer/supplier relationships and innovative cultures are the present drivers of economic success. Niven (2003:9) states that the change in value creation from physical to intangible assets demands more from measurement systems, which must be equipped to “identify, describe, monitor and provide feedback on the intangible assets driving organisational success”. He believes that for this reason large numbers of organisations are turning to the BSC to measure and manage intangible assets.

In the past 30 years criticisms of government performance have been levelled from all over the world – and all parts of the political spectrum (Jones & Kettl 2003:1). Government performance has been seen to be failing to meet expectations. Some of the criticisms levelled against governments include accusations that they are inefficient, ineffective, self-serving, unresponsive to public wants and needs and failing in the provision of the quality and the quantity of services deserved by the taxpaying public (Jones & Kettl 2003:1). The calls for greater accountability and transparency are being seen as a request for performance measurement and reporting – to ease fiscal stress (Halachmi 2005:502–503). Despite government investments in performance measurement systems, limited results are evident (Atkinson *et al.* 1997:26). The

conclusion has been reached that government performance measurement systems have lacked strategic focus and have been measuring too many things – and the wrong things at that (Atkinson *et al.* 1997:26).

### **4.3 BACKGROUND TO AND DEVELOPMENT OF THE BSC**

The changes in the business environment which were discussed in paragraph 4.2.1 serve as part of the background to the development of the BSC. Even though many scholars have offered opinions on the BSC since the initial development, Kaplan and Norton developed the initial BSC, continued publishing changes as the BSC evolved and are still deemed to be the authorities on the BSC. Because of this, the discussion in this paragraph will focus on Kaplan and Norton's publications, while the opinions of other scholars will be included in the remainder of the chapter. The discussion in this section will be brief because the concepts are dealt with in the discussion which follows.

The Nolan Norton Institute, the research arm of KPMG, sponsored a one-year multicompany study in 1990, entitled "Measuring Performance in the Organization of the Future". The study was led by David Norton, the CEO of the Nolan Norton Institute. Robert Kaplan was an academic consultant and there were representatives from twelve companies (Kaplan & Norton 1996b:vii) at the cutting edge of performance measurement (Kaplan & Norton 1992:71). The motivation for the study was the belief that performance measurement systems relying only on financial measures were obsolete and were limiting opportunities to create future economic value (Kaplan & Norton 1996b:vii).

The first innovative performance measurement system examined by the participants was the "Corporate Scorecard" used by Analog Devices. The Corporate Scorecard used traditional financial measures, as well as customer delivery times, quality and cycle times of manufacturing and effectiveness of

new product development as performance measures. The multidimensional nature of the scorecard appealed to the participants and after other measures had been added, the findings of the study were published in the *Harvard Business Review* (January–February 1992), under the title “The Balanced Scorecard – measures that drive performance” (Kaplan & Norton 1996b:vii–viii). In this article, Kaplan and Norton (1992:72) compared the complexity of managing an organisation to the task of navigating and flying an airplane. When flying an airplane, pilots need various instruments to provide them with information on the environment, bearing, altitude, destination, air speed and fuel. If pilots relied on only one of these instruments, the outcome would be fatal. The same principle applies to organisations where managers rely on only one instrument to gauge performance. It was therefore argued that performance should be viewed from several perspectives simultaneously (Kaplan & Norton 1992:72). The first version of the BSC (Kaplan & Norton 1992:72) included four perspectives, where each perspective posed a question, the answer to which was a goal that was translated into a performance measure. All four perspectives were linked to each other. The four perspectives and questions were:

- Financial (How do we look to our shareholders?)
- Customer (How do customers see us?)
- Internal business (What must we excel at?)
- Innovation and learning perspectives (Can we continue to improve and create value?) (Kaplan & Norton 1992:72).

After the publication of the 1992 article, many senior executives requested Kaplan and Norton to help them to implement Balanced Scorecards in their organisations (Kaplan & Norton 1996b:viii). During the implementation of the first version of the BSC, many developments took place, the first of which was the realisation of the importance of linking the measures in the BSC to the strategy of the organisation (Kaplan & Norton 1992:79). While this concept

appears obvious, at the time, most companies were attempting to improve the performance of existing processes – by improving quality, lowering cost and shortening response times – but were not determining which processes were strategic. Strategic processes have to be performed exceptionally well for the organisation to succeed (Kaplan & Norton 1996b:viii–ix). Further BSC implementations showed that the BSC represented a fundamental change in the underlying assumptions about performance measurement. Previously, as was typical of traditional performance measurement systems, control of employee behaviour was central, a practice also in line with Industrial Age thinking. With the BSC, strategy is central, goals are established from this and employees decide what actions are necessary to achieve these goals. The focus is therefore the achievement of strategy rather than control (Kaplan & Norton 1992:79).

In 1993, an article which highlighted the importance of choosing strategic measures entitled “Putting the Balanced Scorecard to work” was published in the *Harvard Business Review* (September–October 1993) (Kaplan & Norton 1996b:viii–ix). The article provides corporate examples which illustrate how the BSC uniquely combines management and measurement (Kaplan & Norton 1993:135–142) and also includes comments from managers on challenges and triumphs experienced with BSC implementation in their specific organisations. In this article, the BSC is found to be most successful as a means of driving change in an organisation (Kaplan & Norton 1993:135–142).

Further advice and applications led to the BSC evolving from an improved measurement system to a core management system. These developments were summarised in a third article entitled “Using the Balanced Scorecard as a strategic management system”, which was published in the January–February 1996 edition of the *Harvard Business Review* (Kaplan & Norton 1996b:ix). In the article, the vision and strategy have been inserted into the centre of the BSC

illustration and linked to the four BSC perspectives (Kaplan & Norton 1996a:76), as illustrated in figure 4.6 of this study. Further, the article introduces four management processes that contribute to linking long-term strategic objectives with short-term actions. The four processes are shown in a circular movement, indicative of a continual process. The first process – translating the vision – involves managers' finding consensus around the vision and strategy of the organisation. The second process – communicating and linking – requires managers to communicate the strategy up and down in the organisation by linking the strategy to departmental and individual objectives. The third process – business planning – allows companies to integrate their business and financial plans. The fourth process – feedback and learning – provides the opportunity for companies to learn from the whole process, which is referred to as strategic learning (Kaplan & Norton 1996a:75–77). The BSC creation process is identified as integrating the strategic planning and budgeting processes, ensuring that budgets support strategy (Kaplan & Norton 1996a:82).

Kaplan and Norton published the fourth and fifth articles in 1996. Because the publication of these articles followed on the publication of the 1996 book, *The balanced scorecard: translating strategy into action* (Kaplan & Norton 1996c:53), only a brief discussion will be included here, the remainder being discussed in paragraphs 4.4 and 4.6. The fourth article, entitled “Linking the Balanced Scorecard to strategy”, was published in the Fall 1996 edition of the *California Management Review*. In this article, it is stressed that a mixture of financial and non-financial measures is not a BSC. For a measurement system to qualify as a BSC, the financial and non-financial measures must be derived from the specific strategic objectives and developed through the cause-and-effect relationship between the four perspectives (Kaplan & Norton 1996c:55, 64).

The fifth article, entitled “Strategic learning and the balanced scorecard”, was published in the September–October edition of *Leadership* (Kaplan & Norton 1996d:18). In the article, the feedback and learning aspect, the fourth process introduced in the third article is discussed in more depth, and it is concluded that this is the most important part of the BSC (Kaplan & Norton 1996d:24). The article points out that the execution of strategy in today’s turbulent business environment is no easy feat. Because the external conditions are constantly changing, the present strategy must continually be questioned to assess suitability for the changed circumstances, referred to as double-loop learning (Kaplan & Norton 1996d:19, 23).

The next development in the application of the BSC took place with the publication of Kaplan and Norton’s 2001 book, *The strategy-focused organisation*. The book is divided into five parts as follows: translating the strategy into operational terms; aligning the organisation to create synergies; making strategy everyone’s everyday job; making strategy a continual process; and mobilising change through executive leadership (Kaplan & Norton 2001a:v–vi). The publication of the sixth and seventh articles entitled “Transforming the balanced scorecard from performance measurement to strategic management”, distinguished as “Part I” and “Part II”, followed in the March 2001 and June 2001 editions of *Accounting Horizons* (Kaplan & Norton 2001b:87–104; 2001c:147–160). The Part II article follows the same sequence as the five sections of the book, showing how the BSC can be used by management to align the key management systems and processes to the strategy (Kaplan & Norton 2001c:147). The Part I article documents the role of strategy maps in the BSC alignment process (Kaplan & Norton 2001b:87–94). The article also introduces the application of the BSC to nonprofits (NPOs) and government organisations, suggesting that the BSC be adapted for public sector use (Kaplan & Norton 2001b:97–99, 100–101). Lastly, the concept of integrating the performance measures into a strategic management system is introduced

(Kaplan & Norton 2001b:99, 102). The publication of the third book, namely, *Strategy maps: converting intangible assets into tangible outcomes*, followed in 2003. This book focuses on how to translate strategy into operational-level objectives (Kaplan & Norton 2006:vii–viii). The fourth book, *Alignment: using the balanced scorecard to create corporate synergies*, was published in 2006 and is devoted to aligning the organisation to the strategy (Kaplan & Norton 2006:vii–viii).

Credit must go to Prof Robert Kaplan and David Norton for the astounding number of companies that have adopted the BSC in a relatively short time (Nair 2004:xi). Other analytic applications like activity-based cost/management (ABC/M), budgeting, planning, customer relationship management (CRM) and supply-chain management (SCM) have taken years along the “normal paths of recognition and adoption” before being used extensively. A Bain & Co study in 2004 showed that more than 50% of Fortune 1000 companies and 40% of companies in Europe were using some form of the BSC (Nair 2004:4). Two years later, estimates suggested that 60% of Fortune 1000 companies had a BSC in place and 96% of the global companies surveyed by the Hackett Group either had or planned to implement a BSC (Niven 2006:2).

Whereas the preceding discussion involved the background to and development of the private sector BSC, in the discussion which follows the emphasis is on the public sector BSC. As early as 2000, Brown (2000:v) argues that the measurement of performance and the BSC is not limited to the private sector, but has spread to government. As mentioned above, Kaplan and Norton suggested adapting the private sector BSC for governmental organisations (Kaplan & Norton 2001b:97–98, 101). The adapted BSC had the mission at the top, with the perspectives of cost, value/benefit of services and support from taxpayers flowing into the mission. The learning and growth perspective was at the bottom of the BSC, flowing into the internal processes perspective, which in

turn flows into the other three proposed perspectives (Kaplan & Norton 2001b:101). When President Bill Clinton assumed office in 1993, he made it a priority to transform the way government was managed (Niven 2003:28). President Clinton envisaged a government focusing on what was being accomplished, rather than on what was being spent, thereby improving government performance. President Clinton appointed Vice-President Al Gore to head a team for a six-month study on what had to be done to improve government performance. The subsequent report *Creating a government that works better and costs less*, led to the development of a National Partnership for Reinventing Government and culminated in the passing of the Government Performance Results Act (GPRA) in August 1993 (Niven 2003:28). Whittaker (2001:1–3) concurs that the GPRA of 1993 changed the approach and thinking in the federal government of the United States of America and he argues that the GPRA set the scene for the implementation of the BSC in the public sector.

Estis (1998:3) proposed a public sector BSC which replaced the internal perspective with a mission perspective, asking the question: “Are we accomplishing our mission?” A further development took place when Kaplan (2001:357–358) launched a research study in 1996 with the intention of determining the applicability of the BSC through implementation in selected non-profit organisations. This implementation of the BSC produced a BSC that was adapted for the non-profit sector, with the mission and customer perspective elevated above the financial perspective (Kaplan 2001:361). There are many examples that illustrate the successful implementation of the BSC in the public sector with the City of Charlotte in North Carolina widely considered to be the best example of the application of the BSC in the public sector (Niven 2003:271). In fact, Niven (2003:271–285) devotes a whole chapter to the BSC success story in the City of Charlotte. The first BSC was applied there in 1996 and it has been refined and adapted since then to maximise the benefits of the BSC as a measurement system, strategic management system and



communication tool. Whittaker (2001:vii–viii) devotes approximately 200 pages to the application of the BSC in eleven entities in the public sector, including the Federal Aviation Administration and Logistics Centre, the Internal Revenue Service, the Department of Energy and the Department of Transportation. *The Balanced Scorecard hall of fame report 2005* (2005:4; 17–18; 33–34 & 35–36; 39–40) includes one Australian, one Canadian and two U.S. public sector entities that have not merely applied the BSC but serve as an example in that they successfully use their BSCs to execute their strategy. They are: Western Water in Australia, the Royal Canadian Mounted Police, the US Economic Development Administration of the US Department of Commerce and the Texas State Auditor's Office. The City of Frankfurt and the City of Stuttgart use the BSC as a steering instrument and all products are defined in terms of the BSC perspectives (Greiling 2005:560).

#### **4.4 WHY THE BSC FOR PERFORMANCE MEASUREMENT?**

##### **4.4.1 Arguments in favour of using the BSC**

Just as large ships chart their position before commencing a voyage, organisations should measure their present position before determining their future direction (Nair 2004:2). Kaplan and Norton (1996b:21) argue that an organisation's measurement system greatly affects the actions of people inside and outside the organisation. They go as far as to say: "If you can't measure it, you can't manage it." Business performance measurement is a basic management technique; it would therefore be expected that most organisations would have an established performance measurement system by now (Neely 1999:206). However, performance measurement and management are generally problematic, with 80% of organisations surveyed reporting that they had made changes to their performance management system during the past three years, 33% of which were major overhauls (Niven 2003:38). Meyer

(2002:1) quotes an article in a 1995 edition of the *Chief Financial Officer* as follows: “According to a recent survey, 80 percent of large American companies want to change their performance measurement systems ...” Results of a 1996 survey by Towers Perrin, a consulting firm, show that 64% of the respondents were more satisfied with or gained more value from the BSC than from other performance measurement approaches (Ittner & Larcker 1998:221, 223). Before focusing on the BSC, it is necessary to consider the following insight on the role of performance measurement by Amaratunga *et al.* (2001:179):

One of the hallmarks of leading-edge organisations – be they public or private – has been the successful application of performance measurement to gain insight into, and make judgements about the organisation, and the effectiveness and efficiency of its programmes, processes and people.

The BSC succeeds very well in establishing a realistic norm and a standard approach to strategic performance measurement (Srimai, Radford & Wright 2011:668–669). The BSC adds value because it provides relevant and balanced information for managers in a concise way (Mooraj *et al.* 1999:481). Niven (2003:4–5) identifies the following three factors that have fanned the need for improved performance reporting and management and for the BSC:

- Recent corporate accounting scandals like Enron (discussed in paragraph 4.2.1).
- Long-term reliance on financial measures as the gauge of success (discussed in paragraph 4.2.2).
- The inability of many organisations to execute their strategy, which Nair (2004:6–7) concurs with, and which is discussed later in this paragraph.

Drury (2008:576) is of the opinion that the BSC concept was conceived from the need for an integrated framework which could clarify, communicate and manage the implementation of the strategies of the organisation. Kaplan and

Norton (1996:7) argue that the BSC came into being because of the conflict between the need to build long-term competitive capabilities and the entrenched “historical-cost financial accounting model”. While the historical financial measures were sufficient for industrial-age organisations, the information age calls for measures that create future value. According to Kaplan and Norton (1996b:8), the beauty of the BSC is that it retains financial measures of past performance, but adds measures which create future value. Through the application of the BSC, a complete framework is created where all aspects are integrated. This leads executives of information-age organisations to measure: how value is created for current and future customers, how they should enhance internal capabilities and how to invest in employees, processes, technology and innovation. This could improve future organisational performance towards attaining the mission and meeting the strategic goals of the organisation (Kaplan & Norton 1996b:8).

While many people think of measurement as a tool to control behaviour, the measures on the BSC are being used to express and communicate the strategy of the organisation and then to align individual, cross-departmental and organisational initiatives to achieve a common goal (Kaplan & Norton 1996c:56). Some scholars suggest that an organisation should base its performance measures on its responsibilities, goals and strategies (Weil & Maher 2005:664). Others scholars argue that in the information age it is essential that the mission, strategies and capabilities are used as the basis for the measurement systems of organisations where all aspects need to be measured and not just financial measures (Kaplan & Norton 1996b:21). The BSC meets this need as it links measures from various perspectives covering the financial and more general measures such as customers, employees and internal processes and systems (Kaplan & Norton 1996b:25). While the importance of linking performance measurement to strategic planning has been well documented, no tools of this nature existed previously, but the BSC is a

formally documented strategic performance measurement model (Atkinson *et al.* 1997:26). The BSC is able to measure the present position of the organisation and provide balanced action plans which cover the main financial and nonfinancial drivers that give direction in both good and poor economic times (Nair 2004:2–5). The flexibility of the BSC is illustrated by its ability to evolve (Bible *et al.* 2006:23).

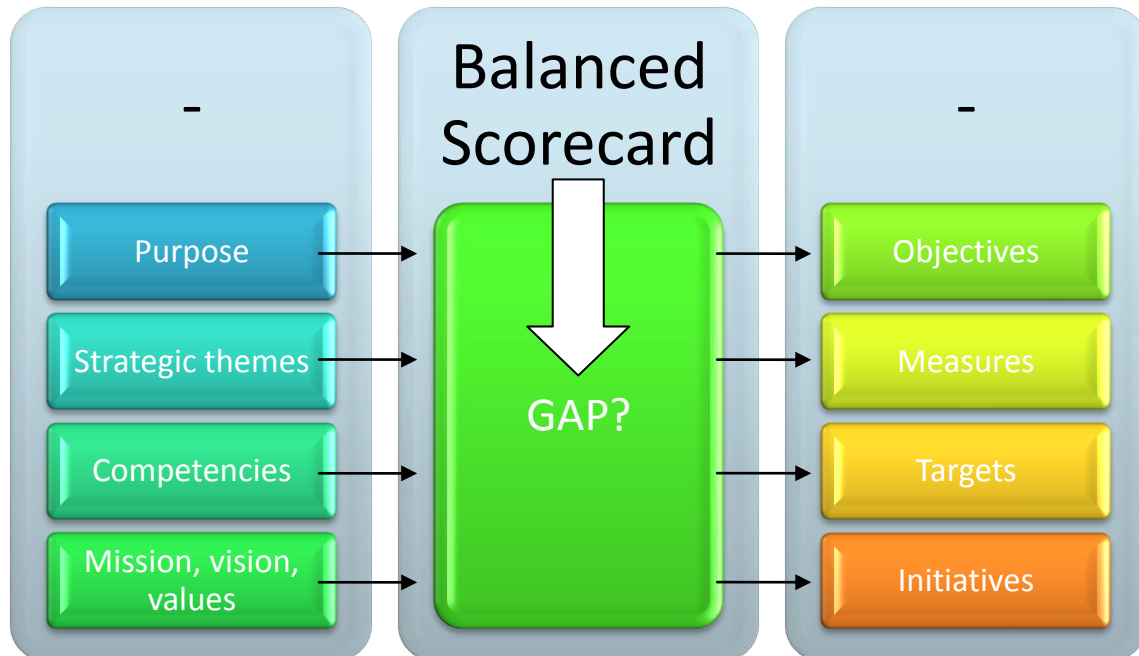
Strategic planning exercises often promote the alignment of the vision, mission, core values and strategy (Nair 2004:5–6). Analysis of strengths, weaknesses, opportunities and threats, generally known as SWOT analysis, is also done. SWOT analysis is generally used by organisations to ensure that all elements are incorporated into the strategic plan (Nair 2004:5–6). Many organisations are experiencing problems, not with strategy formulation, but rather with strategy execution (Kaplan & Norton 2001a:viii).

Non-profit and government organisations experience problems in defining their strategy, sometimes producing “strategy” documents of up to 50 pages which do not even state the outcomes they are trying to achieve (Kaplan & Norton 2001b:97–98). Instead, these documents tend to list programmes and initiatives (Kaplan & Norton 2001b:98). Non-profit and government organisations are especially at risk of having a strategy that is too broad. They also need to decide what they are not going to do (Kaplan & Norton 2001b:98).

Nair (2004:6) argues that a major challenge arises when senior management wish to drive new strategies in an organisation which is operating in a certain manner, making the greatest challenge that of bridging the gap between strategy and the execution of strategy (Nair 2004:7). This is confirmed by the *Balanced Scorecard hall of fame report 2005* (2005:2), which emphasises that having a good strategy will not result in success – good execution of the strategy is crucial to success. In a survey done to ascertain whether the BSC

adds value to companies and if so, how it contributes to organisational performance, responses were received from 76 business unit managers from 24 different organisations who had attended BSC conferences in Zurich, Lausanne, London and Brussels in 1999/2000 (De Geuser, Mooraj & Oyon 2009:93, 102). The results indicate that the BSC improves the integration of management processes, empowers people and has a positive impact on organisational performance. Performance derived from the use of the BSC had the following benefits: firstly, improved translation of the strategy into operational terms, secondly, strategising became a continual process and thirdly, units experienced improved alignment between *“processes, services, competencies and units of an organisation”* (De Geuser *et al.* 2009:93, 102). By translating the vision and strategy of an organisation into operational terms, the BSC communicates the strategic intent and inspires performance against set goals (Ittner & Larcker 1998:217). In the application of the BSC in a local government setting in Italy, the use of the BSC improved the ability of managers and other employees to focus on strategy and targets, resulting in improved service to citizens (Farnetti & Guthrie 2008:8). The BSC provides an operational framework for aligning strategies with operational level actions, thereby bridging the gap between strategy and execution of strategy, as is illustrated in figure 4.1.

**Figure 4.1 Where the BSC fits in**



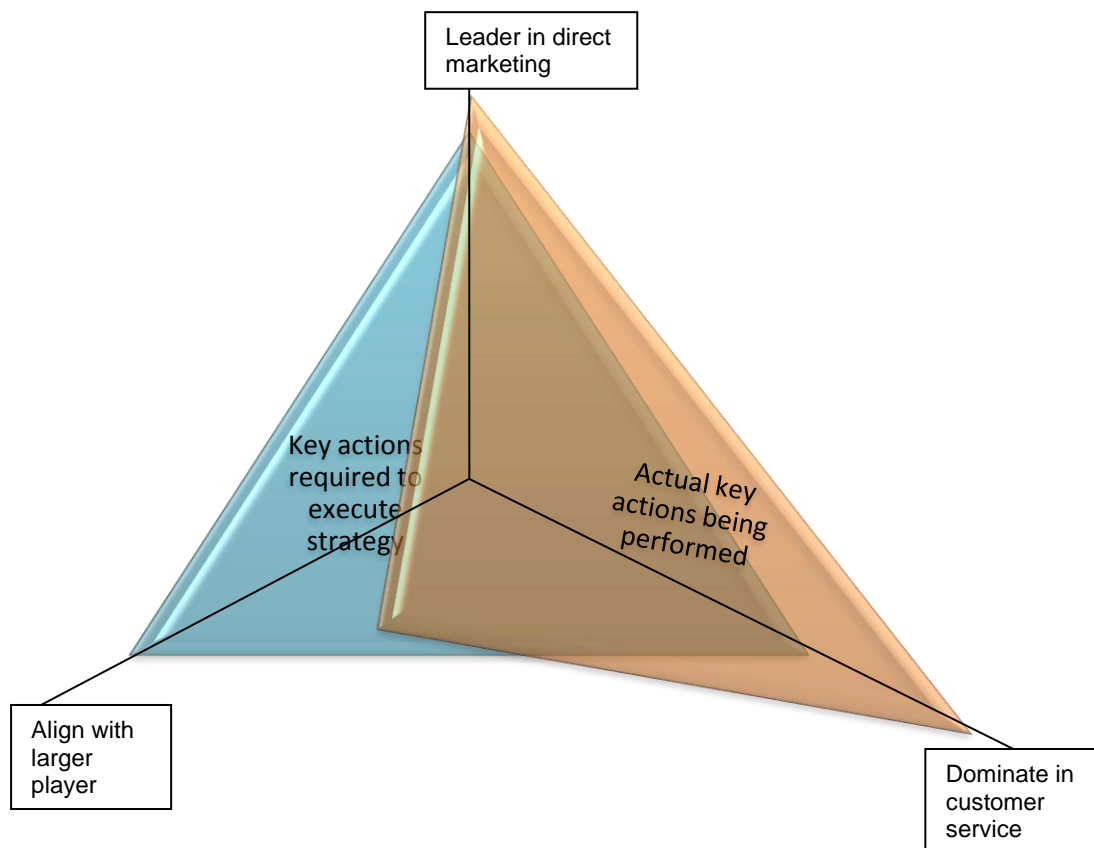
Source: Nair 2004:5.

It is clear from figure 4.1 that the BSC can align objectives, measures, targets and initiatives to the strategies. The BSC can therefore solve the problem of misalignment between the strategy that top management believe is being executed and the actions being performed at various levels in the organisation (Niven 2003:38–39; Nair 2004:10–11). A 2000/01 study of the major companies traded on the stock exchanges of Germany, Austria and Switzerland showed that the greatest benefit experienced from using the BSC was the improvement of the alignment of strategic objectives with the actual actions of staff (Speckbacher, Bischof & Pfeiffer 2003:362). Aligning current operations to strategic goals is key to the long-term success of organisations (Weinstein 2009:46) and is also being used for that purpose in the public sector in Singapore (Kon 2005:51). Nair (2004:6–7) identifies two forms of what he terms “*strategic paradox*” in strategy formulation and execution, namely:

- Mistakenly believing that strategy results in operational effectiveness.

- Mistakenly assuming that there is always an alignment between strategy and actions in an organisation, as illustrated in figure 4.2 below.

**Figure 4.2 Illustration of strategic paradox**



Source: Nair 2004:10.

Key: The blue triangle represents the key actions required to execute the strategy.  
The peach triangle represents the actual key actions being performed

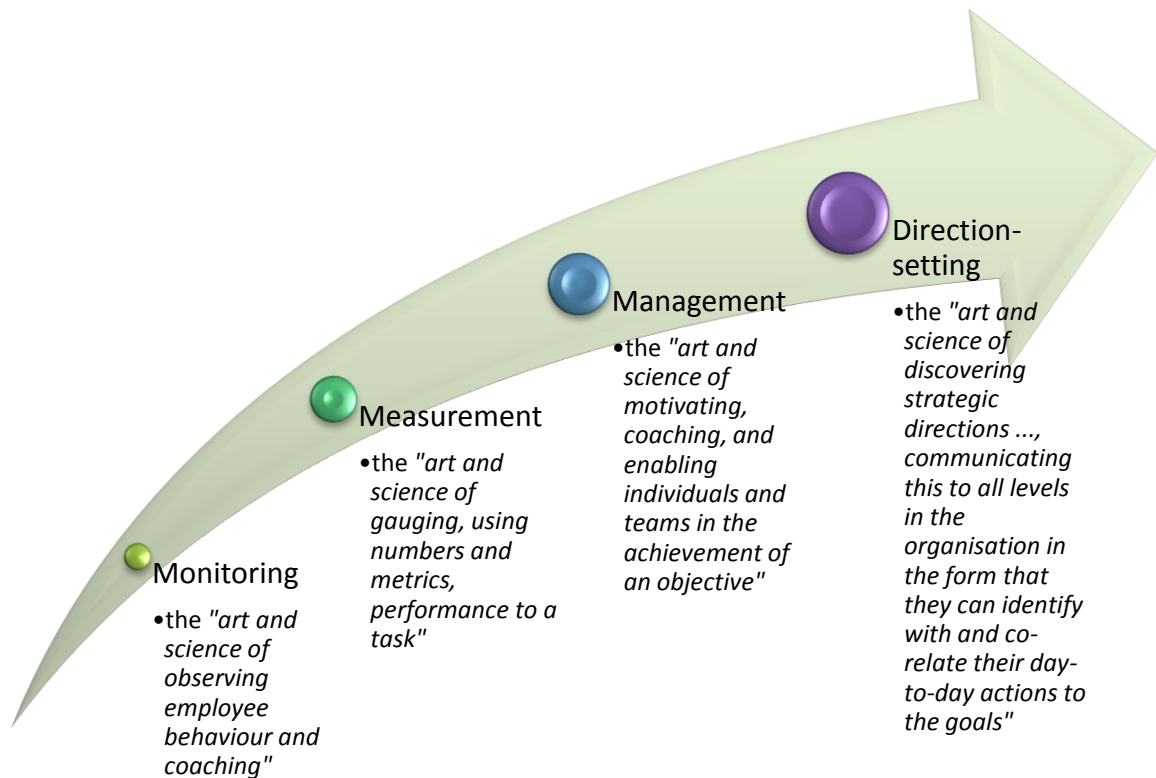
In figure 4.2 above, an example of strategic paradox in the private sector is illustrated, based on the following strategy: “Dominate, with 60 percent share, the XWZ market, by building a consumer focus” (Nair 2004:8–10). The three strategic thrusts in reaching the strategy are indicated on the diagram by means of rectangles. The blue triangle is the emphasis and the direction that the

executive leadership of the organisation believe is being used to execute the documented strategy. The peach triangle represents the actual key actions being taken collectively by staff, or in other words the place where the resources of the organisation are being applied. The overlap between the blue and peach triangles represents the area where there is alignment between the strategy and the actual key actions. The BSC attempts to remove the strategic paradox to ensure that all actions being performed on the ground are aligned to the strategy of the organisation (Nair 2004:10–11). By identifying clear performance targets at all levels in the organisation and involving all employees in the discussion of strategic priorities, the BSC can create a link between strategic objectives and operational goals, provided that the BSC can be integrated successfully into the management control systems (Atkinson 2006:1453).

While it is shown above that the BSC was developed from the need for an integrated performance measurement system, which can convert strategy into operational terms, it developed into a management system. As discussed in paragraph 1.2, Nair (2004:2–3) contends that the BSC attempts to move organisations from “monitoring” to “measurement” to “management” to “direction-setting”, as is illustrated in figure 4.3, which also defines the above terms. Braam and Nijssen (2008:5) limit their discussion to two levels of BSC adoption, namely that of a performance measurement system and that of a strategic management system. When studying innovations such as the BSC it is important to take the level of adoption into account (Braam & Nijssen 2008:5). When the components and functions of seventeen different performance measurement systems are compared, the BSC is one of only three systems that meet all the set criteria to qualify as a performance measurement and management system (Srimai, Radford & Wright 2011:669).



**Figure 4.3 Possible levels of BSC use**



Source: Own observation, compiled from Nair (2004:2–3).

The definitions in figure 4.3 are quoted from a textual discussion of the different levels of BSC use in Nair (2004:2–3). Quotes were used in preference to providing an own understanding of the meaning because there is no consensus on definitions between the various disciplines in which articles are published on the area of study, as discussed in paragraph 4.2. Figure 4.3 shows that the BSC could be used for the basic purpose of monitoring, but it could also be used for wider applications such as measurement, management and direction-setting. Each progressive BSC application would offer the organisation benefits in line with the level of use and an organisation could progress from one level of application to the next.

Estis (1998:1) argues that measuring government performance is difficult. In the private sector, organisations receive a clear market signal when consumer demand has changed because the change shows in the sales report of the next quarter. In the public sector, market signals are more subtle and come infrequently and therefore they cannot be used to measure government performance. As in the private sector, government customers consider timeliness, quality and cost to be important, but the effect of dissatisfaction among government customers is not visible in the short term. Reliance on other parties for certain aspects complicates the measurement of government performance even further. For example, to reduce poverty governments rely partly on the private sector to generate jobs (Estis 1998:1, 5). Public and non-profit sector organisations have however plunged into measurement – and they have all experienced the benefits of measurement – but at various levels of effort and with varying degrees of success (Niven 2003:31–32). The following question should be asked: “Is what we’re doing (both in the public and non-profit sectors) making a difference – is anyone better off as a result of our efforts?” Niven (2003:32) answers that performance needs to be measured from a broader perspective: A system is required which not only measures inputs and outputs but also assesses progress in the achievement of the organisation’s mission, which Estis (1998:7) views as moving from outputs to outcomes.

Institutional theories sketch a negative scenario, claiming that where survival primarily depends on constituents and not on performance, as is the case in government, systems are implemented to impress, but are not actually used to improve performance (Ittner & Larcker 1998:233). Nevertheless, a study of the adoption of BSCs in municipal governments in the United States of America and Canada appears to indicate that the opposite is the case when the BSC is considered. In the municipalities that have adopted the BSC, the study shows that the administrators strongly believe that the benefits of the BSC outweigh its costs (Chan 2004:219).

Results matter more to government and non-profit organisations than ever before (Niven 2003:39). In order to satisfy constituents, performance has to be measured accurately and progress in achieving mission-based objectives has to be proven at an advanced level, which the BSC is able to do (Niven 2003:39). This may explain why the performance measurement and management emphasis in Singapore is moving towards implementing the BSC (Kon 2005:5). President George W Bush said the following: *“Government likes to begin things – to declare grand new programs and causes. But good beginnings are not the measure of success. What matters in the end is completion. Performance. Results. Not just making promises, but making good on promises”* (Executive Office of the President 2002:3).

Whittaker (2001:143–144) and Niven (2003:x) raise the question whether public organisations are sufficiently similar to private sector organisations to use the BSC for measurement. They answer this by stating that the challenges between public and private organisations are very similar. While the BSC was originally designed for the private sector, it would appear that it would offer even greater benefits to the public sector (Kaplan & Norton 1996b:179; Estis 1998:1) and to non-profit organisations (Kaplan & Norton 1996b:179; Kaplan 2001:354). The BSC has “risen to the performance measurement challenge” of the private sector and is equally suited to transforming the public sector organisations of the 21st century because it has emerged as an established tool which provides meaningful performance information (Niven 2003:32, 38).

While not only the funds allocated but also the environment, politics and other issues could affect the efficiency of the public sector, the extended use of the BSC could make a contribution (Whittaker 2001:3). The BSC has been successfully translated for – and implemented in – the non-profit and public sectors with 70% of respondents in a public sector research study agreeing that their entity was better off since implementing performance measures (Niven

2003:14). The BSC will be used more and more in the public sector as it provides an exact view of what should be done to ensure successful operations (Whittaker 2001:231).

The participants in non-profit organisations that were in the process of implementing BSCs ranked the following benefits of the BSC as high: strategy implementation, the chance to build up a performance measurement system, and supporting organisational change processes (Greiling 2010:549). Estis (1998:2) identifies the following public sector benefits of using the BSC: assists managers in choosing those measures that are the most important; minimises the information that managers have to collect, review and report on; minimises paper overload; avoids the periodic addition of new measures without the consideration of the effect on the other measures; and brings together competing constituencies, for example customers who want better service and taxpayers who want more efficient government. In addition to the benefits applicable to the private and public sectors discussed above, Niven (2003:39–42) identifies numerous benefits which non-profit or public sector organisations or departments have derived from using the BSC, as illustrated in figure 4.4. The decision to use a diagram and the specific design of the diagram is an own choice. The headings used in figure 4.4 are based on those in the source acknowledged below the figure, but have been adapted.

**Figure 4.4 Public sector benefits of using the BSC****1. Demonstrates accountability and generates results**

- The BSC measures true performance and demonstrates progress in reaching mission-based objectives as required by the constituents, by taking a broad view of performance which focuses on the mission and strategy. Niven cites the highly effective New York City Mayor Rudi Giuliani as understanding the bond between measurement and accountability and quotes him from *Leadership* in 2002: “Objective, measurable indicators of success allow governments to be accountable, and I relentlessly pursued that idea.” (Niven 2003:39).

**2. Attracts scarce resources , namely funding and employees**

- In this fiercely competitive time, the BSC enables organisations to prove efficiency and effectiveness in reaching the strategic objectives set. This places it in a position to source scarce funds and attract staff. Niven quotes John A. Byrne in an article on philanthropists in *BusinessWeek* as saying that: “Recipients are often required to meet milestone goals ..... and to produce measurable results, or risk losing their funding” (Niven 2003:39).

**3. Creates a focus on strategy**

- Various aspects of performance are constantly being measured to report to various departments or bodies, but the performance measurement systems do not correspond to the actual values, objectives, goals and social mission of the organisation. In essence, measurement should not be about counting beans, but should revolve around achieving the strategy, which the BSC does in a systematic manner (Niven 2003:40).

**4. Produces information, not data by identifying critical drivers of success**

- Technology has resulted in a huge gap between data and information, with people drowning in huge volumes of data. Niven quotes James Lifton, a health care consultant, as referring to the thick agendas provided for board meetings, making preparation almost impossible because of the amount of data provided - but at the same time lacking information. A BSC provides information, as it measures only the critical drivers of organisational success (Niven 2003:41).

**5. Prevents outsourcing by producing quality results at efficient prices**

- Outsourcing is a real threat as almost half of the duties performed by public sector employees are available in the private sector, therefore they can readily be outsourced. The BSC identifies the few crucial processes that drive customer outcomes, placing the public sector body in a position to produce quality results at efficient prices. In this scenario, outsourcing becomes less of a threat because the desired results are reached via internal means in a cost effective manner (Niven 2003:41).

**6. Drives change to reach desired outcomes**

- In this context, Niven (2003:42) quotes Charles Darwin very aptly as having recorded that: “The survivors of any species are not necessarily the strongest. And they are not necessarily the most intelligent. They are those most responsive to change.” The measures of the BSC can direct the change required to reach the desired outcomes.

**7. Inspires trust by proving accountability**

- Once the BSC has proven accountability and attracted scarce resources, trust from the community, employees and funders follows (Niven 2003:42).

Source: Own observation, compiled from Niven (2003: 39–42).

#### **4.4.2 Aspects to consider before committing to using the BSC**

Many arguments have been advanced in favour of using the BSC, but it is nevertheless necessary to utter a few words of warning. National, occupational and organisational culture can affect the successful implementation of the BSC (Mooraj *et al.* 1999:487–488), as can local ideology (Bourguignon, Malleret & Nørreklit 2004:107, 129). When performance measurement frameworks which have originated in developed western countries are implemented in developing, eastern countries like Thailand, which has a different culture, awareness of the differences is essential to manage the implementation process (Srimai, Damsaman & Bangchokdee 2011:66). Warnings of many practical difficulties and a high rate of failure have been associated with the implementation of the BSC (Paranjape *et al.* 2006:5).

There are two distinct streams of literature on the use of the BSC, with one stream advocating its use and the other calling for more scientific evidence that BSC implementation does in fact deliver improved organisational performance (Paranjape *et al.* 2006:6). Different interpretations of the BSC exist (Braam & Nijssen 2008:3), yet there is an assumption that firms that have implemented BSCs have done so in similar ways (Soderberg, Kalagnanam, Sheehan & Vaidyanathan 2011:704). A precondition for research to evaluate whether the BSC is delivering improved organisational performance is that the BSC should be designed and implemented in a manner that is true to the construct proposed by the developers (Soderberg *et al.* 2011:689). The results of the survey measured against the five-level taxonomy developed indirectly support the conclusion that firms that have fully compliant BSCs are more likely to experience the benefits as envisioned by Kaplan and Norton (Soderberg *et al.* 2011:704).

Regardless of the debate surrounding its success, the BSC remains an influential and widely accepted performance measurement tool (Paranjape *et al.* 2006:8). The importance of the BSC is confirmed by Smith (2007:167–168), who contends that the BSC should not be an item on the agenda, but rather that it should drive the agenda and that where a target is missed, the focus should not be on punishment but rather on why it was missed (Nair 2004:3). In spite of its limitations, debates on performance measurement have been dominated by the BSC for the past ten years (Meyer 2002:2).

## **4.5 DEFINING TERMINOLOGY**

Before discussing the BSC concept and framework, the meaning of the terms used, namely mission, values, vision, strategy, objectives and measures need to be clarified.

### **4.5.1 Mission**

A mission statement describes the core aspiration or purpose of the organisation (Senge 1998:17; Brown 2000:30) – or – its reason for existence or *raison d'être* (Niven 2003:102; 296). Senge (1998:17) contends that a mission “*defines a direction, not a destination*” and “*provides an orientation, not a checklist of accomplishments*”. Brown (2000:4) argues that a mission statement focuses on the present and would not match the mission of any other organisation, because it describes the unique products, services, customers and key processes, while Correia *et al.* (2008:1187) add that it also defines the boundaries of the organisation.

Even though a mission is never accomplished, Niven (2003:102) posits that the success of public enterprises is often dependent on a clear mission statement. Niven (2003:102) is of the opinion that where all parties have provided input for

– and agreed on – a mission statement, it can drive an organisation. Whittaker (2001:143) argues that the mission cannot be achieved by managing in a vacuum, but this becomes possible when the roles of customers, stakeholders and employees are merged into the daily operations of an organisation and balance is aimed for between the needs and opinions of all parties. The importance of the mission for public and non-profit organisations is emphasised in figure 4.8 of this study, where the mission is placed at the top of the BSC for public and non-profit organisations.

#### **4.5.2 Core values**

While the mission sets out the reasons why an organisation exists, core values revolve around how the organisation will function in reaching the mission or target, therefore the means to the end (Nair 2004:70–71; 73). Niven (2003:297) contends that core values are the deeply held beliefs in an organisation and an open proclamation about how everyone is expected to behave which should be evident through the day-to-day behaviour of employees.

#### **4.5.3 Vision**

Brown (2000:3) is of the opinion that the vision statement focuses on the future and defines what the organisation wants to become, while Kaplan and Norton (2004:34–35) are more specific in stating that the vision defines the mid- to long-term goals and should be market-oriented and external – expressing how the organisation wants to be seen by the world. Olve *et al.* (2000:54) define a vision as: *“A challenging and imaginative picture of the future role and objectives of an organization, significantly going beyond its current environment and competitive position.”* Senge (1998:19), an organisational expert, says: *“Vision translates mission into truly meaningful intended results – and guides the allocation of time, energy, and resources.”*



#### **4.5.4 Strategy**

While the mission, values and vision are the “why” and “who”, they represent nothing unless accompanied by the “how”, namely the strategy (Niven 2003:130). Niven (2003:130) argues that a well-formulated and executed strategy indicates the specific priorities to which the organisational resources will be allocated and to which energy will be directed, while Nair (2004:60) is of the opinion that strategy is the starting point of planning and is the “science and art of devising plans to win over customers and other stakeholders”. Nair (2004:68, 74) contends that strategy in the public sector is the unique way an organisation goes to market and summarises the key elements of strategy as being: know yourself, know your enemies and know your customers.

#### **4.5.5 Objectives**

An objective is a concise statement commencing with a verb which describes specific acts an organisation must do well in order to execute its strategy (Niven 2003:296).

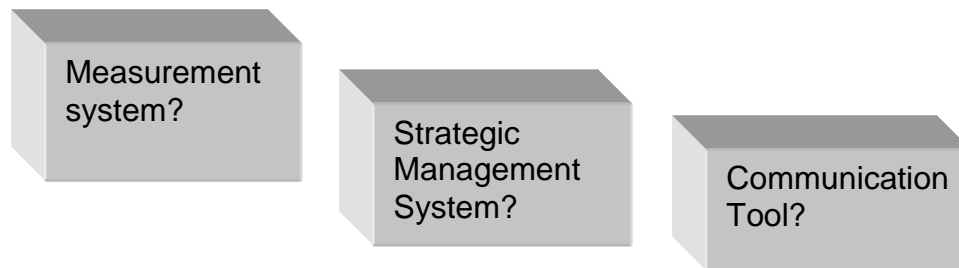
#### **4.5.6 Measures**

A measure is a standard used to evaluate and communicate performance against expected results. Measures are usually quantitative, expressed in terms of numbers, monetary value or percentages. The monitoring and reporting of measures helps organisations to gauge the progress being made toward the effective implementation of the strategy (Niven 2003:295). Kaplan and Norton (1996b:149–150) distinguish between two types of measures, namely core outcome measures, also known as lag indicators and performance drivers, also known as lead indicators, which are included in the illustration in figure 4.7 of this study.

#### 4.6 THE BSC CONCEPT AND FRAMEWORK

Smith (2007:166) defines the BSC as a “management tool that provides senior executives with a comprehensive set of measures to assess how the organisation is progressing towards meeting its strategic goals.” Nair (2004:xi–xii, 3, 13) identifies the BSC as a “methodology to solve challenges in balancing the theories of a strategy with its execution.” The essence of the BSC is making strategy actionable at all levels – by translating it into day-to-day action plans and initiatives. Drury (2008:577) adds that the BSC is a strategic management technique used not only for communicating and evaluating the achievement of not only strategy but also the mission of the organisation. The BSC is a tool of overview and balance, not primarily about many separate measurements (Olve, Petri, Roy & Roy 2004:3), making it very widely used as a tool to track progress towards reaching strategic objectives (Meyer 2002:xii). For this reason, a strategic approach to the selection of measures is adopted after taking multiple criteria into account (Valiris, Chytas & Glykas 2005:160).

The BSC should be used to express and communicate the strategy of the business and to help to align the initiatives at an individual, organisational and cross-departmental level towards achieving common long-term goals (Kaplan & Norton 1996b:25). It should be emphasised that the BSC should be used as a system of communicating, informing and learning – not as a means to control behaviour or evaluate past performance (Kaplan & Norton 1996b:25). Niven (2003:15) contends, however, that the BSC is a tool with three elements, namely, a: measurement system, a management system and a communication tool, as is illustrated in figure 4.5. As a communication tool, the BSC is a platform for exchanging ideas and gaining a better understanding in both the private and the public sectors (Olve *et al.* 2004:7).

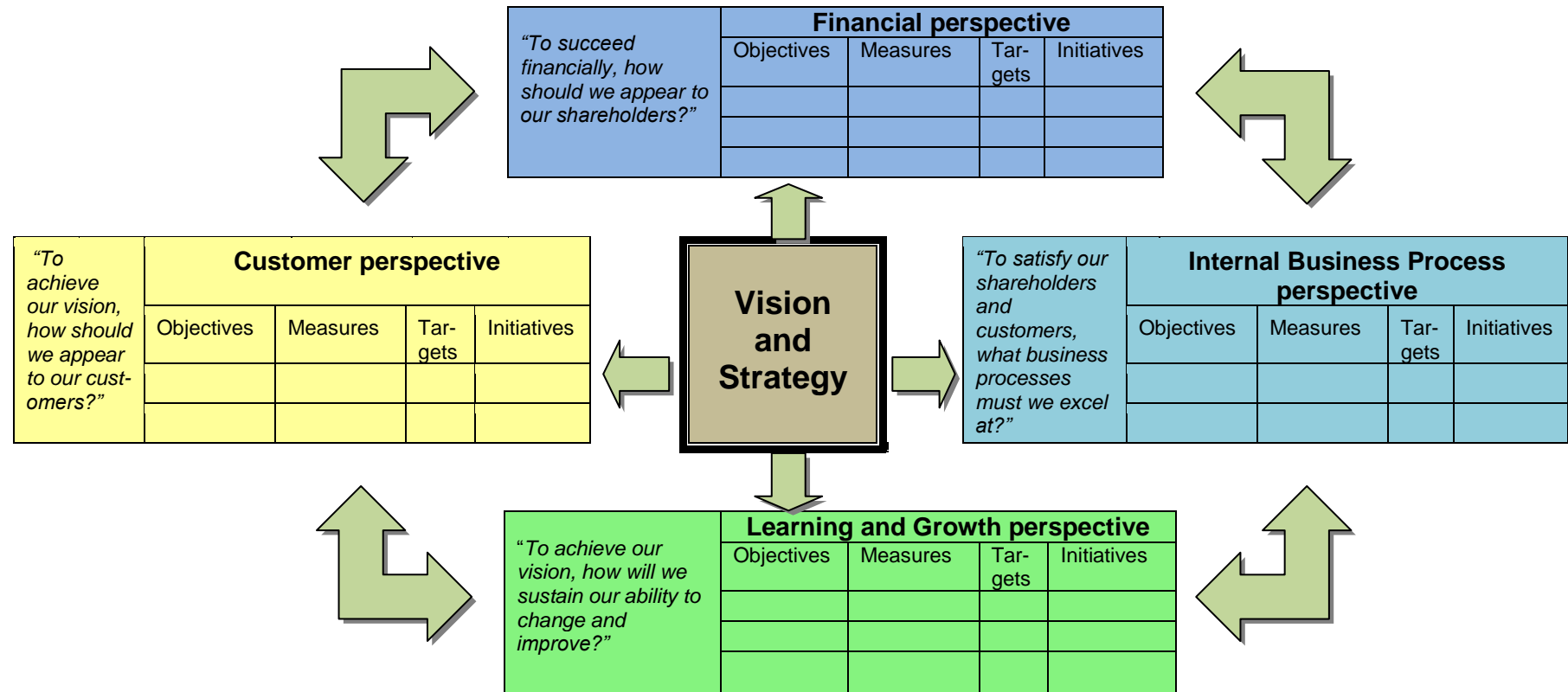
**Figure 4.5 Elements of the BSC**

Source: Niven 2003:15.

While various definitions and strategy frameworks are used by various scholars and practitioners, Kaplan and Norton (2004:35) base their BSC approach on the general framework of Michael Porter, a founder and leader in the strategy field. According to Porter, strategy is about selecting the set of activities in which an organisation aims to excel in order to make a sustainable difference in the marketplace. An example of a sustainable difference is to deliver similar value to that of competitors at a lower cost or to provide greater value to customers at the same price charged by competitors (Kaplan & Norton 2004:35). Most organisations have too many performance measures and the result is information overload (Kaplan & Norton 1992:72–73). The BSC limits the number of measures used because it forces managers to select only a handful of the most critical measures (Kaplan & Norton 1992:72–73), helping to focus attention and actions on the strategic vision (Kaplan & Norton 1993:134).

Figure 4.6 illustrates the BSC framework which Kaplan and Norton developed for the private sector and which documents the results of the translation of the strategy of an organisation into operational terms. The framework indicates that the vision and the strategy are translated into objectives and measures viewed from four perspectives, namely the Financial, Customer, Internal Business Process and lastly the Learning and Growth Perspectives (Kaplan & Norton 1996b:8).

**Figure 4.6 The Balanced Scorecard framework to translate strategy into operational terms**

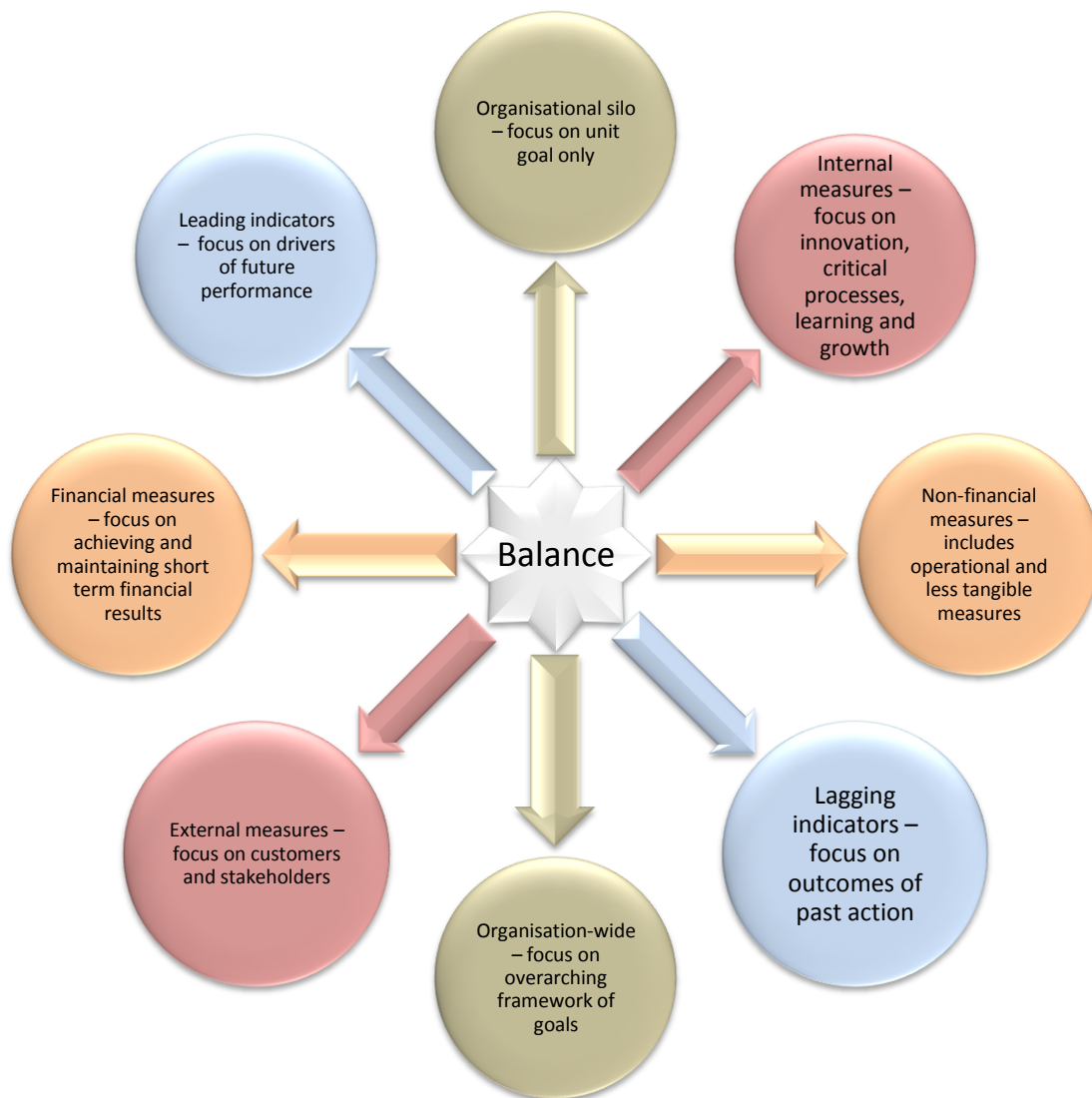


Source: Kaplan & Norton 1996b:76. (reprinted from "Using the Balanced Scorecard as a Strategic Management System," *Harvard Business Review*, (January – February 1996))

Kaplan and Norton (1996b:8; 10) emphasise the need for the financial and nonfinancial measures of the BSC to be applied to employees at all levels of the organisation – not just top management. Employees need to grasp that the vision and strategy of the organisation have, via the BSC, been translated into tangible measures and objectives that have been pitched at the level at which they are operating in the organisation. Employees also need to know that their actions and decisions have an effect on the profitability of the organisation.

After viewing the BSC framework above, Kaplan and Norton (1996b:10) and Nair (2004:15–19) argue that a BSC must achieve balance between various seemingly opposing key performance measures and indicators. Without balance, strategy is not actionable and this causes organisations to fail (Nair 2004:2–5). A good BSC must have a balance between outcome measures (lagging indicators) and performance drivers (leading indicators) that are customised to the strategy of the unit within the organisation (Kaplan & Norton 1996b:31–32, 150). On the one hand, outcome measures without performance drivers do not communicate the way the outcomes will be achieved (Kaplan & Norton 1996d:21–22). On the other hand, performance drivers without outcome measures will not indicate whether operational improvements are having the desired effect, namely strategy execution. In consequence, two opportunities will be lost: firstly to pinpoint why strategy is not being executed and, secondly, to adapt the strategy (Kaplan & Norton 1996d:22–23). The choice of performance measures is a major challenge faced by managers in organisations (Ittner & Larcker 1998:205). Because the BSC forces managers to consider all the important operational measures together, they can identify whether an improvement in one area will detrimentally affect another area (Kaplan & Norton 1992:73). The balanced set of measures reflects the “trade-offs” which managers have made between possible measures (Kaplan & Norton 1993:135) and provides insight (Nair 2004:19), as illustrated in figure 4.7.

**Figure 4.7 Insight through balance between key performance measures**



Source: Nair 2004: 19; own observations from Nair 2004:14–19; Kaplan & Norton 1996b:10, 22; Correia *et al.* 2008:663.

The shape of the diagram and the identification of the four sets of measures in balance, illustrated in figure 4.7, are from Nair (2004:19). The meaning of each

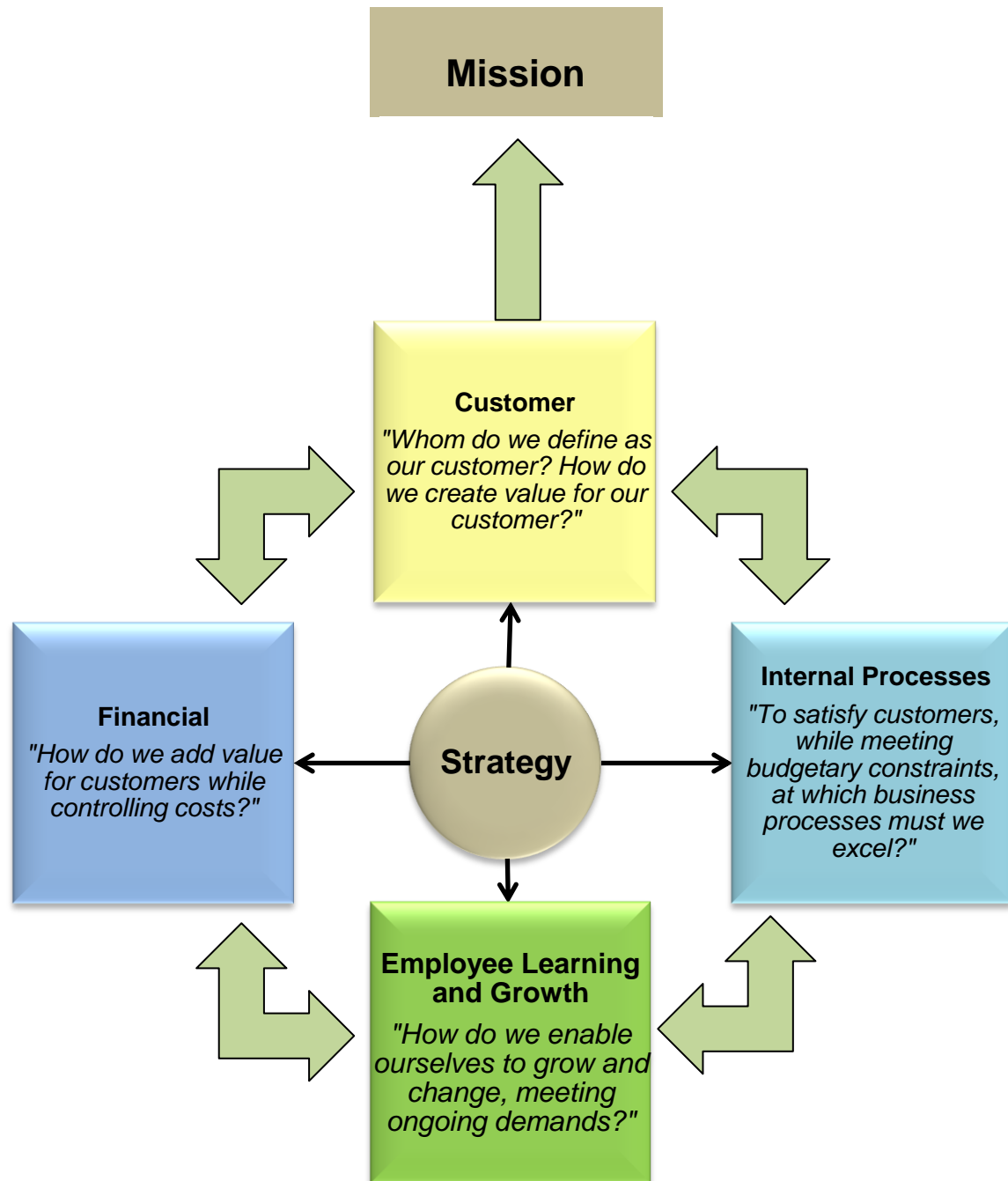
of the measures has been added to the original diagram and is an own interpretation from sources acknowledged above.

#### **4.7 ADAPTING THE BSC FRAMEWORK FOR PUBLIC SECTOR USE**

Figure 4.6 of this study illustrates the BSC framework which Kaplan and Norton developed and which was initially intended for the private sector. The BSC can be used in the public sector, but it needs to be adapted to ensure best practice in the specific area where it will be applied (Estis 1998:2–3; Kaplan 2001:360–367; Whittaker 2001:143–144; Niven 2003:32; Braam & Nijssen: 2008:5). Figure 4.8 reflects the adapted public sector BSC framework developed by Niven (2003:32), chosen because it is the most recent. This BSC framework was also chosen by Botes (2006:114) for application in a non-profit scenario. Unlike in figure 4.6 of this study, where the detailed outline of the end product is provided, figure 4.8 only provides the general BSC outline, so that the change in emphasis from the private sector to the public sector BSC is clearly visible.

As illustrated in figure 4.8 below, the mission of the public or non-profit entity should be at the top of the BSC (Kaplan 2001:361; Whittaker 2001:143–144; Kaplan & Norton 2001a:135), because that is the core aspiration that the entity is striving towards (Estis 1998:3; Kaplan 2001:361; Whittaker 2001:143–144; Kaplan & Norton 2001a:135). Adapting the BSC by moving the mission to the top of the BSC, and moving the Financial Perspective down, has become a common practice for a public sector BSC (Kaplan 2001:368–369; *Balanced Scorecard hall of fame report 2005* 2005:35). As will be noted from the outline of the adapted public sector BSC in figure 4.8 below, the adapted BSC retains the strategy at the core of the BSC. It is suggested that the four perspectives used for the private sector BSC be retained, but the focus be adapted to make them more applicable to the public or non-profit sector.

**Figure 4.8 BSC framework for the public and non-profit sectors**



Source: Niven 2003:32.



## **4.8 ADAPTING THE BSC PERSPECTIVES FOR PUBLIC SECTOR USE**

After having clarified the public sector BSC framework, the four perspectives of the BSC need to be discussed in more detail. In the private sector, the four perspectives are usually: Financial, Customer, Internal-Business-Process and Learning and Growth (Kaplan & Norton 1996c:54). Niven (2003:32–36) suggests ways of adapting the sequence and terminology of the four perspectives for use in the public sector BSC, as illustrated in figure 4.8. The discussion of each perspective commences with the private sector concept, which is then converted to the corresponding public sector concept.

### **4.8.1 Customer Perspective**

The Customer Perspective of the BSC developed for the private sector shows how the strategy and operations contribute to customer value (Weil & Maher 2005:659). Kaplan and Norton (1996b:26) however argue that managers identify the customer and the market segments in which the business will compete, as well as the generic and specific performance measures. Generic measures include customer satisfaction, retention, acquisition, profitability and market share in the targeted segment (Kaplan & Norton 1996b:26; 1996c:58). Specific measures include measures which are deemed critical in determining whether customers will switch to, or remain loyal to, the supplier, for example short lead times, on-time delivery, a constant supply of innovative products and services, or new products developed to meet emerging needs (Kaplan & Norton 1992:73; 1996b:26).

As mentioned previously and illustrated in figure 4.8, the public sector BSC has the Customer Perspective flowing from and into the mission, which is at the top of the framework. To achieve its mission, the public sector entity must determine which group of customers it aims to serve and how the needs of this group can best be met. In the public sector, the legislative body providing

finance and the group that are to be served are logical choices when identifying the customer (Niven 2003:33–34), with the taxpayer being the ultimate customer (Estis 1998:7).

#### **4.8.2 Financial Perspective**

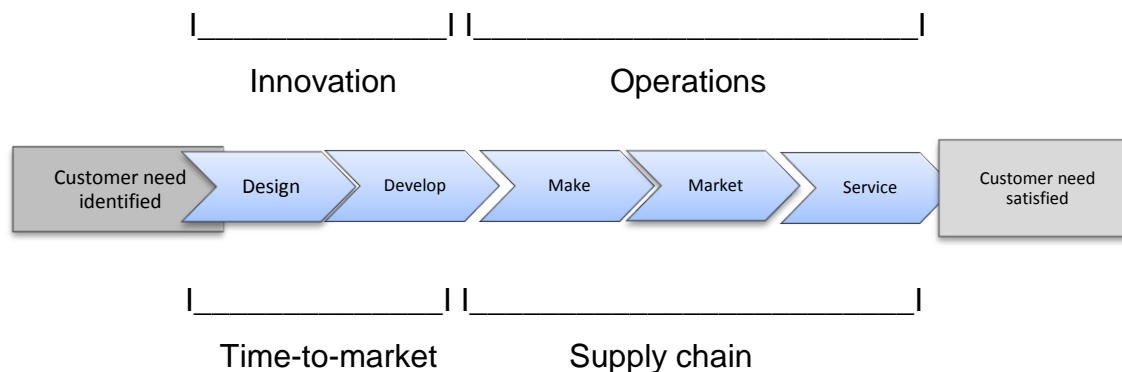
In private organisations geared for profit-earning, financial performance measures generally indicate whether the strategy, the implementation and the execution are contributing to increased profitability. Operating income, return-on-capital-employed (ROCE) and lately economic value-added (EVA®) are generally used as measures of financial objectives (Kaplan & Norton 1996b:25–26). Kaplan and Norton (1996b:22, 25–26) argue that financial measures should be included in the BSC as the Financial Perspective because they are helpful in summarising the economic consequences of past actions. Niven (2003:34) contends that companies are accountable to their capital providers – the shareholders – and that accountability is primarily monitored through the Financial Perspective of the BSC.

In organisations that do not have shareholders, the Financial Perspective of the BSC indicates whether the strategy and operations contribute to improving the financial health of the organisation (Weil & Maher 2005:659). Whereas the financial perspective provides a long-term objective in the private sector, it is a constraint in the public sector (Kaplan 2001:354), with the mission, and not the financial goal, being the overruling target of the Financial Perspective (Nair 2004:21). By referring to the limited and decreasing funding of the present era, where the prudent management of resources is critical to achieve the mission of the organisation and render the necessary services to the public or other intended parties, Niven (2003:5–6; 10) emphasises the importance of including the Financial Perspective as part of the BSC – especially for the public and non-profit sectors. Kaplan (2001:353) concurs. The Financial Perspective could

primarily be seen as an enabler to service customers as set out in the Customer Perspective, or as a constraint within which the entity must operate. This ties in with the discussion in chapter 1 on two levels: firstly, there are limited budgets for housing delivery, and secondly, it was suggested that the budget should be viewed as an enabler, rather than a constraint.

#### **4.8.3 Internal Processes Perspective**

Weil and Maher (2005:659) contend that the Internal-Business-Process Perspective in the private sector BSC shows the ability of internal-business-processes to add value for customers and shareholders. Kaplan and Norton (1996b:26–28; 1996c:62–63) are more specific, arguing that executives of profit-oriented organisations identify the critical internal processes that the organisation must excel at to enable the business unit to deliver the projects which will attract and retain customers – and satisfy shareholder forecasts of good returns. The BSC differs from traditional approaches in that instead of attempting to improve on existing processes, the BSC is more likely to identify entirely new processes which the organisation must excel at to meet financial and customer objectives. Figure 4.9 below illustrates the process that would be followed in the private sector to incorporate innovation processes into the Internal-Business-Process Perspective:

**Figure 4.9 The Internal-Business-Process value-chain Perspective**

Source: Kaplan & Norton 1996b:27

The Internal-Business-Process Perspective is rephrased as the Internal Processes Perspective for the public sector BSC (Niven 2003:35). In developing the Internal Processes Perspective, the key internal processes at which the entity must excel in order to drive value for the customers must be determined. While all organisations will have documented processes, only the processes that could lead to improved outcomes for customers should be selected and measured for the BSC (Kaplan & Norton 1996c:62–63). The processes chosen would usually flow directly from the objectives and measures of the customer perspective and would be working towards the mission of the entity (Niven 2003:35).

#### 4.8.4 Employee Learning and Growth Perspective

The Learning and Growth Perspective of the BSC for the private sector has three elements – namely: people, systems and organisational procedures – which must be determined and built on in order to generate long-term growth and improvement (Kaplan & Norton 1996b:28–29). Regarding people, generic outcome measures such as staff satisfaction, retention, training and skills should be weighed against the business-specific indexes required for the new competitive environment. It is necessary to establish the gaps between the present systems, procedures and skills of staff, and those required to attain the

desired performance. In order to remedy such shortcomings, staff have to be re-skilled, information technology and systems improved and organisational procedures aligned (Kaplan & Norton 1996b:28–29; 1996c:64). Weil and Maher (2005:661) add that staff productivity could be measured in terms of physical or financial output. Examples of physical output might be miles driven, pages produced or lawns mowed. Financial output could be measured in terms of revenue per employee. An example of a measure of productivity for a loan officer at a bank could be the number of loans processed per loan officer per month.

The Learning and Growth Perspective of the private sector BSC is rephrased to the Employee Learning and Growth Perspective for the public sector BSC (Niven 2003:35–36, 164), an overall view of which is provided in figure 4.10 below. The organisational structure and the skills, dedication and alignment of the staff are the main drivers of process improvements, operating in a fiscally responsible manner and meeting the needs of customer groups (Niven 2003:35–36). Governments should continually invest for the future but are known to underfund the maintenance of capital, labour and processes, all elements which continually need to be updated and upgraded (Estis 1998:9). This perspective emphasises that the development of successful new programmes is dependent on skilled professionals with the time available to create the programmes (Estis 1998:10).

**Figure 4.10 Overall view of Employee Learning and Growth Perspective**



Source: Own observation from figure 4.8 of this study; Kaplan & Norton 1996b:28–29; Niven 2003:35–36, 164.

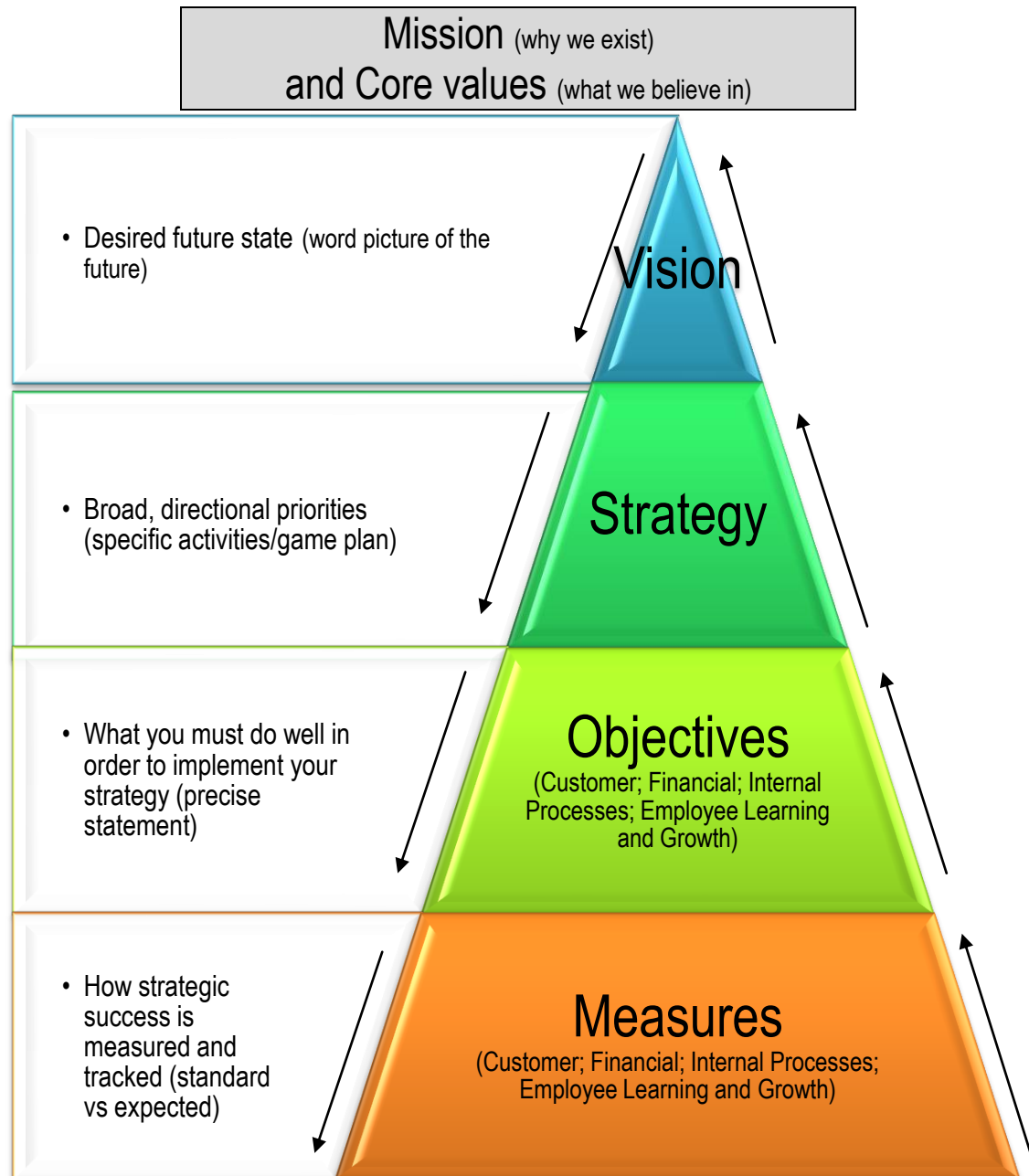
The layout and interpretation of the relationship between the various elements which form part of the Employee Learning and Growth perspective are an own observation. The question posed in the central green circle was taken from figure 4.8, the public sector BSC framework. In the smaller surrounding circles, an own interpretation of the headings is shown, based on the combination of text from Kaplan and Norton (1996b:28–29) and Niven (2003:35–36). The questions posed in the smaller circles are from text in Niven (2003: 35–36, 164).

## 4.9 PUBLIC SECTOR TRANSLATION PROCESS VIA THE BSC

### 4.9.1 Overall approach

Kaplan and Norton (2001b:97) contend that non-profit organisations and the public sector have difficulty in clearly defining strategy, with strategy documents often running to 50 or more pages. Lists of intended programmes or initiatives are often presented as strategy, not the desired outcomes. It should be understood that strategy is not only what the organisation intends to do, but also what it decides not to do (Porter 1996:77 in Kaplan & Norton 2001b:98). Figure 4.11 illustrates the BSC development process, with a summary of the terminology that Niven (2003:171) suggests in translating the mission of a public sector entity into objectives and measures. The BSC translation process proposed by Kaplan and Norton in their third article (1996a:77–79) was outlined in paragraph 4.3. While the BSC is not intended to be a strategy formulation tool, different interpretations of strategy by different managers are often highlighted during the first process of clarifying the vision and strategy (Kaplan & Norton 1996c:77). The translation of the BSC to concrete action is a problematic area (Paranjape *et al.* 2006:4). In figure 4.11, the arrows indicate a top-down and a bottom-up approach. The top-down approach is one in which consensus is reached on the mission, core values, vision and strategy, which are then translated into objectives and measures via the BSC. The bottom-up approach is one in which learning takes place through the use of the BSC. Both approaches are of equal importance (Niven 2003:170). The feedback and learning process, referred to as double-loop learning, is considered to be the most innovative and far-reaching facet of the whole BSC process because it enables executives to monitor and manage the implementation of their strategy, and therefore change the strategy if necessary (Kaplan & Norton 1996d:18, 20).

**Figure 4.11 Public sector translation of the mission into objectives and measures via the BSC**



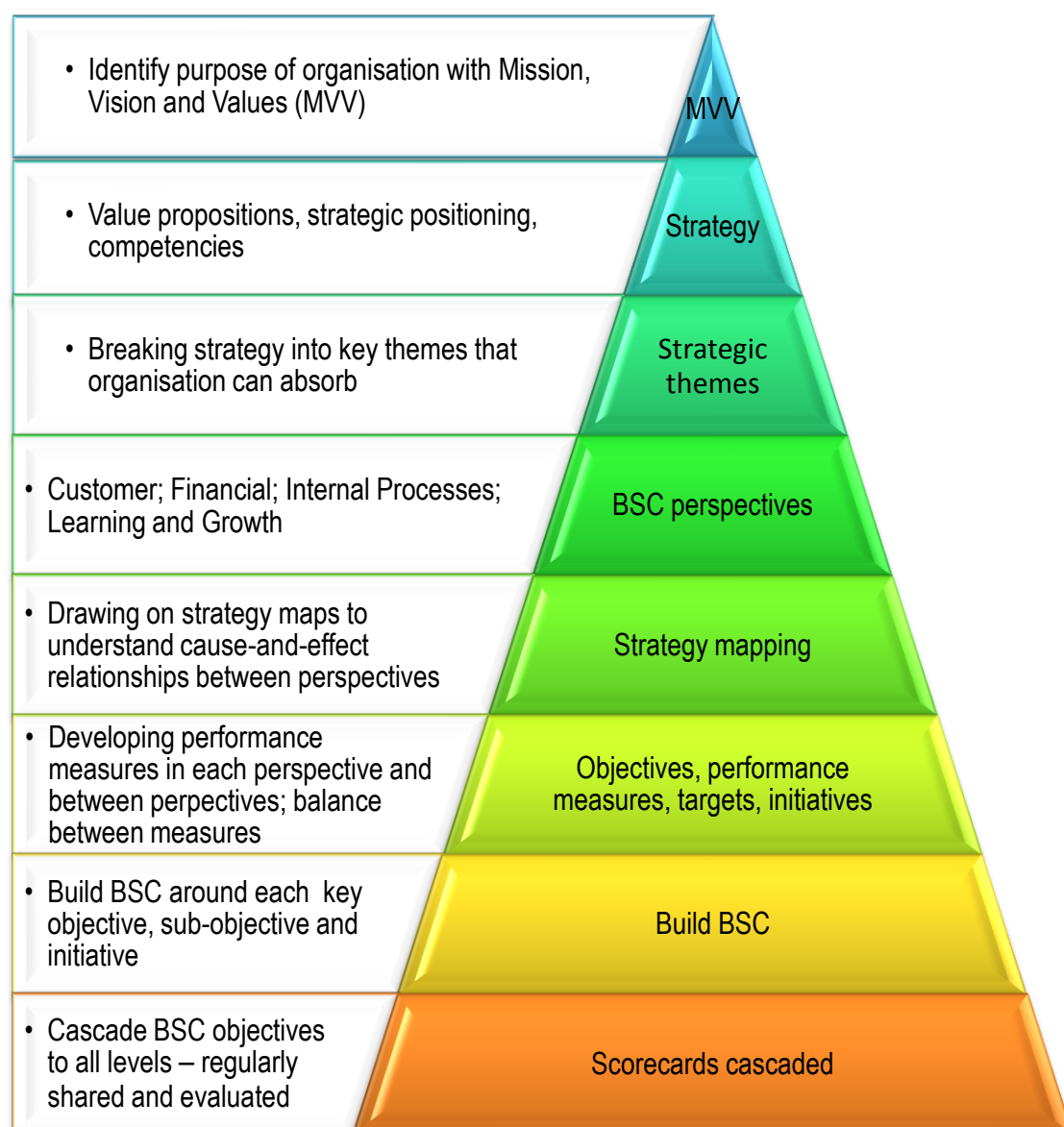
Source: Niven 2003:171, adapted with 151, 296.

In figure 4.11, the pyramid shape, the four steps within the pyramid and all the text in, next to and above the pyramid, excluding the text in brackets, are from



Niven (2003:171). The text in brackets was added to the original diagram to clarify the concepts from Niven (2003:151, 296). Nair (2004:195) does not differentiate between public and private sector organisations. His approach to creating a BSC is similar, yet different from that of Niven, as is illustrated in figure 4.12 below.

**Figure 4.12 Creation of a BSC**



Source: Nair 2004: 195 supplemented with 196.

The outline of the pyramid shape in figure 4.12 and the text in the pyramid, with the exception of “Build BSC”, is from Nair (2004:195). The placement of the text in the pyramid in eight steps was the result of own observation. The addition of the text to the left of the pyramid and the addition of the “Build BSC” step is an own observation, based on Nair (2004:195–196).

#### **4.9.2 Interrelationship between the four BSC perspectives**

After having worked through BSC literature, one should not to be tempted to take stock of a mixture of financial and nonfinancial measures that are being used in a public sector organisation and then think that the measures used resemble a BSC (Kaplan & Norton 1996c:55–56; Niven 2003:36–38). To qualify as a BSC, the measures have to be derived from strategy, through the BSC translation process (Kaplan & Norton 1996c:55–56). It is crucial that the measures should serve to link the perspectives in a cause-and-effect relationship through all four BSC perspectives. In meeting this challenge, the aim is to ask “if-then” questions, thereby identifying distinct relationships between measures under the four BSC perspectives (Kaplan & Norton 1996b:149; 1996d:20–21). This allows for the monitoring, management and validation of measures. The result is that the “*strategic story*” of the entity is told via a chain of linked objectives which run through the BSC (Kaplan & Norton 1996b:149). While Nørreklit (2000:76) has questioned the existence of the cause-and effect relationship between the various perspectives claimed by Kaplan and Norton (1996b:149; 1996d:20–21), the findings of a recent study done in Malaysia suggest that the cause-and-effect relationship could lead to improved business efficiency and profitability (Ong, Teh, Lau & Wong 2010:33). The BSC helps managers to determine whether an improvement in one important operational measure will have a detrimental effect on another measure (Kaplan & Norton 1992:73; Drury 2008:584).

While it was argued earlier in this chapter that “You cannot manage what you cannot measure”, it is equally true that: “You cannot measure what you cannot describe” (Kaplan & Norton 2004:xiii). The strategy map describes and visualises the strategy of the organisation through explicit cause-and-effect relationships between the objectives in the four BSC perspectives (Kaplan & Norton 2004:xii–xiii). Nair (2004:27–28) contends that strategy mapping provides a visual framework for the conversion of strategic intentions to operational actions with the added bonus of illustrating the cause-and-effect relationships. Niven (2003:169) argues that a strategy map is a clear and concise one-page document outlining what is believed to be the most critical landmarks in executing the strategy of the organisation and that performance objectives serve as these landmarks. The destination, the strategic vision, is the starting point; therefore the strategy map is built from the top down, with the routes required to arrive at the destination entered afterwards (Kaplan & Norton 2001b:90). The test of a good strategy map is the point at which the strategy can be understood by looking only at the BSC and the strategy map (Kaplan & Norton 2001b:97). The strategy map can be adjusted or updated as the need arises, bearing in mind that the aim is to keep it simple, but accurate (Nair 2004:26). Strategy mapping is generally carried out by all BSC team members in a strategy mapping session. It is crucial that all BSC team members are provided with the latest mission, values, vision and strategy, that they are well-prepared and that they are ready to share possible BSC objectives (Niven 2003:170–173).

#### **4.10 MONITORING AND EVALUATION VERSUS THE BSC**

As argued in paragraph 1.5 of this study, it is crucial to respond to calls by the Minister of Human Settlements and President to find a new approach or undergo a change of mindset and work “smarter, use money wisely and prioritise services that that would better the lives of ordinary citizens”. It was

also argued that ways had to be found to help the Department of Human Settlements to address the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme (chapter 1). Many of the opinions relating to departmental factors hampering delivery were formed between 2008 and 2010 when the BNG plan, which includes national strategies to eradicate or upgrade informal settlements, had been in place for four to five years.

Before considering the BSC as a new approach or change of mindset that motivates people to work smarter, it is essential to determine the source of what has been termed performance measurement in the Upgrading of Informal Settlements Programme (paragraph 3.4.7). The performance indicators for the Upgrading of Informal Settlements Programme focus on measuring the long-term impact of delivery on the community (figure 3.8). This is known as “evidence-based outcome measurement and impact assessment”, which forms part of Monitoring and Evaluation (PricewaterhouseCoopers 2010:1). This is not in agreement with the performance measurement concept discussed earlier in this chapter, where it was stated that performance measurement involves measuring performance in relation to a task and the progress in achieving the mission of the organisation (figure 4.3 and paragraph 4.4). Niven’s (2003:145) opinion appears to be relevant here because he argues that performance management comes in “many guises and goes by a multitude of names”, with each term having a different meaning for different people. The same would apply to performance measurement.

#### **4.10.1 The Monitoring and Evaluation concept**

In paragraph 1.1, Monitoring and Evaluation was described as part of the Government-wide Monitoring and Evaluation System which was introduced in all government departments. In the Department of Human Settlements, the

2009 National Housing Code added Monitoring, Evaluation and Impact Assessment (MEIA) as a strategic theme to Strategy 9 of the BNG plan, presently known as “Implementing systems for monitoring and evaluation” (figure 2.10). The 2009 Housing Code also changed “performance measurement” indicated in the BNG plan to “performance management” (National Department of Human Settlements 2009b:33–34). Figure 4.13 below contains an outline of the Monitoring and Evaluation framework.

**Figure 4.13 Monitoring and Evaluation framework**



Source: Own observation compiled from *Monitoring and Evaluation* (PricewaterhouseCoopers 2010).

The choice of the design and flow of the diagram in figure 4.13 is an own observation, drawn from text found on the website acknowledged below the diagram. In figure 4.13, the concept “evidence-based outcome measurement and impact assessment” is indicated in a rectangle as the “missing link” between the strategy and the impact on the community.

At this point, a more detailed discussion of the concepts involved is called for. The Policy Framework for the Government-wide Monitoring and Evaluation System (The Presidency 2007:2) defines “monitoring” as a comparison between the actual performance and the planned or expected performance which involves collecting, analysing and reporting data on inputs, activities, outputs, outcomes and impacts, as illustrated in figure 4.14.

**Figure 4.14 Monitoring concepts**



Source: Own observation, compiled from Policy framework for the Government-wide Monitoring and Evaluation System (The Presidency 2007).

The design of the diagram in figure 4.13 is an own observation, drawn up from definitions and text found in the policy document acknowledged as the source. “Evaluation” is defined as a “time-bound and periodic exercise” to provide useful information to guide the decisions of staff, managers and policy-makers. Evaluations can assess efficiency, effectiveness, relevance, impact and sustainability – “what worked, what did not and why”.

Government's commitment to ensuring that its performance makes a meaningful impact on the lives of the people was confirmed by the establishment of the Department of Performance Monitoring and Evaluation on 1 January 2010 (The Presidency 2010a:1–2). Housing/human settlements is receiving attention because “Sustainable Human Settlements and improved quality of household life” was adopted as one of twelve outcomes at a Cabinet Legotla held in January 2010. Following on the Legotla, at the end of April 2010 the President signed performance agreements with all 34 Cabinet Ministers (The Presidency 2010b:1–2).

#### **4.10.2 Preliminary appraisal of the suitability of the BSC for addressing the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme**

It is argued that for any performance measurement system to be suitable for use in the Upgrading of Informal Settlements Programme, it should have the potential to address the departmental factors hampering delivery. These factors were identified in chapter 3 as: disjuncture between long-term visions and actual actions on the ground; lack of detailed strategy for prioritised national housing programmes; outdated information on income and needs of targeted beneficiaries; lack of buy-in to, understanding of and compliance with policies by staff; bureaucratic and inefficient funding sources and transfers; lack of accountability for decision-making and delivery failures; misalignment of priorities and budgets between sector departments; and lack of coordination and communication between sector departments. The arguments advanced below are for a preliminary appraisal of suitability, therefore they will be based on the collective rather than the individual departmental factors hampering delivery. Where this discussion reveals that a specific system could be suitable for performance measurement for the Upgrading of Informal Settlements Programme, critical assessment of the individual departmental factors

hampering delivery under the Upgrading of Informal Settlements Programme will be discussed in the next chapter of this study.

#### *4.10.2.1 Preliminary appraisal of the suitability of Monitoring and Evaluation*

In the discussion of “monitoring” it was found that the focus is on past actions. This finding is borne out by the performance indicators of the Upgrading of Informal Settlements Programme, which measure the performance against the work plan, improvement in living conditions and sustainability of upgrading projects (figure 3.8). This is in line with Nair’s (2004:2–3) definition of “monitoring”, namely “observing employee behaviour and coaching” (figure 4.3). Based on this, it is argued firstly that Monitoring and Evaluation is not suited to addressing the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme because the departmental factors indicated above would require measures that drive future performance in addition to those that measure past action, which Monitoring and Evaluation is not geared for.

It is also argued that all the departmental factors mentioned above are complex and call for an integrated performance measurement system to address them. This bears out Estis (1998:7) and Niven’s (2003:32) arguments as stated previously in this chapter that performance needs to be measured from a broader perspective than merely measuring inputs and outputs. Performance measurement should also assess progress in achieving the organisation’s mission. It is clear from the discussion that Monitoring and Evaluation is not integrated and it cannot measure the progress that the human settlements departments at the three tiers of government are making in reaching their mission or ensuring that their strategy is executed. The objective of the Monitoring and Evaluation framework is stated as being more responsive to the



needs of the public/communities (figure 4.13), which is a much narrower focus than aiming to achieve the mission. Furthermore, because there is no integrated approach involved, there is a very real risk that Monitoring and Evaluation will be reduced to just another report that has to be submitted by the Accounting Officer – while to everyone else it is “business as usual”. Lastly, the fact that although Monitoring and Evaluation has been in place for a number of years the departmental factors hampering delivery persist and delivery is still not progressing as intended, is in itself confirmation that the present Monitoring and Evaluation is not suited to addressing this issue.

#### *4.10.2.2 Preliminary appraisal of the suitability of the BSC*

The discussion of the BSC shows that the BSC balances the outcome measures of past performance with the drivers of future performance therefore having the potential to address the departmental factors hampering delivery. As an integrated framework, it is also ideally positioned to address complex delivery situations. The factors hampering delivery under the Upgrading of Informal Settlements Programme have been found to be complex. Nair (2004:2–3) argues that the BSC can be used for “monitoring”, “measurement”, “management” and “direction-setting” (figure 4.3). According to Niven (2003:15), the BSC is a Measurement System, Strategic Management System and a Communication Tool (figure 4.5). Whatever the intended level of use of the BSC, the BSC can bridge the gap between the strategy and the execution of the strategy by aligning operational actions at all levels in the human settlements departments with the strategy, thereby ensuring execution (figure 4.1).

Lastly, using the BSC has the following public sector benefits: strategy implementation; it demonstrates accountability and generates results; it attracts scarce resources, namely funding and employees; it creates a focus on strategy; it produces information, not data, by identifying critical drivers of

success; the use of the BSC avoids outsourcing by producing quality results at efficient prices; it drives change to reach desired outcomes; and it inspires trust by proving accountability (paragraph 4.4.1 and figure 4.4). Where the collective public sector benefits of using the BSC are compared with the collective departmental factors hampering delivery under the Upgrading of Informal Settlements Programme, it appears that the benefits of the public sector BSC match many of the departmental factors hampering delivery (figures 4.4 and 3.9).

#### **4.11 SUMMARY**

This chapter clarified that organisations need performance measurement to chart their present position before determining a future direction and that this study deals with the BSC as a performance measurement tool, not the wider discipline of performance measurement. It was found that before the present position can be measured, an organisation must be aware of the business environment in which it operates. In the progression from the industrial age to the information age, dramatic changes have taken place in the business environment. In the industrial age organisations that effectively managed assets and liabilities and used new technology for mass production of products were successful. In the information age, the emphasis has shifted to the way the organisation mobilises and manages its intangible assets (eg employee knowledge, customer/supplier relationships and innovative cultures). Customers now have higher expectations than before, requiring everything to be done faster, better and cheaper, with product delivery, quality, after-sales service and customer satisfaction being key variables. In the public sector, reduced funding and demands for accountability and transparency have contributed to the “new public management” (NPM) movement which introduces private sector financial management practices into the public sector. The effect of this is that the public sector is operating more like a business than ever before.

Traditional performance measures were found to be outdated because they tend to focus only on profit and costs. In the public sector, the past practice of focusing reporting on the funds spent on administrative costs was being faulted and that the following questions were being asked: What difference is being made? What results are being achieved? What progress is being made in achieving the mission of the organisation? Recent Strategic Management Accounting developments have emphasised the role of Management Accounting in supporting the overall competitive strategy of organisations. There was a realisation that if the organisation was to remain competitive, reporting had to cover various business aspects, not just financial measures. Further, organisations have realised that having a good strategy will not necessarily result in success; execution of the strategy is crucial to success. In the public sector, constituents are criticising government for being inefficient, ineffective, self-serving, unresponsive to public wants and needs and failing to deliver the quantity and quality of services deserved by the taxpaying public. The launching by government of new programmes and causes is no longer being accepted, but results and “making good on promises” are being demanded. Government performance measurement systems have been found to be ineffective, the reasons advanced being a lack of strategic focus and the fact that too many things – and the wrong things – are measured.

Kaplan and Norton developed the BSC for the private sector and published their findings in an article in 1992, followed by developments which they published in six subsequent articles between 1993 and 2001. Four books on the BSC were also published by Kaplan and Norton between 1996 and 2006. The present-day BSC developed from there and is now widely used, with more than 60% of Fortune 1000 companies and 40% of companies in Europe using some form of BSC. The development of the BSC extended to the public sector, where the successful execution of strategy has been attributed to its use, with the City of Charlotte, North Carolina, widely considered to be the best example.

The use of the BSC was found to meet the performance measurement needs of organisations operating in the information age. These needs include a system that is integrated, ensures strategy execution by aligning current operations to strategic goals, assesses progress in achieving the mission rather than simply measuring inputs and outputs, strikes a balance between intangible assets which are the drivers of success and the integrity of financial numbers, retains measures of past performance and adds measures to create future value. It was found that the measurement of government performance is difficult. Even though timeliness, quality and cost are just as important in the public as in the private sector, the effect of unhappy constituents is only felt in the long term, not the short term. Eight public sector benefits of using the BSC were determined, namely: strategy execution; it demonstrates accountability and generates results; it attracts scarce resources, namely funding and employees; it creates a focus on strategy; it produces information, not data, by identifying critical drivers of success; the use of the BSC avoids outsourcing by producing quality results at efficient prices; it drives change to reach desired outcomes; and it inspires trust by proving accountability.

After arguments in favour of the BSC, the author expressed the warning that the BSC has been variously interpreted. However, implementation according to the construct of Kaplan and Norton seems to be positively linked to more successful outcomes. Practical difficulties in BSC implementation could arise and culture and ideology need to be taken into account during implementation. Despite these warnings, the BSC was found to be influential and widely accepted. The BSC was found to make strategy actionable, therefore executable at all levels by translating strategy into day-to-day action plans and initiatives at all levels of the organisation. The BSC also provides an exact view of what should be done to ensure successful operations. The BSC framework, which has been adapted for the public sector, elevates the mission to the top of the BSC, with the customer perspective flowing from and into the mission. The strategy remains at

the core and the perspectives are: Customer, Financial, Internal Processes and Employee Learning and Growth. Collectively these show how value is created for customers while costs are controlled, how to enhance internal capabilities and how to invest in employees, processes, technology and innovation.

Two different opinions on the BSC translation process were illustrated diagrammatically which, when combined, commence with clarifying the mission and end with the cascading of the BSC to all levels of the organisation. It was argued in this chapter that “You cannot manage what you cannot measure”, and equally that: “You cannot measure what you cannot describe”. Strategy mapping was found to be a one-page diagram used to describe and visualise the strategy of the organisation through explicit cause-and-effect relationships between the objectives in the four BSC perspectives. The objectives were identified as critical landmarks in the process of achieving the strategy.

The chapter concluded with a preliminary appraisal of the suitability of Monitoring and Evaluation versus the BSC for addressing the departmental factors hampering delivery. It was argued that the preliminary appraisal of the suitability of a performance measurement system should hinge on the potential of the system to address the collective departmental factors hampering delivery under the Upgrading of Informal Settlements Programme. Based on this, Monitoring and Evaluation was not found to be suitable, but the BSC was.

Chapter 5 will apply the BSC framework to the Upgrading of Informal Settlements Programme to determine whether the BSC is a suitable tool for addressing each of the departmental factors hampering delivery. Where the BSC is found to be suitable, a conceptual framework will be developed to guide the application of the BSC to the Upgrading of Informal Settlements Programme.

## **CHAPTER 5**

### **THE BSC FRAMEWORK FOR THE UPGRADING OF INFORMAL SETTLEMENTS PROGRAMME**

#### **5.1 INTRODUCTION**

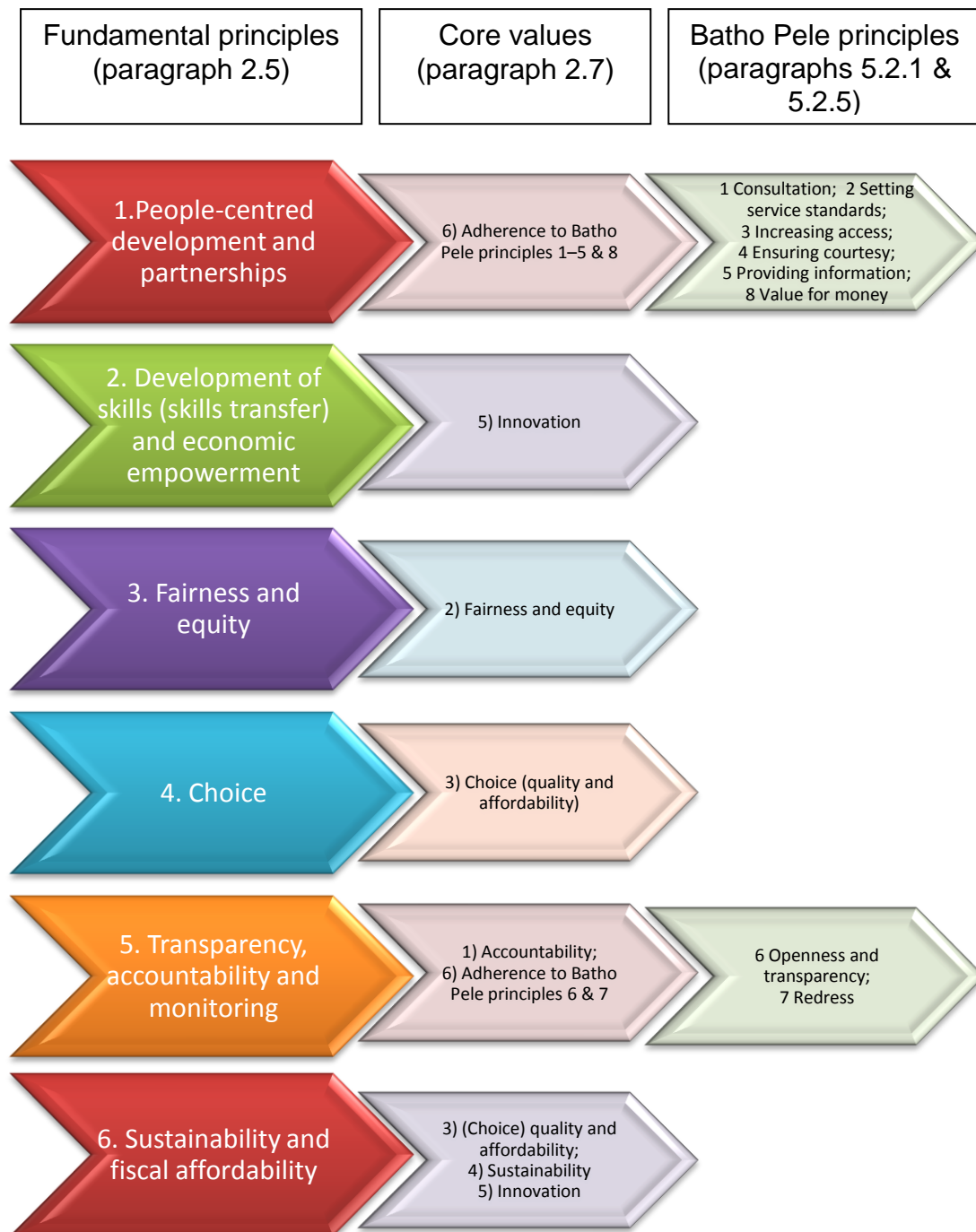
In chapter 4, the BSC as a performance measurement tool in the public sector was analysed to gain insight into the contribution that the BSC, which is an integrated framework, could make. This was followed by a preliminary appraisal which indicated that Monitoring and Evaluation, part of the Government-wide Monitoring and Evaluation System, is not a suitable tool for addressing the collective departmental factors hampering delivery under the Upgrading of Informal Settlements Programme, whereas the BSC has the potential to do so.

This chapter begins by measuring whether the BSC is compatible with the fundamental principles for housing policy development and the core values of the National Department of Human Settlements. The reasoning behind this is that any concepts which could become part of policy have to be compatible with the principles for housing policy development and the core values that are part of the national framework for the delivery of subsidised housing. Secondly, the suitability of the BSC for addressing each of the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme will be critically assessed. Lastly, a BSC framework approach will be applied to the Upgrading of Informal Settlements Programme to serve as a basic point of departure should a BSC approach be considered for future use. For this reason, a conceptual framework for the implementation of the BSC to the Upgrading of Informal Settlements Programme will be developed. The framework begins with a discussion of common pitfalls in BSC implementation and includes elements that must be present for successful BSC implementation as well as elements

that could prevent successful BSC implementation. Lastly, a possible BSC approach to the Upgrading of Informal Settlements Programme is developed. This approach follows the BSC translation process clarified earlier in the study.

## **5.2 COMPATIBILITY OF THE BSC WITH THE PRINCIPLES FOR HOUSING POLICY DEVELOPMENT AND CORE VALUES**

In earlier discussions, core values are defined as deeply held beliefs about and a codification of how everyone is expected to behave in an organisation, which should be evident from the day-to-day behaviour of employees. Core values can also be seen as the way the organisation will function in attempting to achieve its mission (paragraph 4.5.2). In chapter 2, six principles with which all housing/human settlements policies must comply were discussed (paragraph 2.5) and six core values of the National Department of Human Settlements were identified (paragraph 2.7). The observation was made at the time that the core values are similar to but not identical with the fundamental principles. Adherence to Batho Pele principles, meaning people first, is a core value which needs to be identified and discussed here because it was not dealt with earlier in the study. Figure 5.1 therefore identifies the eight Batho Pele principles and the discussion following directly after the illustration briefly explains each principle. In order to avoid duplication where the BSC is measured for compatibility against the fundamental principles and then against the core values, similar concepts have been grouped for ease of discussion. Figure 5.1 is an own initiative and design that links the fundamental principles, the core values and the Batho Pele Principles deemed to be similar, retaining the numbering used earlier in the study.

**Figure 5.1 Linking of fundamental housing principles and core values**

Source: Own observation from discussion of principles in paragraph 2.5, core values listed in paragraph 2.7 and *Batho Pele, Principles* (Department of Public Service and Administration 2010:1–2).



As mentioned with the linking of the concepts, the design of figure 5.1 is an own observation. The information in figure 5.1 has been drawn from textual discussions in acknowledged sources. In the headings to paragraphs 5.2.1 to 5.2.6, the principle is stated first and the linked core value is stated after the backslash. Where the terms coincide, the core value has not been repeated. In the discussion, the fundamental principle is briefly discussed first, then the core value/Batho Pele principle(s) where relevant, followed by the measurement of the BSC against each principle to determine compatibility.

### **5.2.1 People-centred development and partnerships/ Batho Pele principles 1–5 & 8**

According to this principle, government acts as a facilitator by creating institutional frameworks and support structures. Adequate housing can then be delivered through participation by all role players in mobilising resources, which includes decentralisation of the housing process to local government level (paragraph 2.5.1).

The Batho Pele principles 1–5 and 8 appear to link up with this concept, as illustrated in figure 5.1 above and briefly sketched below, with corresponding numerical references:

- 1 Consultation – comprehensive and representative consultation with users of services, including surveys, interviews, consultation with groups, meetings with representative bodies.
- 2 Setting service standards – citizens should be involved in the development of service delivery standards, which should be benchmarked against international standards, with due regard for South Africa's level of development.

- 3 Increasing access – a prime aim of Batho Pele is to provide a framework for making decisions about the delivery of services to the public, including improving access.
- 4 Ensuring courtesy – requires treating citizens with empathy and respect and communicating services as well as the problems experienced.
- 5 Providing information – managers and employees should make service delivery matters available to fellow staff, especially at the point of delivery.
- 8 Value for money – service/improvements the public would like to see could often reduce costs, for example a satisfactory explanation in response to a query could prevent the costly processing of a form which has been completed incorrectly.

(Department of Public Service and Administration 2010:1–2)

The focus of the customer perspective of the BSC is on who the customer is and how value can be created for the customer (figure 4.8). The customer could be any potential beneficiary, supplier, developer or taxpayer. While focusing on identifying the customer, and searching for ways of adding value for the customer, the scene will be set for people-centred developments and partnerships to flourish. In addition, while identifying ways of creating value for the customer, the opportunity is created to include the Batho Pele principles 1–5 and 8 in the BSC framework to best serve the customer.

The BSC aims for balance between leading indicators, namely present drivers of future economic success and lagging indicators, namely results of past action, resulting in a framework which can measure and/or manage intangible assets (figure 4.7). Customer/supplier relationships are identified as intangible assets which are present drivers of future economic success (paragraph 4.2.3).

From the above discussion, it appears that the BSC will support and enhance the integration of the principle of people-centred development and Batho Pele principles 1–5 and 8, which form part of the core values adopted by the National Department of Human Settlements.

### **5.2.2 Development of skills (skills transfer) and economic empowerment/innovation**

This principle requires that housing policies support community participation, leading to the development of skills and economic empowerment (paragraph 2.5.2). In figure 5.1, the fifth core value, namely “Innovation” was linked to this principle.

“Creating jobs and providing housing” and “Building awareness and enhancing information communication” are national strategies which support the development of skills and economic empowerment (figures 2.8 and 2.9). As part of the BSC translation process, the BSC at national level will be cascaded down to provincial and municipal levels. While cascading the BSC, consensus will be gained on the mission and strategies appropriate to the provincial and municipal levels of housing/human settlements departments, which would obviously have to be aligned to national-level strategies in support of the development of skills and economic empowerment.

Employee knowledge and innovative cultures are identified as intangible assets which are the present drivers of economic success (paragraph 4.2.3). The BSC is able to measure/manage intangible assets, thereby contributing to skills development and innovation. It is claimed that the application of the BSC creates a complete and integrated framework which also measures how to invest in employees, processes, technology and innovation (paragraph 4.4.1). The essence of the BSC is identified as translating strategy into day-to-day

actions plans which are aligned at individual, organisational and cross-departmental levels. It is also noted that the BSC should be used as a system of communicating, informing and learning (paragraph 4.6). The BSC is shown to create a balance between various measures, notably a balance between internal and external measures and organisation-wide and organisational silo measures (figure 4.7). Through the BSC, staff are guided to focus on innovation, identifying critical processes and learning and growth, while balancing this against a focus on customers and stakeholders, thereby adding to skills development and innovation. A broadening of focus by staff from a silo mentality, namely focusing only on the goals of the operational unit or personal goals, to the desire to create a balance between silo goals and the goals of the organisation as a whole, will contribute to the skills development of staff.

### **5.2.3 Fairness and equity**

In terms of this principle, housing policies must allow for equal and equitable access to housing and goods and services in urban and rural contexts, as well as accommodating the disabled, single parent families, the youth and all persons with special needs (paragraph 2.5.3).

Because the BSC takes the mission, clarifies the strategy and creates a framework to make strategy actionable, there is ample scope to build equal access to housing by rural and urban communities into strategies. In defining the first question posed in the customer perspective of the BSC, namely who the customer is, special needs persons and those who are disabled, single parent families and the youth can be taken into account.

#### **5.2.4 Choice**

This principle dictates that policies should encourage collective efforts by people to improve their housing situation and allow for individual choice (paragraph 2.5.4). The BSC appears to support the principle/value of choice because it could form part of the response to the second question posed in the customer perspective, namely how value can be created for the customer.

#### **5.2.5 Transparency, accountability and monitoring/ Batho Pele principles 6 & 7**

Transparency guards against certain people or groups benefitting more than others, while systems should be in place to ensure accountability and monitor progress (paragraph 2.5.5). As illustrated in figure 5.1, this appears to be directly linked to the Batho Pele principles 6 and 7, “Openness and transparency” and “Redress”, respectively. According to the Department of Public Service and Administration (2010:1), a key aspect of openness and transparency is that the public should know how the three tiers of government operate, who is in charge and how well they utilise the resources they consume. Armed with this knowledge, it is anticipated that the public will make suggestions for the improvement of service delivery mechanisms and will help to make public service employees accountable and responsible by raising queries with them. The Batho Pele principle of Redress (Department of Public Service and Administration 2010:1) is defined as the need to be quick to identify when services are falling below the promised standard and to have procedures in place to remedy the situation.

As an integrated framework, the BSC appears to support “Accountability, openness and transparency” by being able to convert strategies into measurable action plans (paragraph 4.6). These measurable action plans are

cascaded down to all levels within the organisation, including the individual level (figure 4.12). Because the BSC does not merely focus on past action, but balances this against a focus on the drivers of future performance (figure 4.7), the parts of the action plans which are not being achieved are identifiable at an early stage and corrective action can be taken without delay, thereby supporting transparency, accountability and monitoring.

#### **5.2.6 Sustainability and fiscal affordability/ quality and affordability**

In terms of principle 6, the housing process must be sustainable in the long term – economically, fiscally, socially, financially and politically. This requires a balance between fiscal allocations, the number of units required, the standard of housing, end-user affordability and the environmental impact (paragraph 2.5.6). As illustrated in figure 5.1, the core values of “quality and affordability” appear to be linked to this principle.

The BSC translation process goes through multiple steps and calls for the discussion and sharing of various opinions among the BSC team members (paragraph 4.3, figures 4.11 and 4.12). If the four BSC perspectives are applied to the strategy, followed by strategy maps showing cause-and-effect relationships between the perspectives, this should result in the scrutiny of sustainability, quality and affordability aspects by the BSC team members (paragraph 4.9).

### **5.3 SUITABILITY OF THE BSC FOR ADDRESSING THE DEPARTMENTAL FACTORS HAMPERING DELIVERY UNDER THE UPGRADING OF INFORMAL SETTLEMENTS PROGRAMME**

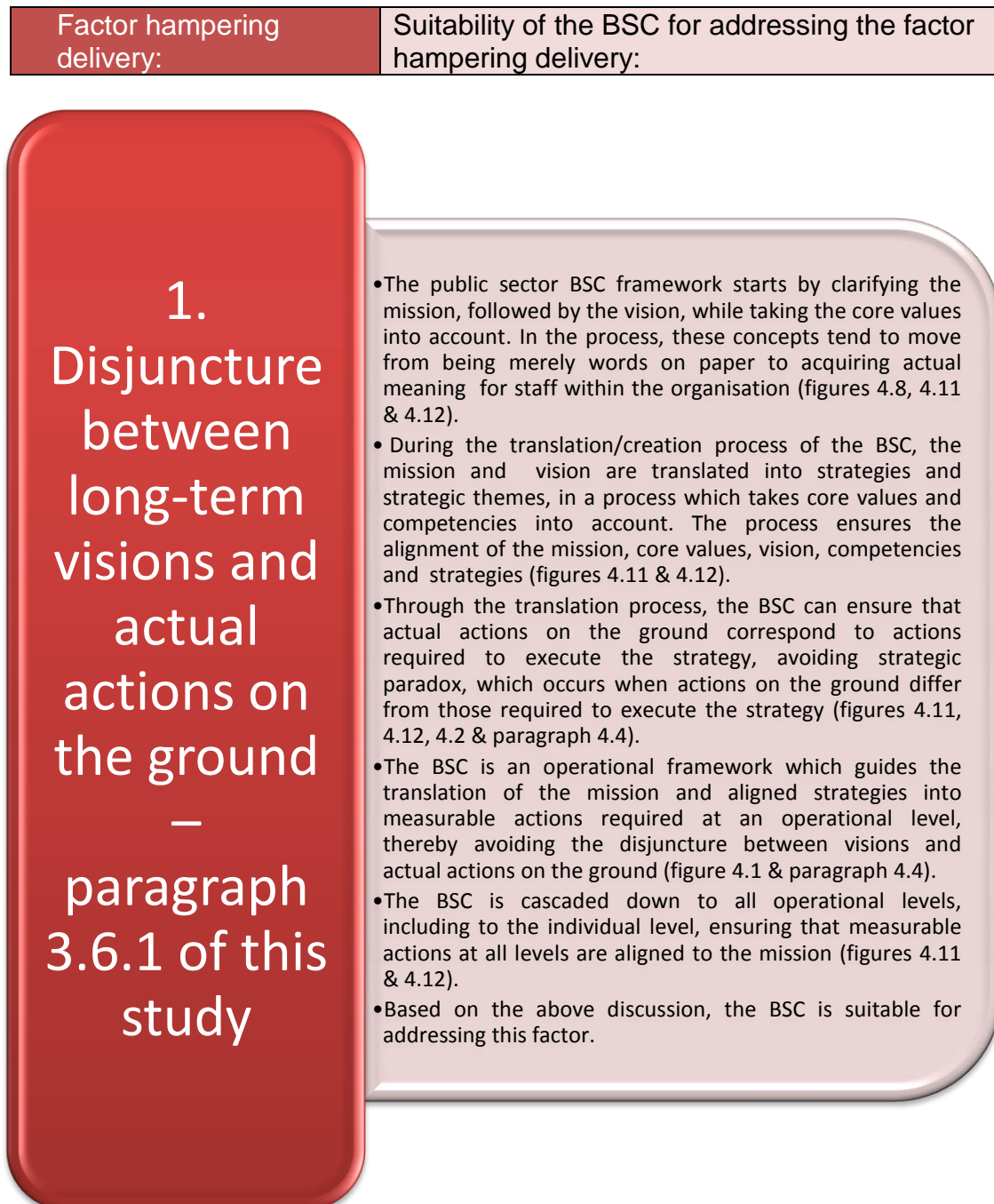
The compatibility of the BSC having been measured above, the discussion can proceed to the application of the BSC to determine its suitability for addressing

each of the factors hampering delivery under the Upgrading of Informal Settlements Programme, as opposed to the preliminary appraisal based on the collective factors in the latter part of chapter 4.

The departmental factors hampering delivery under the Upgrading of Informal Settlements Programme are illustrated in figure 3.9 and discussed in paragraphs 3.6.1 to 3.6.8 of this study. The BSC as a performance measurement tool is discussed in chapter 4 of this study. In paragraph 4.4.2, warnings were expressed regarding factors that could affect the success of the BSC. These include culture, the need to implement a BSC that is true to the construct of Kaplan and Norton (1992, 1993, 1996a, 1996b, 1996c, 1996d, 2001a, 2001b, 2001c, 2004, 2006) and the need for caution with the implementation process. In the assessment of the suitability of the BSC which follows in figures 5.2 to 5.9, the assumption is made that these warnings have been heeded.

The use of diagrams as well as the choice of the design and content of figures 5.2 to 5.9 are an own observation. In each of figures 5.2 to 5.9, a diagrammatic illustration is done which indicates a departmental factor perceived to be hampering delivery on the left hand side of the diagram. On the right hand side of each diagram, an own understanding of the BSC is applied to the specific factor to assess whether the BSC is a suitable tool for addressing this factor. For ease of reference, corresponding colours are used in figure 3.9 and figures 5.2 to 5.9.

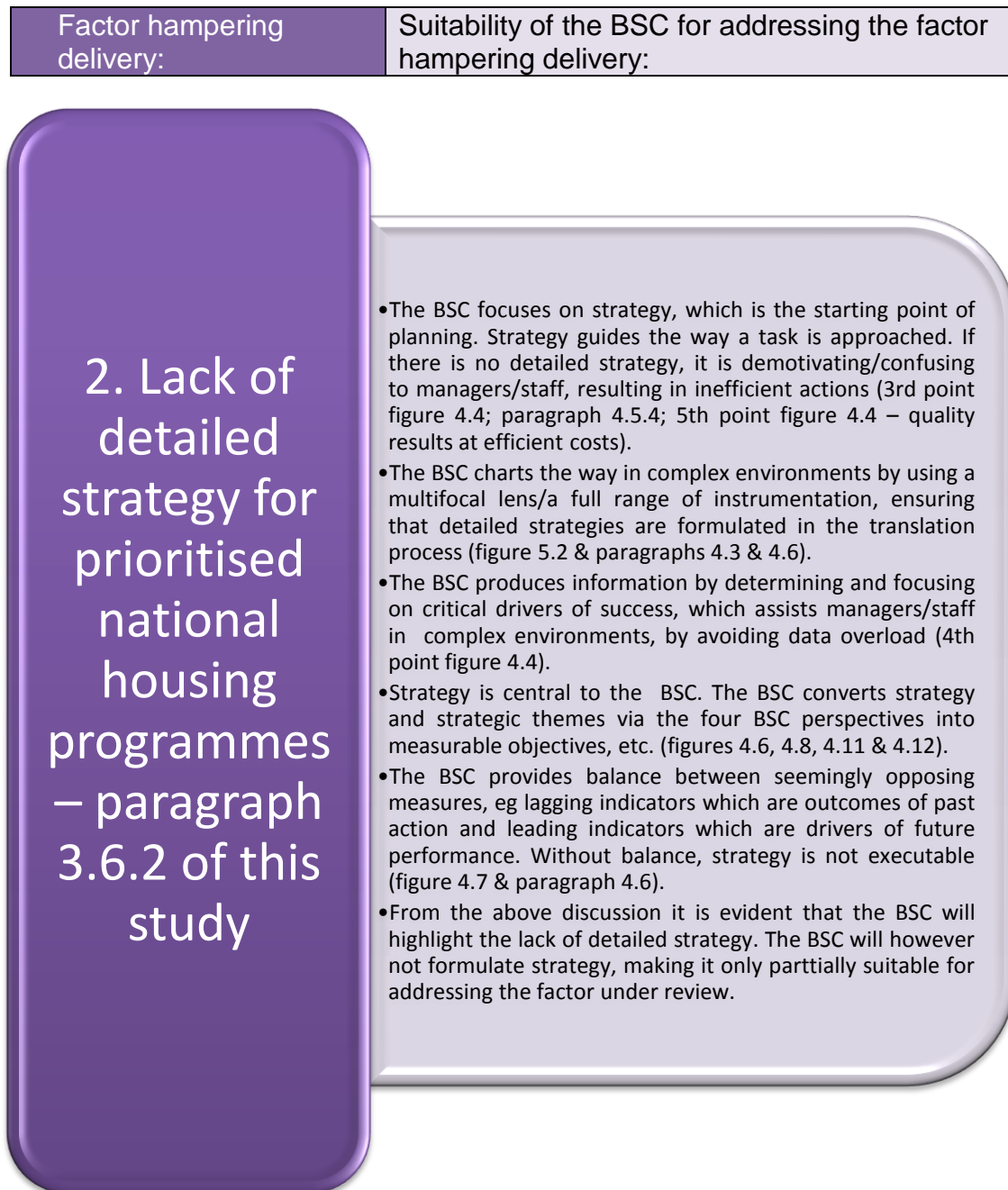
**Figure 5.2 Suitability of the BSC for addressing disjuncture between long-term visions and actual actions on the ground**



Source: Own application from discussions and illustrations in this study, as referenced above.

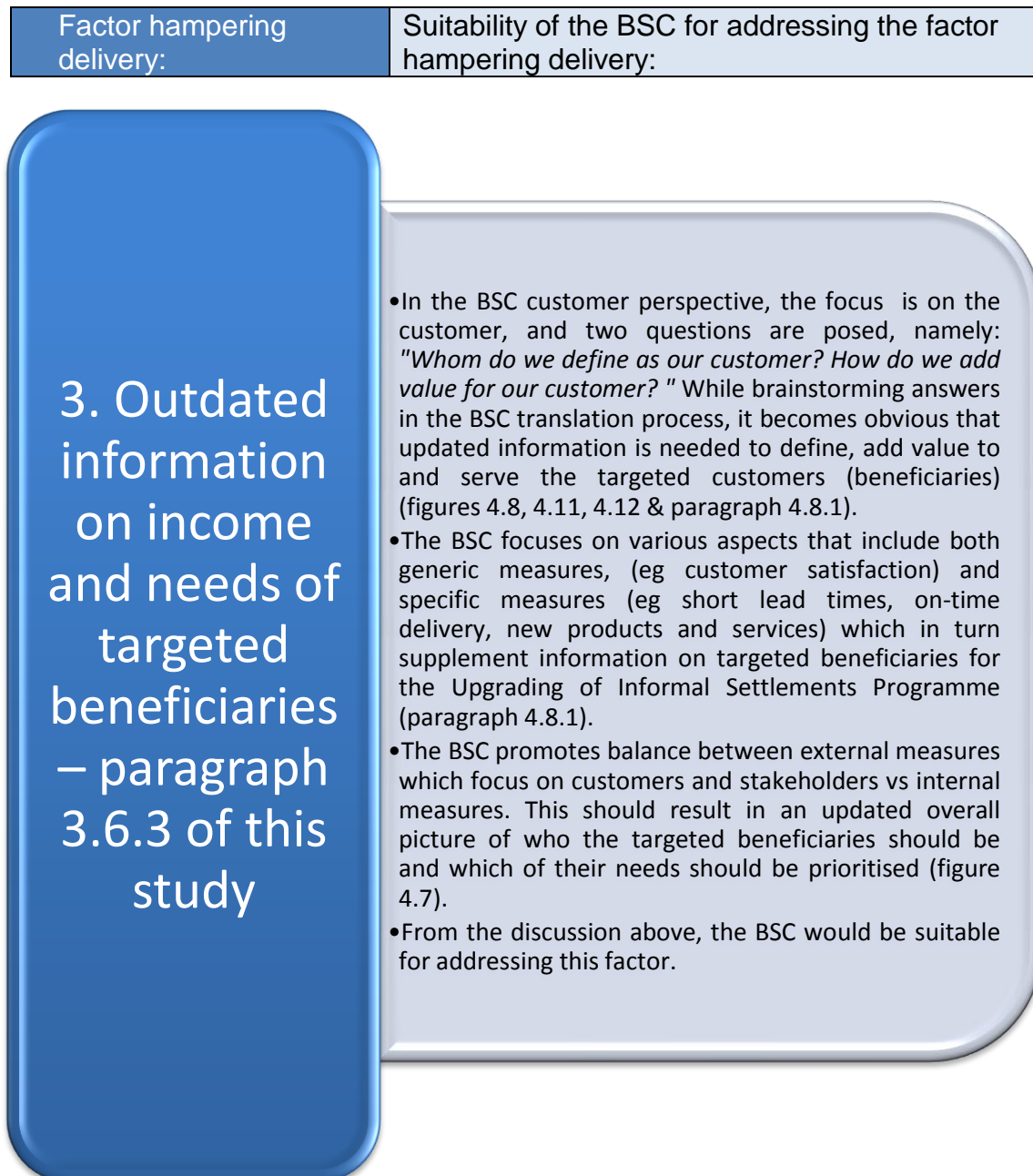


**Figure 5.3 Suitability of the BSC for addressing lack of detailed strategy for prioritised national housing programmes**



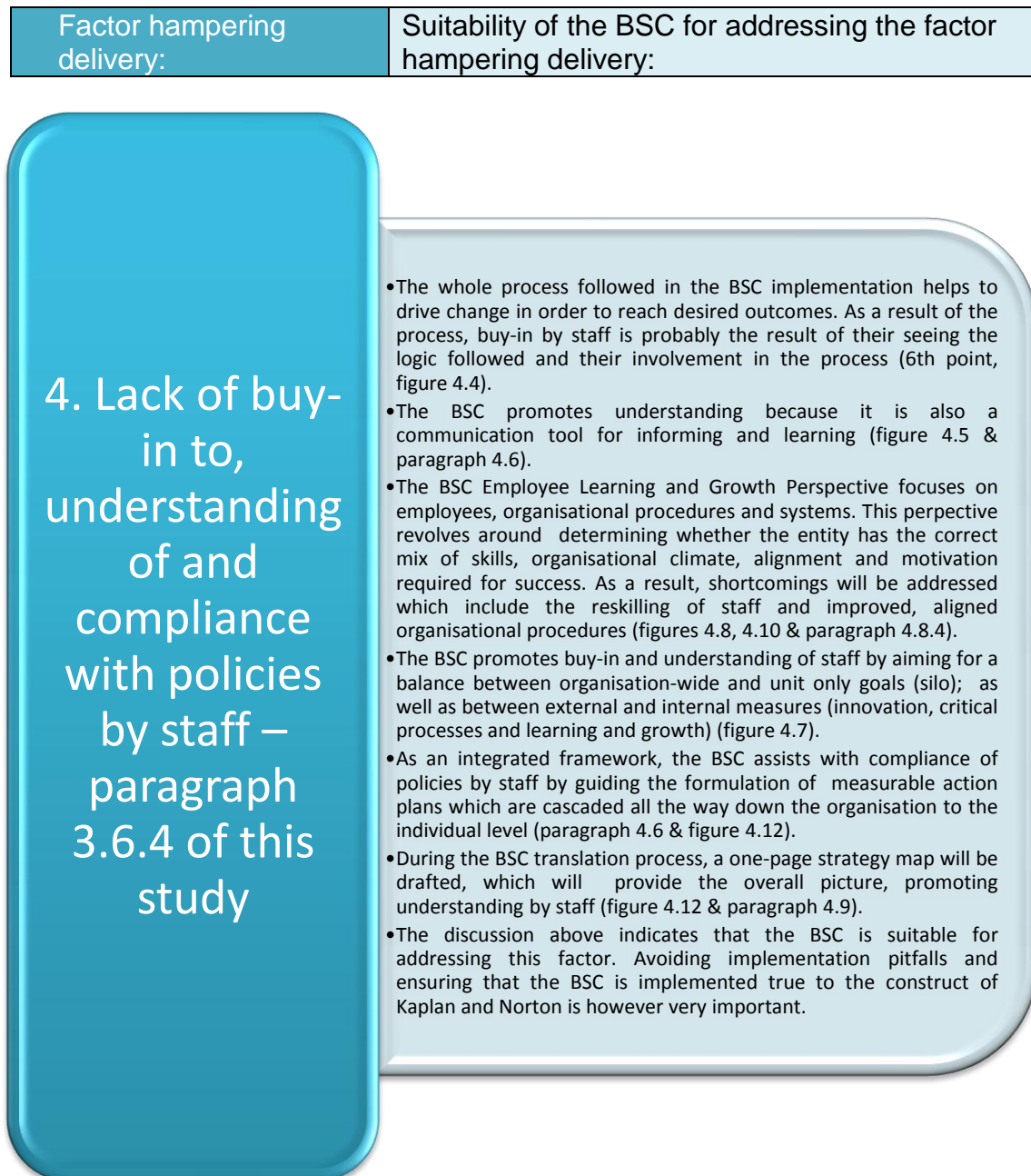
Source: Own application from discussions and illustrations in this study, as referenced above.

**Figure 5.4 Suitability of the BSC for addressing outdated information on income and needs of targeted beneficiaries**



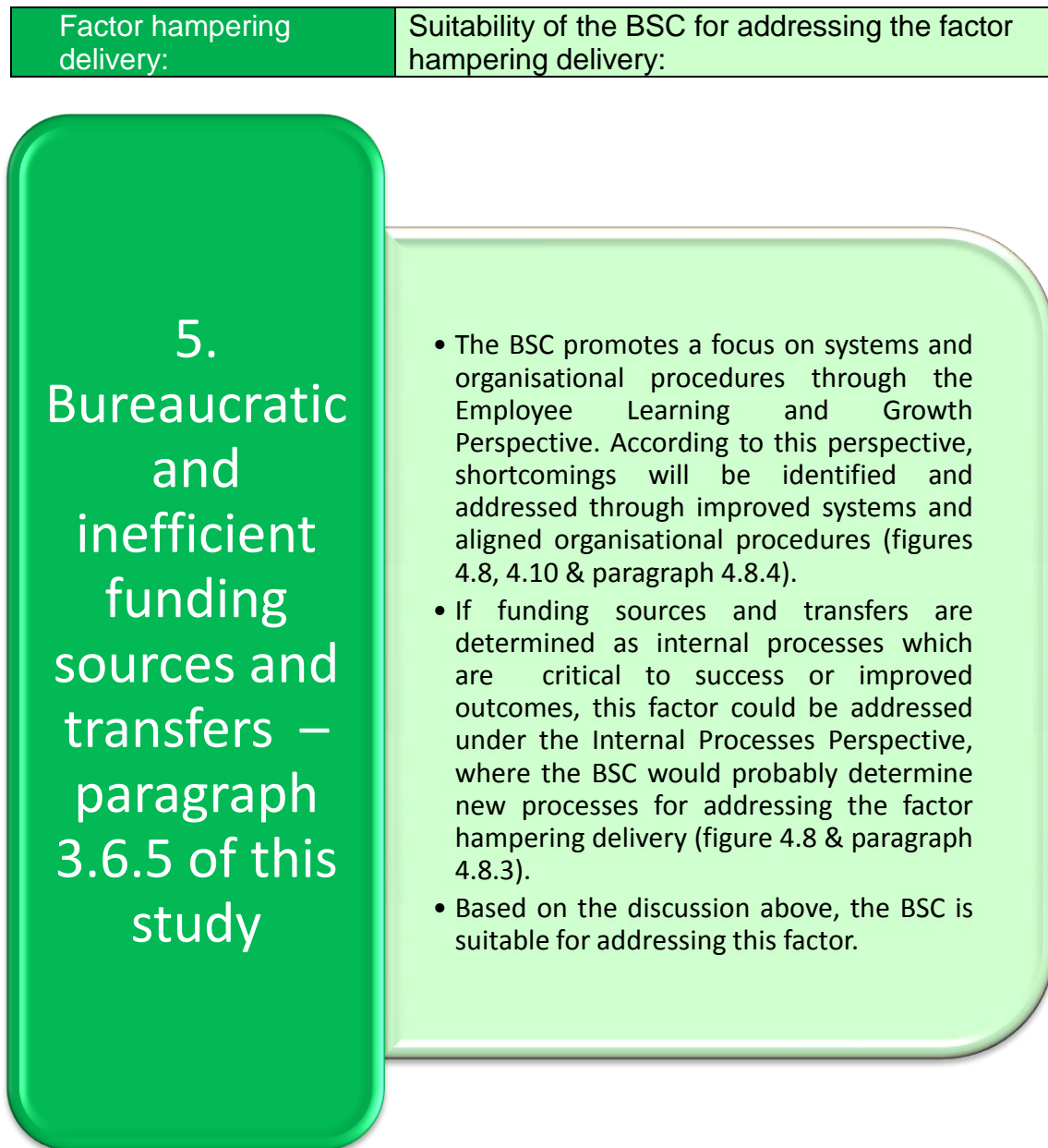
Source: Own application from discussions and illustrations in this study, as referenced above.

**Figure 5.5 Suitability of the BSC for addressing lack of buy-in to, understanding of and compliance with policies by staff**



Source: Own application from discussions and illustrations in this study, as referenced above.

**Figure 5.6 Suitability of the BSC for addressing bureaucratic and inefficient funding sources and transfers**



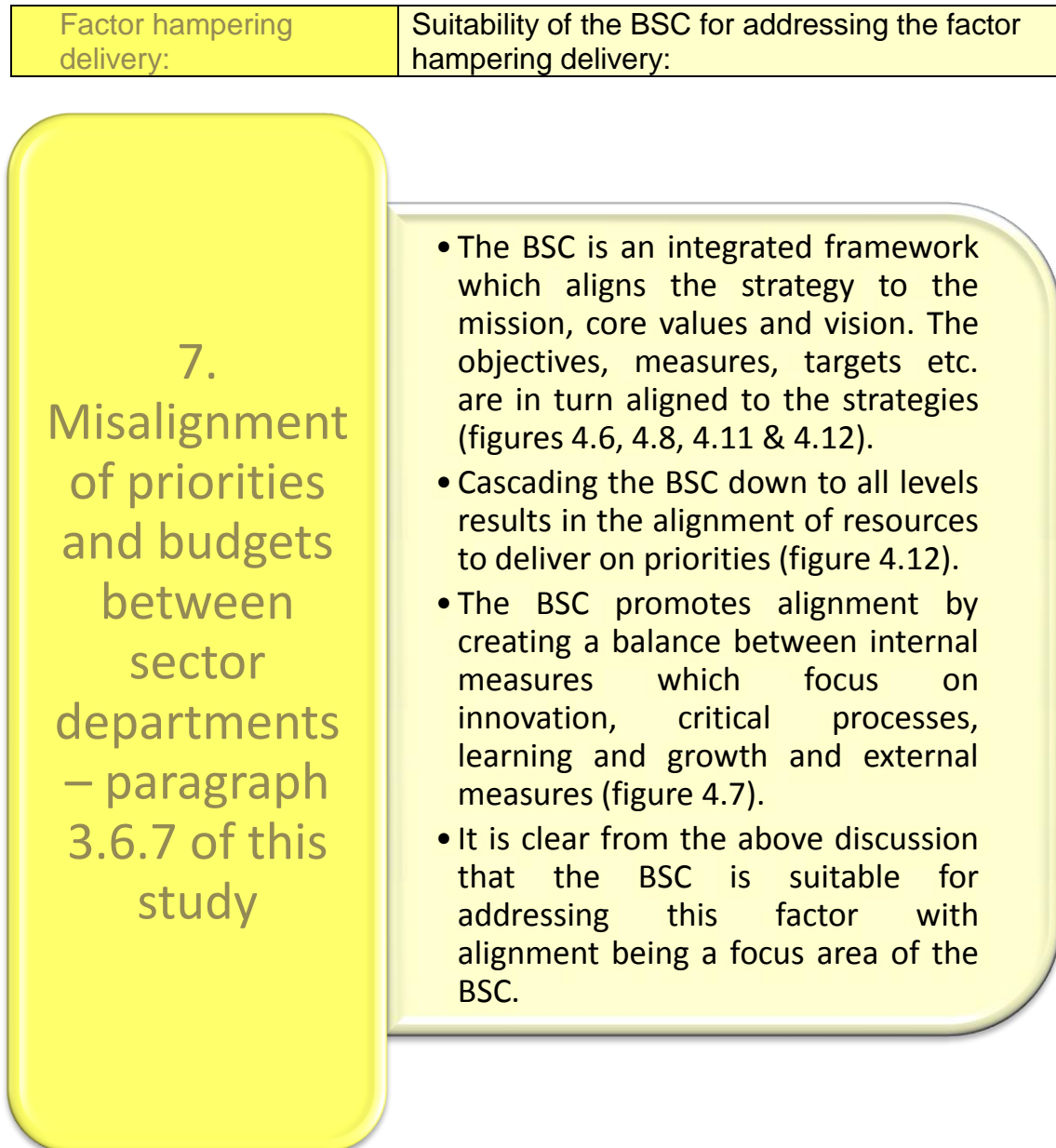
Source: Own application from discussions and illustrations in this study, as referenced above

**Figure 5.7 Suitability of the BSC for addressing lack of accountability for decision-making and delivery failures**

Factor hampering delivery:	Suitability of the BSC for addressing the factor hampering delivery:
<p>6. Lack of accountability for decision-making and delivery failures – paragraph 3.6.6 of this study</p>	<ul style="list-style-type: none"> <li>• By measuring progress in achieving mission-based objectives, the BSC demonstrates accountability. Once the BSC has proven accountability, trust from the community, employees and funders follow (1st &amp; 7th point figure 4.4).</li> <li>• The BSC promotes accountability by staff by translating the mission, strategies etc. into measurable objectives and measures, which are cascaded down to every level, including the individual level (figure 4.12).</li> <li>• The BSC can address accountability through the adaptation of systems or organisational procedures which are part of the Employee Learning and Growth Perspective (figures 4.8 &amp; 4.10).</li> <li>• If identified as critical to successful outcomes, the BSC can address accountability through the Internal Processes Perspective (figure 4.8)</li> <li>• The BSC provides balance between Leading indicators (drivers of future performance) and lagging indicators (outcomes of past action) to assist in accelerating delivery (figure 4.7).</li> <li>• From the discussion above, the BSC is suitable for addressing this factor.</li> </ul>

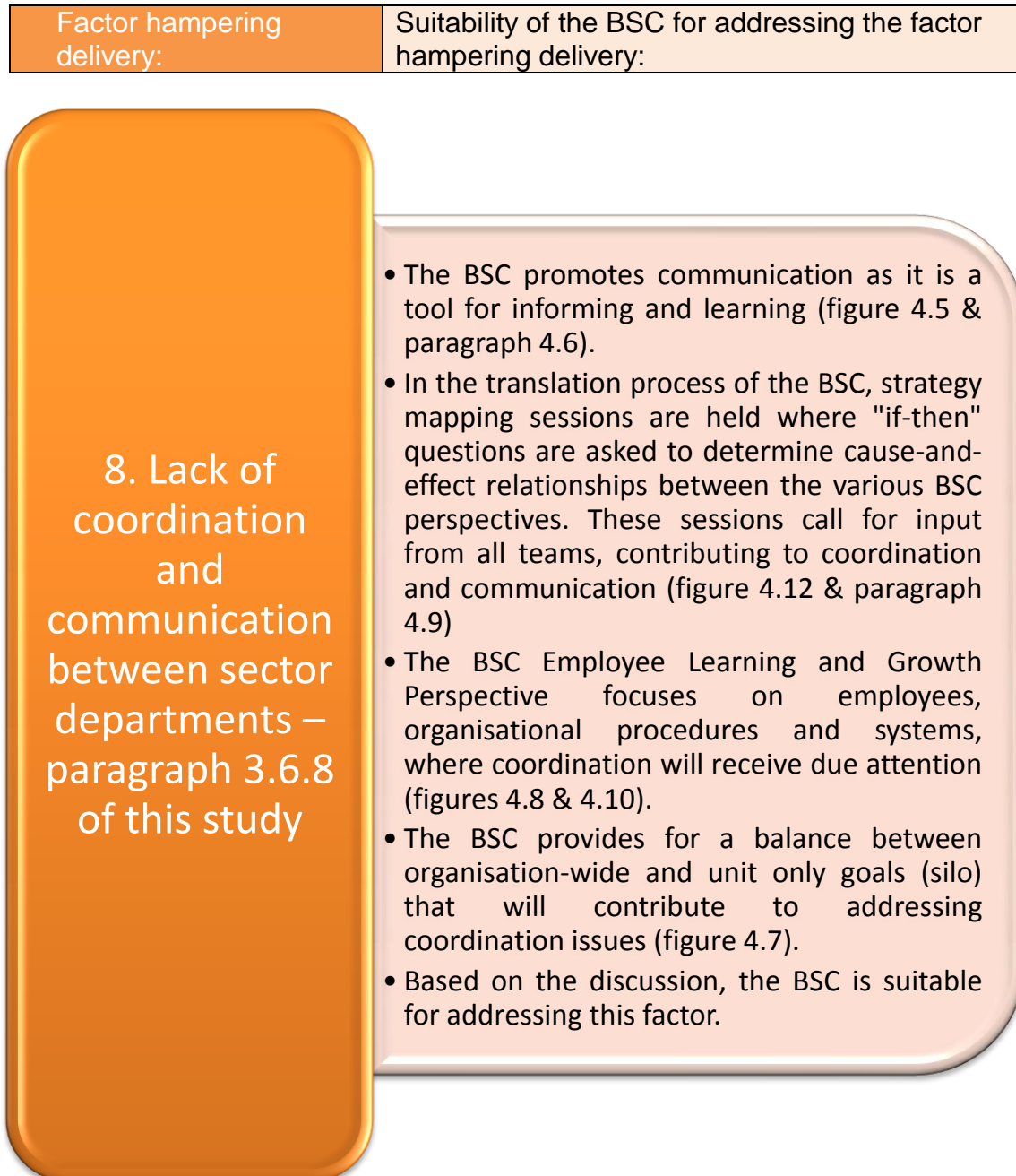
Source: Own application from discussions and illustrations in this study, as referenced above.

**Figure 5.8 Suitability of the BSC for addressing misalignment of priorities and budgets between sector departments**



Source: Own application from discussions and illustrations in this study, as referenced above.

**Figure 5.9      Suitability of the BSC for addressing lack of coordination and communication between sector departments**



Source: Own application from discussions and illustrations in this study, as referenced above.

In each of figures 5.2 to 5.9, the suitability of the BSC for addressing the factors hampering delivery was assessed. The BSC was found to be suitable for addressing the first and the third to the eighth factors that hamper delivery. The BSC was found to be partially suitable for addressing the second factor hampering delivery. After having discussed the suitability of the BSC for addressing the departmental factors hampering delivery, the most critical pitfalls for successful BSC implementation should be considered.

## **5.4 AVOIDING THE PITFALLS IN BSC IMPLEMENTATION**

Soderberg *et al.* (2011:705) have developed a five-level taxonomy which can be used to guide the BSC implementation process. Based on the taxonomy, the results of the study show that BSCs implemented in a manner that is true to Kaplan and Norton's framework (1992, 1993, 1996a, 1996b, 1996c, 1996d, 2001a, 2001b, 2001c, 2004, 2006) offer the most benefits. The transformation of the BSC from a concept to a tool is seen as a major challenge (Soderberg *et al.* 2011:689, 704) and therefore organisation-wide implementation may be difficult (Weistein & Bukovinsky 2009:53). The implementation process relies on formal and informal processes and requires that written and unwritten rules be taken into account (Mooraj *et al.* 1999:489), but the respondents in a study of 14 municipal governments that had implemented the BSC believed that the benefits outweigh the costs (Chan 2004:219).

### **5.4.1 Crucial elements without which BSC implementation cannot be considered**

#### **5.4.1.1      *Leadership and support of senior executives***

Kaplan and Norton (1996b:285) argue that the leadership and support of senior executives is crucial for the successful implementation of a BSC framework.



Kaplan and Norton (2001a:361), Braam and Nijssen (2008:16) and Weinstein and Bukovinsky (2009:53) concur. Organisations that complied with the criteria for a fully developed (level 5) and structurally complete (levels 3 and 4) BSC were found to have had greater senior management involvement during the BSC implementation process. These firms also reported fewer BSCs that were cluttered with inappropriate measures or measures not linked to cause-and-effect relationships (Soderberg *et al.* 2011:704).

#### 5.4.1.2 *Burning platform for change*

In addition to senior executive support, Niven (2003:47–48) is of the opinion that before the “*powerful benefits*” of the BSC framework can be mobilised in an organisation, a burning need, also referred to as a “*burning platform*”, for change has to be determined. This is supported by a case study of seven private sector financial companies which found that the initial reasons given for the implementation of the BSC affect the benefits which can be gained from BSC use (Agostino & Arnaboldi 2011:99, 109–111). Niven (2003:47–48) explains that the “*burning platform*” for change to the BSC includes understanding:

- why this is being done
- the need to get involved with this
- the value of this to the organisation

Resistance to change is natural (Mooraj *et al.* 1999:490). Learning anxieties are central to the resistance, consequently, people will only adapt to change when “*survival anxiety is greater than learning anxiety*” (Niven 2003:48). The implementation of the BSC helps to encourage change by placing the focus of employees on long-term objectives (Mooraj *et al.* 1999:490). The objectives that will be developed by the BSC team will communicate the survival anxieties of

the organisation to the staff and why change is required for success. The BSC reduces learning anxiety by providing a safe environment for learning (Niven 2003:48).

#### **5.4.1.3**      *BSC team and leader*

Kaplan and Norton (1996b:64) posit that a BSC cannot be drawn up by one person, because no single person has the requisite knowledge to tell the strategic story of the organisation. Kaplan and Norton (1996b:64) contend that collective know-how, experience and input have to be provided by all well-prepared staff members who are part of the BSC team, a position with which Niven (2003:51) concurs. This approach enables the BSC team to own and drive the BSC concept under the guidance of the BSC team leader/driver/architect (Kaplan & Norton 1996b:64; 2001a:362–363). Kaplan and Norton (2001a:363) argue that a broader set of people could be involved in smaller subgroups, possibly focusing on one perspective. The work of the subgroups would then be integrated at a bigger meeting.

### **5.4.2 Reasons why the BSC may not work**

#### **5.4.2.1**      *BSCs which are not reviewed periodically*

A BSC should not be built once and then left unchanged (Niven 2003:287), but should be maintained (Weinstein & Bukovinsky 2009:54). In fact, best practices studies have shown that most practitioners do an annual critical examination of the BSC to ensure that the strategic story is still being told accurately (Niven 2003:287–288).

#### 5.4.2.2 *BSC development labelled a short-term or systems project*

Niven (2003:289) is of the opinion that the development of a BSC which is seen as a “project” is doomed to failure. He argues that a project is a short-term endeavour and the BSC should become a fixture in management processes. To reach this level, it should be used continually in every facet of the operation, including decision-making and resource allocation. On the other hand, Nair (2004:157) believes that BSC development should be treated as a project. This reflects a different viewpoint in that Nair does not see a project as short term, but rather focuses on the strict and controlled sequencing that flows from the planning and implementation of projects. According to Kaplan and Norton (2001a:365), the BSC should be seen as a management project, and certainly not as a systems project. Kaplan and Norton (2001a:365) argue that where consultants are appointed to develop and implement a BSC management system, engagement with managers on strategic dialogue rarely occurs. Consultants are more likely to design a system which gives managers desktop access to masses of data, but which does not contribute to the organisation’s being managed differently – and is never used. Kaplan and Norton (2001a:365–366) suggest that all the steps as set out in figure 4.12 should be followed. Once the BSC is cascaded down to all levels, the appointment of consultants to design systems may be considered.

#### 5.4.2.3 *Lack of disciplined management and leadership*

Nair (2004:157) sees disciplined management and leadership as crucial to successful BSC implementation. Nair believes that without disciplined management and leadership, projects tend to be “overcommitted, understaffed and miscalculated”.

#### 5.4.2.4 *Keeping the BSC at the top*

According to Kaplan and Norton (2001a:364), while the senior executives should support BSC implementation, the mistake of involving them only should be avoided. In order to be effective, eventually BSC implementation should involve everyone in the organisation. The aim is for all staff to have an understanding of the strategy and contribute to implementing it, therefore making strategy “everyone’s everyday job”.

#### 5.4.2.5 *Drawn-out development process*

Kaplan and Norton (2001a:364) caution that the BSC is a building process and that a limited amount of time should be invested in the initial development and implementation. Even though there may not be data for all measures on the BSC at first, implementation should proceed. Delaying implementation to design the “perfect” BSC will inevitably lead to its being ineffective or even not being implemented at all. Once the implementation of the initial BSC is embedded in the management system, developments and refinements are done on a continual basis.

#### 5.4.2.6 *Appointing inexperienced consultants*

Kaplan and Norton (2001a:366) argue that the appointment of consultants who do not specialise on the BSC and have not implemented multiple successful BSCs will most likely doom it to failure. An inexperienced consultant generally proceeds with the implementation of a measurement or information system that he/she is familiar with, makes minor changes and calls it a BSC, even though it is not.

#### 5.4.2.7 *Only introducing the BSC for compensation*

While BSC implementation can effectively be used as a tool to gain the attention and commitment of individuals, Kaplan and Norton (2001a:366–367) are of the opinion that great care should be taken when a BSC is implemented mainly for compensation, because there is a tendency to skip the conversion of the strategy into measures. When strategy is skipped, a collection of financial and nonfinancial measures that resemble a stakeholder or strategy scorecard are grouped. Kaplan and Norton (2001a:367) argue that this type of scorecard includes indicators for environmental performance, employee diversity and community ratings. This is not a BSC, however, and it will not contribute to making strategy actionable.

### **5.5 POSSIBLE BSC FRAMEWORK APPROACH TO DELIVERY UNDER THE UPGRADING OF INFORMAL SETTLEMENTS PROGRAMME**

After having discussed the necessity for the successful implementation of the BSC as well as possible pitfalls, a BSC framework approach to delivery under the Upgrading of Informal Settlements Programme will be discussed and illustrated. As mentioned earlier in this chapter, the BSC cannot be drawn up by one person; therefore this study does not propose to develop a BSC for the Upgrading of Informal Settlements Programme, but focuses on the approach and considerations which could be taken into account by a BSC team should implementation be decided on. The discussion is centred round the translation process, more specifically the rectangle above the pyramid and the top three triangles of the pyramid illustrated in figure 4.11 and the top four triangles of the pyramid in figure 4.12.

### **5.5.1 Gain consensus on the mission, core values, vision and strategy**

The meanings of the terms as defined in paragraph 4.5 have been used as a basis for the discussion which follows. To be able to follow the BSC translation process, therefore to gain consensus on the above concepts, all provincial and municipal housing/human settlements departments must have a mission and vision of their own which should be related to their reason for existence (Why do we exist?) and envisaged future (What is our desired future state?). This would obviously have to be in line with that of the National Department of Human Settlements, but would be adapted to the functions/role at their level of government. All provincial human settlements departments are likely to have the same mission and vision because they all use the same national framework for the delivery of subsidised housing and are faced with similar challenges, which would translate to similar mission and vision statements. Similarly, municipalities with the same level of accreditation would probably have the same mission and vision. The core values should correspond to those chosen by the National Department of Human Settlements, discussed earlier in this chapter, because staff at all three tiers of government should comply with the open proclamation of expected behaviour in achieving the mission.

Next, consensus must be reached on the “how”, therefore on the strategies. Strategies reflect the broad directional priorities and indicate where the available resources should be allocated to (What is the game plan/which specific activities would have to be put in place?). This would be in line with national strategies contained in the BNG plan illustrated in figures 2.1 to 2.10 of this study, but, as mentioned above, adapted to the functions/roles at that level of government. The strategy would focus largely on delivery issues and would probably include specific strategies to ensure delivery under all housing programmes as well as making provision for priority programmes, or areas in which government has made specific commitments, like the Upgrading of

Informal Settlements Programme. Niven (2003:53–54) emphasises the importance of strategy, because primarily the BSC is a tool for converting strategy into action. Strategy is therefore key to the BSC and if no strategy is formulated, actions within the organisation will be based on an *ad hoc* collection of financial and nonfinancial measures that are not linked to one another. In fact, without strategy and the linkage of the cause-and-effect relationships, there is no indication of whether an improvement in one area is having the desired effect on other key indicators or whether conflicting initiatives are being pursued.

Because no strategies found in the literature review relate to the provincial and municipal levels of government, nor specifically to the Upgrading of Informal Settlements Programme, this discussion cannot make suggestions on an approach to convert the strategy into objectives and measures through the four BSC perspectives indicated in figures 4.11 and 4.12. In the absence of a provincial and municipal level strategy, it is argued that a strategy would have to include a game plan on how delivery under the national framework for the delivery of subsidised housing would be approached at both provincial and municipal levels. The decision was therefore taken to base the application of the four BSC perspectives on the Upgrading of Informal Settlements Programme, which is part of the national framework and a key part of this study. Once strategy has been formulated and consensus gained, the approach used in formulating the considerations discussed in paragraph 5.5.2 would have to be applied to the strategy in order to translate the strategy into objectives and measures.

### **5.5.2 Considerations in formulating objectives and measures using the four BSC perspectives**

In this paragraph, a more specific approach than that described in paragraph 5.5.1 and considerations based on the four perspectives of the BSC, as applied

to the Upgrading of Informal Settlements Programme, are applied. Because the application is limited because no strategy is available and a BSC team effort is required, it cannot illustrate the full power of the BSC. However, simply viewing the Upgrading of Informal Settlements Programme and the challenges documented in the literature from the four different BSC perspectives, provides a glimpse of the potential of applying the BSC. Because this is a conceptual framework intended to guide a possible future application, the lack of a strategy is not deemed to be a major obstacle. It should be emphasised that the application of the four BSC perspectives documented in figures 5.10 to 5.12 and 5.14 to 5.16 cannot be viewed as a solution, but rather as a possible approach and seen as considerations which could be taken into account by a BSC team once they have documented the strategy and begin formulating the objectives in the development of a BSC.

Earlier in this study, the term “objective” was defined as a concise statement commencing with a verb which describes specific acts which must be performed in an organisation to execute its strategy (paragraph 4.5.5). The term “measure” was defined as a standard used to evaluate and communicate performance against expected results and two types of measures were identified, namely core outcome measures and performance drivers (paragraph 4.5.6). According to Kaplan and Norton (1996b:149–150), all BSCs use certain generic measures which tend to be common across industries and organisations. These measures are generally results of past action, also referred to as core outcome measures or lag indicators, for example employee skills, customer satisfaction etc. On the other hand, the lead indicators are the drivers of future performance which will deliver the intended value to the customers. Lead indicators tend to be the measures unique to the specific unit within the organisation, those reflecting the strategy, for example specific internal processes and employee learning and growth objectives.



The present performance indicators for the Upgrading of Informal Settlements Programme were found to include outcome measures only, that is to say only the results of past action (paragraph 4.10.2.1). For strategy to be executable, balance needs to be achieved between various seemingly opposing key performance measures and indicators, which include the results of past action and the drivers of future performance (paragraph 4.6). The BSC can create balance between lagging and leading indicators, namely results of past action and drivers of future performance, which are customised to the strategy of the unit (paragraph 4.6 and figure 4.7). The considerations included in paragraphs 5.5.2.1 to 5.5.2.4 focus more on the drivers of future performance to suggest specific actions to ensure that balance is created between outcomes of past action and drivers of future performance, which could contribute to improved value delivered to customers through strategy execution.

#### *5.5.2.1 The BSC Customer Perspective*

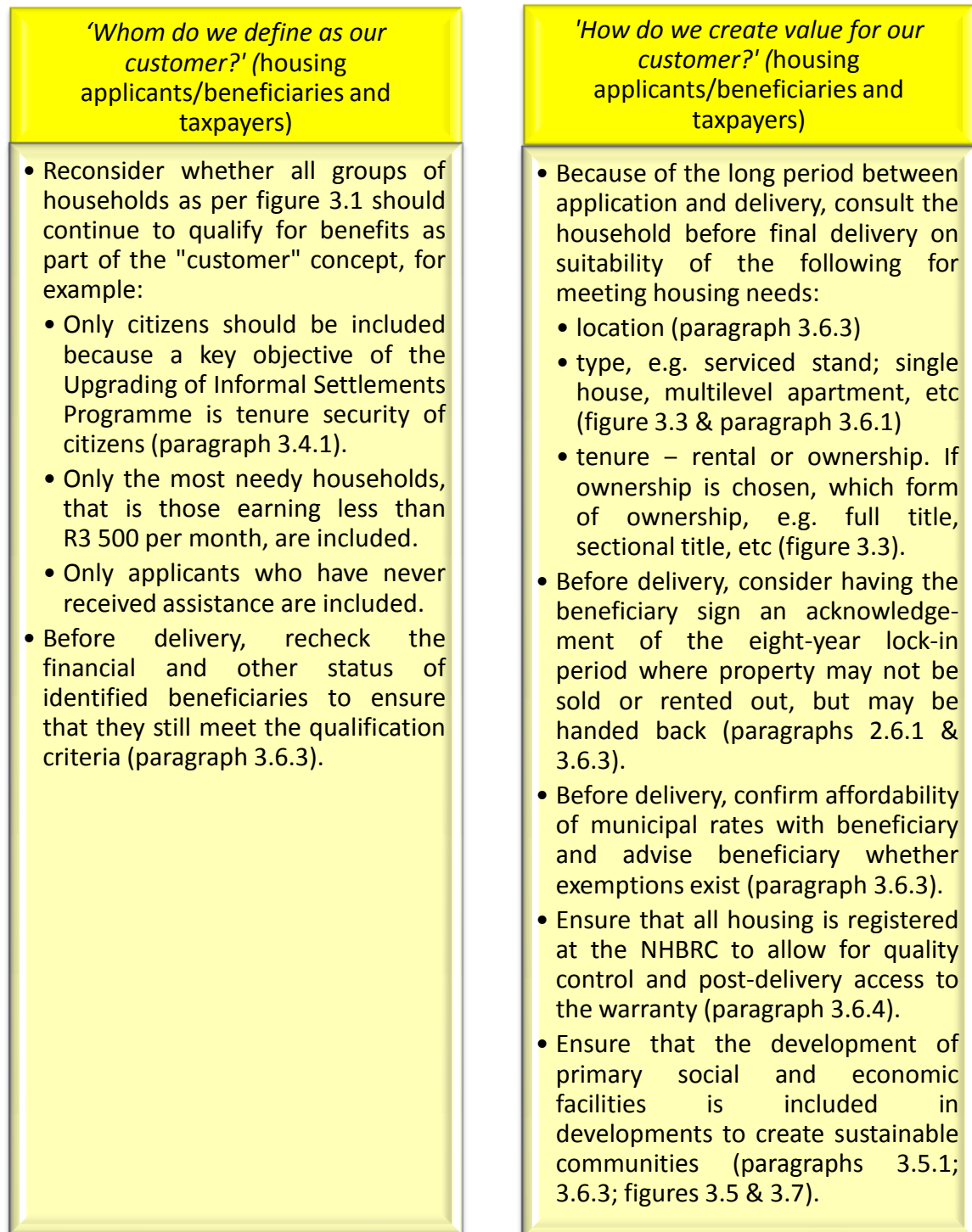
In the public sector BSC framework, the Customer Perspective is directly below the mission and flows from and into it, emphasising the importance of this perspective in striving towards the mission. The Customer Perspective focuses on two questions, namely who the customer is and how value can be created for the customer (figure 4.8). The discussion of the BSC Customer Perspective shows that the public sector “customer” includes the body providing finance and the group to be served (paragraph 4.8.1). The body providing finance would be the National Treasury, but ultimately the taxpayer. The group to be served would be the very poor citizens who qualify for subsidised housing, therefore housing applicants or potential beneficiaries. The BSC Customer Perspective shows how the strategy and operations contribute to customer value.

The provisional results of the occupancy audit which were discussed earlier in the study show that only 70% of subsidised housing occupants are the rightful beneficiaries (paragraph 2.6.1). It therefore appears that approximately 30% of

subsidised houses may be occupied by illicit occupiers, namely persons who would not meet the qualification criteria to receive a subsidised house. Based on this, it could be argued that 30% of the annual budget of the National Department of Human Settlements since 1994, a substantial figure, is not presently assisting the poorest of the poor and reducing the housing backlog figures, as intended. This indicates that the present strategy and operations are failing to identify the “customer” and are therefore not contributing to customer value.

The insight which could be gained by applying the two BSC Customer Perspective questions to the provisions of the Upgrading of Informal Settlements Programme is identified in figure 5.10 below. An example of an insight which could be gained is that a high-value asset such as a subsidised house cannot merely be handed over to a potential beneficiary based on an application completed years before. Before delivery, an updated assessment should be done, not only of the present household income and ownership of assets, but also of the individual needs of the household. The individual needs include the type of house, tenure, location in relation to employment, schools, transport etc, all of which would help to determine whether poor people would be willing to live in an allocated dwelling. This could provide a new approach to and perspective on the present delivery process. Figure 5.10 is an own initiative and design, reflecting an own understanding of the integration of the public sector BSC Customer Perspective as applied to the Upgrading of Informal Settlements Programme.

**Figure 5.10 Linking of the BSC Customer Perspective and the Upgrading of Informal Settlements Programme**

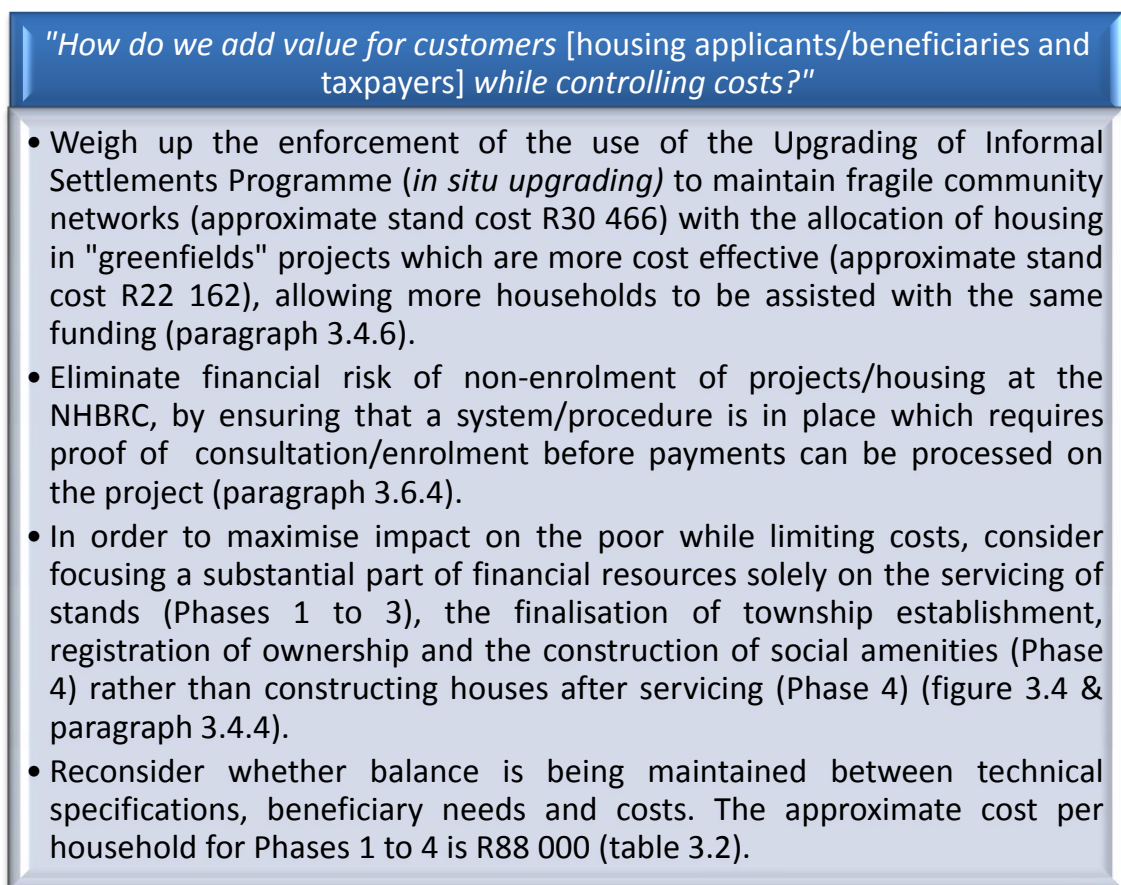


Source: Own understanding and application from references indicated above.

### 5.5.2.2 The BSC Financial Perspective

The discussion of the Financial Perspective earlier in this study states that the prudent management of resources is critical to achieving the mission and rendering the required services to the public. The Financial Perspective could be seen as an enabler to service customers as intended in the Customer Perspective or as a constraint within which the entity must operate (paragraph 4.8.2). These concepts are similar to the housing situation where the budget should be seen as an enabler to deliver housing within limited budgets (chapter 1).

**Figure 5.11 Linking of the BSC Financial Perspective and the Upgrading of Informal Settlements Programme**



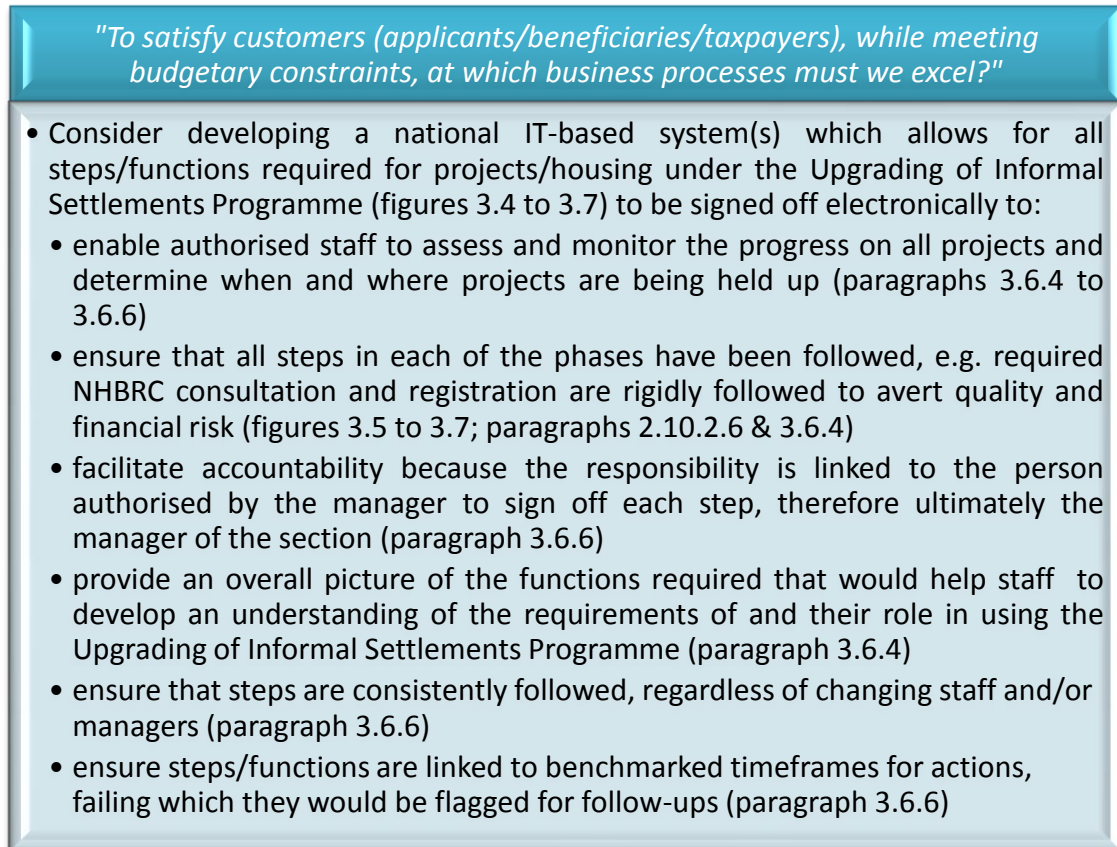
Source: Own understanding and application from references indicated above.

Figure 5.11 is an own design reflecting an own understanding of the integration of the public sector BSC Financial Perspective as applied to the Upgrading of Informal Settlements Programme.

#### 5.5.2.3 *The BSC Internal Processes Perspective*

Only the processes which could lead to improved outcomes for customers, therefore critical processes, are dealt with under the Internal Processes Perspective (paragraph 4.8.3). While only the BSC team members are in a position to decide which processes are critical, the discussion in figure 5.12 should be seen as indicating possible critical processes for consideration, selected on the basis of the discussion in chapter 3. The processes not deemed critical to improved outcomes would form part of the Learning and Growth Perspective dealt with in paragraph 5.5.2.4. Figure 5.12 is an own design reflecting an own understanding of the integration of the public sector BSC Internal Processes Perspective as applied to the Upgrading of Informal Settlements Programme.

**Figure 5.12 Linking of the BSC Internal Processes Perspective and the Upgrading of Informal Settlements Programme**



Source: Own understanding and application from references indicated above.

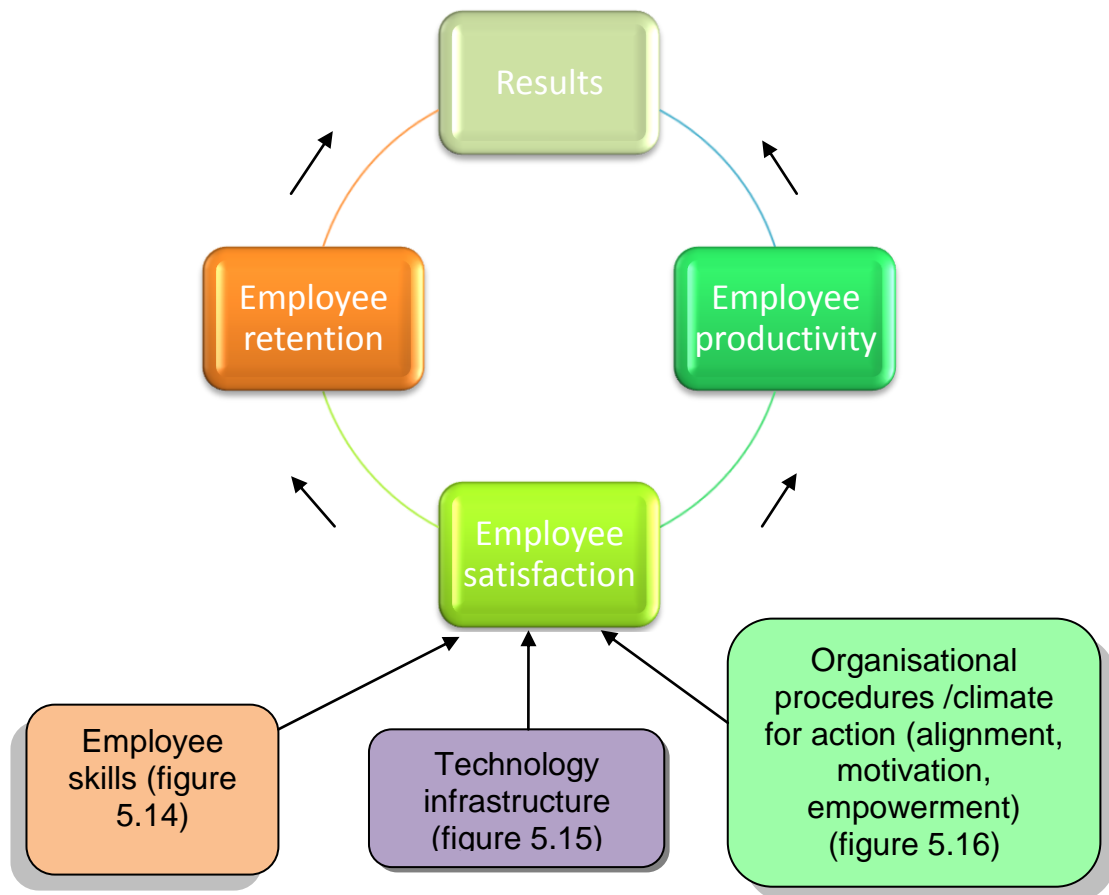
#### 5.5.2.4 *The BSC Employee Learning and Growth Perspective*

The Employee Learning and Growth Perspective is divided into three elements, namely: Organisational procedures/climate, Systems (information technology and others) and Employee skills and competencies. In this perspective, four questions are asked, one general and one on each of the three elements. The general question is "How do we enable ourselves to grow and change, meeting ongoing demands?" (paragraph 4.8.4). Figures 5.14 to 5.16 below apply the three elements of the Employee Learning and Growth Perspective to the Upgrading of Informal Settlements Programme. Figures 5.14 to 5.16 are an own design reflecting an own understanding of the integration of the public sector

BSC Employee Learning and Growth Perspective as applied to the Upgrading of Informal Settlements Programme.

Before applying the questions in the Employee Learning and Growth Perspective to the Upgrading of Informal Settlements Programme, the link between the three elements and results needs to be discussed. Kaplan and Norton's Employee Learning and Growth Measurement Framework (1996:129), illustrated in figure 5.13, indicates how the elements of the Employee Learning and Growth Perspective feed into employee satisfaction, which in turn feeds into employee productivity and retention, culminating in results.

**Figure 5.13 Employee Learning and Growth Measurement Framework**



Source: Kaplan & Norton 1996b:129, adapted.

In figure 5.13, the diagram by Kaplan and Norton (1996b:129) has been adapted by the own addition of colour and cross-referencing to figures 5.14 to 5.16 in the three rectangles at the bottom of the diagram. The wording in the rectangle at the bottom right-hand side of the diagram has been expanded from the original “Climate for action” to the full description provided, to reflect the broader meaning indicated in figure 5.16. It will be noted from figure 5.13 that the three elements of the Employee Learning and Growth Perspective are indicated at the bottom of the illustration and are cross-referenced and colour-coded to supporting figures.

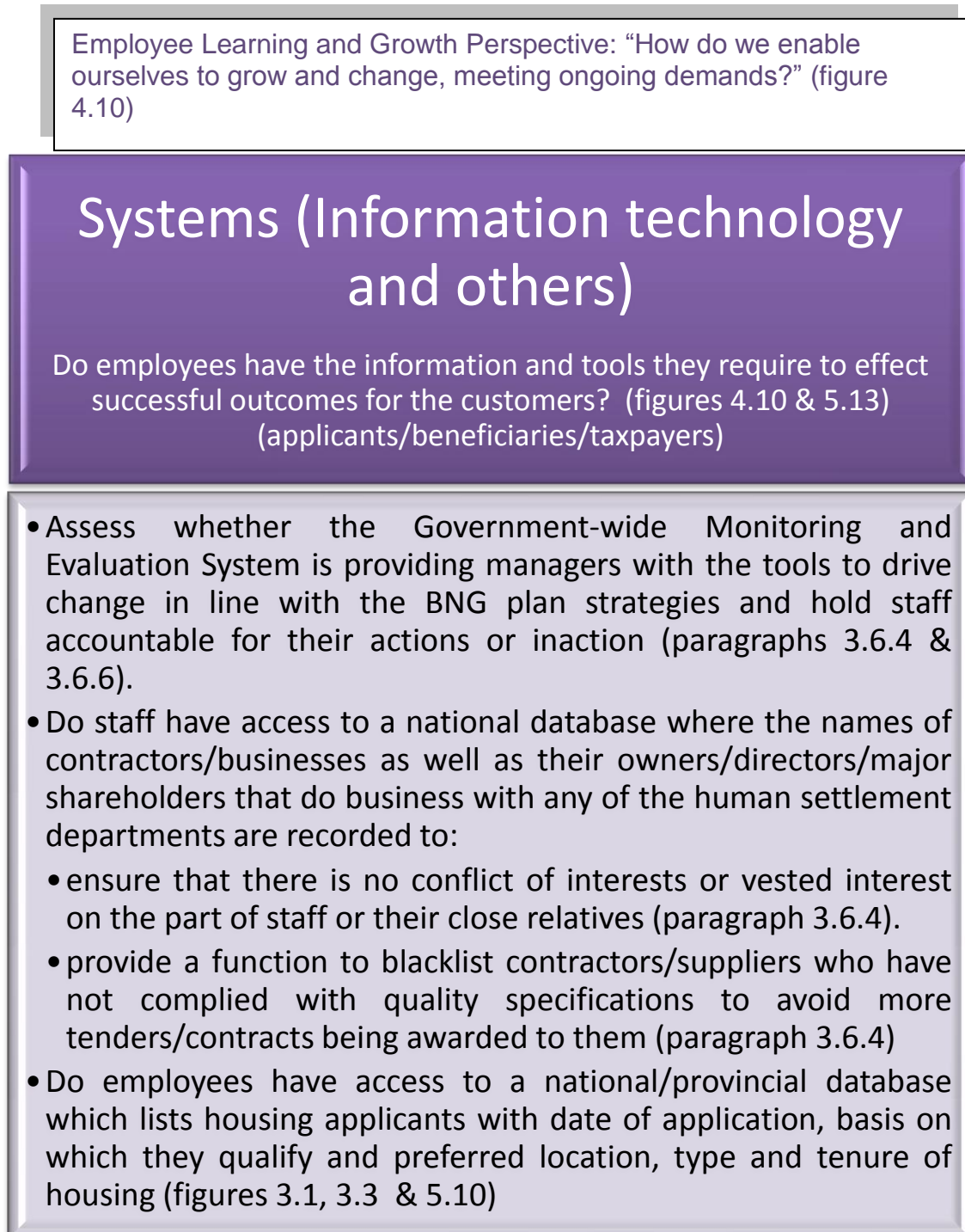


**Figure 5.14 Linking of the BSC Employee Learning and Growth Perspective (Employee skills and competencies) and the Upgrading of Informal Settlements Programme**



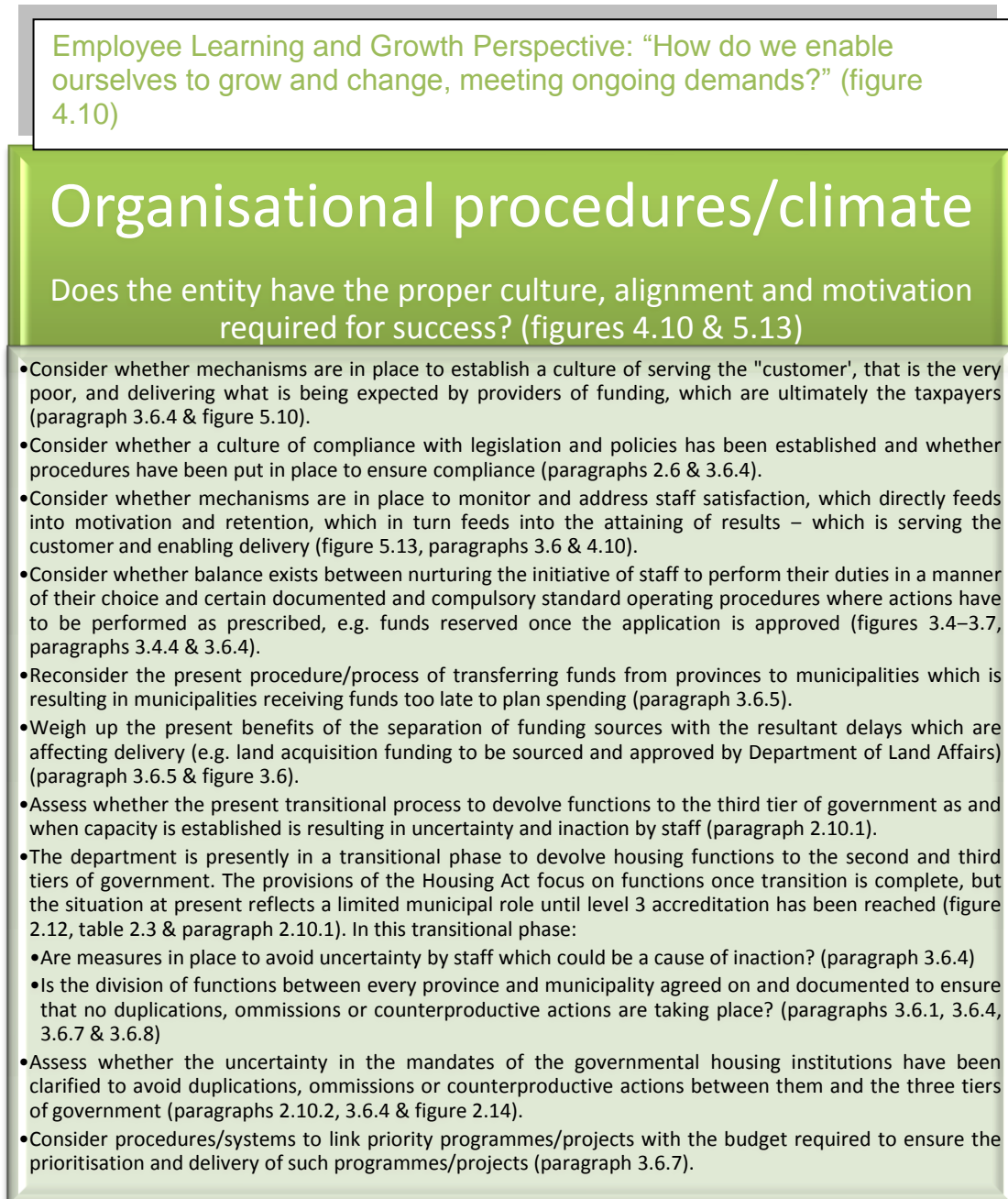
Source: Own understanding and application from references indicated above.

**Figure 5.15 Linking of the BSC Employee Learning and Growth Perspective (Systems – Information technology and others) and the Upgrading of the Informal Settlements Programme**



Source: Own understanding and application from references indicated above.

**Figure 5.16 Linking of the BSC Employee Learning and Growth Perspective (Organisational procedures/climate) and the Upgrading of Informal Settlements Programme**



Source: Own understanding and application from references indicated above.

## 5.6 SUMMARY

Firstly, in this chapter, the compatibility of the BSC was measured against the principles for housing policy development and the core values of the National Department of Human Settlements. To simplify the measurement of compatibility, similar fundamental housing principles and core values were linked. It was found that the last core value, namely Batho Pele principles, consists of eight principles, which were included in the linking referred to above and discussed briefly.

Next, the suitability of the BSC for addressing the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme was critically assessed. The departmental factors hampering delivery from chapter 3 were indicated in eight diagrams and the understanding gained of the BSC, as presented in chapter 4, was applied to each of the factors hampering delivery to assess suitability.

The remainder of the chapter was devoted to the development of a conceptual framework to guide the application of the BSC to the Upgrading of Informal Settlements Programme. The first part of the conceptual framework discussed the pitfalls which should be avoided for successful BSC implementation. Three crucial elements were identified that had to be in place for successful BSC implementation and seven elements which could prevent successful BSC implementation were mentioned.

The second part of the conceptual framework applied the BSC translation process to the Upgrading of Informal Settlements Programme. The discussion firstly centred around gaining consensus on the mission, core values, vision and strategy. The suggestion was made that consensus should be gained on a separate mission and vision statement, not just at national level, but also at

provincial and municipal level for the human settlements departments of the three tiers. The mission and vision statements would be aligned, but would reflect the different contributions to housing delivery at each of the three tiers of government. It was argued that the core values would apply to human settlements departments at all three tiers of government because all staff should comply with the open proclamation of expected behaviour in achieving the mission. The next step in the translation process was to reach consensus on the strategy of the human settlements departments at each of the three tiers. It was argued that the strategy of the human settlements departments at the provincial and municipal levels would differ, but would have to be aligned to each other and to the eight national strategies in the BNG plan, adapted by the 2009 Housing Code. The discussion found that without strategy at each level, actions would be based on an *ad hoc* collection of financial and nonfinancial measures that are not linked to each other, often resulting in conflicting initiatives being pursued or improvements in one area having a detrimental effect on other areas.

In continuing with the BSC translation process, the next step would be to apply the four BSC perspectives to the strategy to formulate objectives and measures. This was not done for three reasons: this is a conceptual framework and not the actual BSC development process; the discussion earlier in the chapter found that the BSC cannot be developed by one person, but has to be a combined effort by the BSC team; no delivery strategies were found in the literature review relating to human settlements departments at provincial and municipal levels, nor were strategies found for the Upgrading of Informal Settlements Programme. In view of the above, it was decided to apply the BSC to the provisions of the Upgrading of Informal Settlements Programme to provide a glimpse of the potential of the BSC should a decision be taken to proceed with BSC implementation. It was found that this BSC application identifies an approach and considerations which could be taken into account by the BSC

team once consensus has been reached on the strategy and strategy mapping is about to commence. The considerations were illustrated in a diagram for each of the Customer, Financial and Internal Processes Perspectives and three diagrams for the Employee Learning and Growth Perspective.

Chapter 6 will focus on the conclusions reached from this study and will make a recommendation.

## **CHAPTER 6**

### **CONCLUSIONS AND RECOMMENDATION**

#### **6.1 INTRODUCTION**

In the course of this study, multiple opinions and arguments have been reviewed. The content of this chapter will be devoted to the arguments or insights gained which are deemed to be of particular importance. Conclusions will be drawn and a recommendation will be made relating to the study. The study concludes with suggestions for future research. Before commencing with the conclusions and recommendation, a brief overview of the background to and focus of the research included in chapter 1 needs to be provided.

#### **6.2 OVERVIEW OF THE BACKGROUND TO AND FOCUS OF THE RESEARCH**

In chapter 1 of this study, the complexity of the subsidised housing environment was outlined. Further, it was indicated that various actions have been taken by the National Department of Human Settlements since the advent of democracy in 1994 in the belief that these would address the challenges faced and accelerate the delivery of subsidised housing so that all informal settlements could be eradicated by 2014. One of the actions taken was the creation of a national framework for the delivery of subsidised housing, the greatest part of which has been in place for a number of years. In spite of this, housing delivery has not accelerated as anticipated. Most arguments centred around the housing budget, which was seen as the main constraint. A new approach that involved viewing the budget as an enabler rather than a constraint was proposed, with the focus on finding a way to ensure the best value for every rand spent on housing. This was seen as an indication that internal or departmental

weaknesses that could be affecting delivery should be addressed. In searching for a solution, a new development in Strategic Management Accounting, the Balanced Scorecard (BSC), is discussed. This is an integrated framework of performance measurement and management. While the BSC was developed for businesses operating in complex environments, it has been successfully adapted for use in the public sector to execute strategy by converting strategy into measurable actions at the various operational levels.

As noted in paragraph 1.3, the overall research aim was to critically assess whether the BSC as a performance measurement tool is suitable for addressing the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme and, where it is found to be suitable, to develop a conceptual framework to guide any possible future application of the BSC to the Upgrading of Informal Settlements Programme.

### **6.3 CONCLUSIONS**

In paragraph 1.3, research objectives were formulated from the overall research aim. This paragraph reviews the findings of this study on the basis of the original, individual research objectives which provide a framework for the discussion. Certain challenges faced during the research process, along with the decisions taken, have also been included. In order to structure the discussion, each individual research objective from paragraph 1.3 has been indicated in a rectangle, with the related findings shown below the rectangle. As in paragraph 1.3, “programme” indicates the Upgrading of Informal Settlements Programme.



- 1) Produce an overall picture of the national framework for the delivery of subsidised housing and indicate where the “programme” fits into the framework.

A great deal of detailed research was required to locate and confirm the currency of all information presented in chapter 2, which has, for ease of reference in this study, been termed “the national framework for the delivery of subsidised housing”. The framework was found to include: principles, legislation, policies, plans, a national housing mission, core values, vision, strategies, housing programmes, facilitators and funding structures. During the research process, the complexity of housing delivery referred to before became even more evident. Ways had to be found to deal with the data overload experienced because of the large number of very lengthy publications. In an attempt to limit the volume and retain the focus, information deemed to be core was extracted from the data, grouped and set out in brief discussions and in multiple diagrams. The policy documents and pieces of legislation selected were limited to national housing legislation and therefore laws that apply to the public service in general such as the Public Finance Management Act (PFMA) were excluded from the discussion. Provincial and municipal legislation was also excluded because the aim was to centre the discussion at national level, for a national housing programme (paragraph 1.4).

Arguably, the most important policy document that forms part of the national framework is the BNG plan of 2004. While it was anticipated that the BNG plan would result in “drastic and paradigm shifting measures” in housing delivery, enabling the eradication of the 2,4 million informal settlement dwellings by 2014, it appears to have accelerated housing delivery only slightly, to the point of halting the growth in informal settlement dwellings, but making no inroads towards eradication.

The nine strategies contained in the BNG plan were deemed significant because they contain the game plan of the National Department of Human Settlements. The strategies were identified and illustrated in figures, which also reflect the changes in strategy from the 2004 BNG plan to the 2009 Housing Code. This technique highlighted an important change in emphasis in Strategy 2, namely, a change from the “progressive eradication of informal settlements” to the “upgrading of informal settlements”.

The detailed literature review revealed that the delivery of housing is being facilitated by the three tiers of government and housing institutions that report directly to the National Department of Human Settlements. A diagram was compiled to illustrate the roles of the nine governmental housing institutions, as well as give an indication of the institutions where operations have been or are being terminated. Relating to the three tiers of government, research revealed the intention to devolve responsibility for housing delivery from roles presently performed mainly by provincial human settlement departments down to the third tier of government, namely the municipal level. The functions of the three tiers of government are therefore in a transitional phase. An overview of the housing functions of the three tiers of government based on the Housing Act of 1997 was compiled in a diagram. This appears to reflect the functions once the devolution of housing delivery to municipal level has been completed. Further research indicated that municipalities have to earn a level 3 accreditation before they can perform all the housing delivery functions. Accreditation levels aim to ensure that capacity is established before functions are devolved, as assessed against the Accreditation Framework for Municipalities to Administer National Housing Programmes.

A diagrammatic overview was compiled of the sixteen national housing programmes, which are divided into four intervention categories, namely: Financial, Incremental, Social and Rental and lastly, Rural. The Upgrading of

Informal Settlements Programme, a programme in the Incremental Intervention category, was identified in red on the diagram to draw attention to this core part of the study and to indicate where it fits into the national framework.

From the above conclusions, it is clear that objective 1) was met in that the national framework for the delivery of subsidised housing that includes principles, legislation, policies, plans, a national housing mission, core values, vision, strategies, housing programmes, facilitators and funding structures was produced. Further, it was found that the Upgrading of Informal Settlements Programme is one of sixteen national housing programmes. The presentation in chapter 2 of the national framework for the delivery of subsidised housing, with special reference to the figures that were compiled, produced an overall picture of the national framework for the delivery of subsidised housing which had not been available before chapter 2 was presented.

2) Investigate the complexity of the upgrading of informal settlements scenario, including the provisions of the “programme”.

In meeting objective 2), the literature review revealed that informal settlements form round large cities because housing delivery cannot keep up with the unplanned and increased demand due to the rapid urbanisation of the poor searching for work. The greatest part of the housing backlog was found to be represented by households living in informal settlements. An investigation of the documentation since 1994 shows that in spite of the continual delivery of subsidised housing, informal settlement households increased from 1,4 million in 1994 to 2,4 million in 2005, but remained constant at 2,4 million until 2009. A review of the literature revealed that government’s 2004 commitment to eradicating all of the 2,4 million informal settlements by 2014 originated in response to the 2000 United Nations Millennium Development Goals. In 2010,

this commitment was revised to the upgrading of 500 000 well-located informal settlement dwellings by 2014.

Further, the research revealed that the Upgrading of Informal Settlements Programme applies to a whole area identified by the municipality rather than to individual households; that it is *in situ*, meaning that it takes place on the site of the informal settlement, usually while the households are still living there; and that the municipality has to provide 10% of the funding for the project up front.

Even though the Upgrading of Informal Settlements Programme was introduced in terms of Strategies 2 and 3 of the BNG plan of 2004, very little was published relating to the Upgrading of Informal Settlements Programme prior to 2010. The publication of the very lengthy 2009 Housing Code in 2010 served as an invaluable source of information and confirmation of the very detailed provisions of the Upgrading of Informal Settlements Programme, most of which were not available before. The Upgrading of Informal Settlements Programme contains a range of unique provisions relating to the qualification criteria for benefits, various possible benefits and the decision route that households/persons who qualify for more than one benefit would follow in choosing a benefit best suited to their specific needs, the essence of which was extracted and illustrated diagrammatically. Further, it was found that there are four phases in the Upgrading of Informal Settlements Programme, each of which requires very specific and detailed procedures to be performed. As previously, diagrams were used to unpack and clarify the detailed procedures as well as the roles of the facilitators. In essence, the outcome of Phases 1 to 3 is a serviced stand which is funded from the Upgrading of Informal Settlements Programme, subsidised to approximately R30 466 per household. The outcomes of Phase 4 are: the completion of social amenities which form part of the drive to create sustainable communities, funded from the Provision of Primary Social and Economic Facilities Programme and various other sources; where applicable, housing

units funded from the chosen housing programme subsidised to approximately R55 706 per household; and the registration of ownership. Investigations revealed that the Upgrading of Informal Settlements Programme makes provision for performance measures which were found to centre around the long-term impact that each development has had on the community.

In the discussion above, objective 2) was met, in that informal settlements form because housing delivery cannot keep up with the unplanned and increased demand for housing. Further, it was found that the Upgrading of Informal Settlements Programme was launched in response to the 2000 United Nations Millennium Development Goals, while upgrading is done *in situ* and applies to a whole area rather than to individual households. The Upgrading of Informal Settlements Programme takes place in four phases and should include the provision of social amenities as part of building sustainable communities. The detailed figures that were compiled on the provisions of the Upgrading of Informal Settlements Programme contributed to an understanding of the programme by providing an overview which was not previously available, and which is presented in greater detail in paragraphs 3.1 to 3.5.

3) Identify the multiple departmental factors hampering delivery under the “programme” and organise and combine them under relevant headings.

In meeting objective 3), a very detailed literature review revealed various opinions and arguments on departmental factors hampering delivery, as well as specific examples linked to the Upgrading of Informal Settlements Programme. The arguments presented by the parties from various perspectives totalled more than twenty possible factors hampering delivery. Because such a large number of factors would result in repetitive discussions when suitability is assessed, it was deemed crucial to reduce the number of factors to fewer than ten. Added to this challenge, multiple sources were found where the opinions

given could relate to various factors hampering delivery because of various possible underlying causes, for example: “coordination should be improved between government departments”. The approach was therefore followed where general opinions were taken and linked to more detailed arguments. After this process, arguments which were deemed to relate directly to one another were organised and combined under the headings deemed to be most suitable, resulting in eight factors. The factors are identified in table 6.2 in the discussion of objective 5), so they will not be repeated here. While it is acknowledged that personal bias partly influenced the choice of headings, the assessment of the suitability of the BSC for addressing factors hampering delivery countered this by placing the focus on the detailed arguments, rather than on the headings. The choice of headings therefore had little influence on the outcome of the suitability assessment.

In the earlier part of the study, the use of an empirical study was considered to confirm the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme. It was decided, however, that an empirical study of this kind was not a core part of the research and that the information would be of limited value to the study given the present differences in the functions and powers of the various provincial and municipal human settlement/housing departments, as a result of the process of devolving responsibility to the lowest level of government. It is argued that this process of devolution means that at present staff in similar positions in different provinces/municipalities have different levels of exposure to and involvement in housing delivery and that this influences their opinions, so that the information obtained is of limited value. The decision was therefore taken to use the factors hampering delivery as determined via the detailed literature review and apply the BSC to these factors to assess suitability.

In meeting objective 3), the organisation and combination of factors identified resulted in eight departmental factors hampering delivery under the Upgrading of Informal Settlements Programme, namely: Disjuncture between long-term visions and actual actions on the ground; Lack of detailed strategy for prioritised national housing programmes; Outdated information on income and needs of targeted beneficiaries; Lack of buy-in to, understanding of and compliance with policies by staff; Bureaucratic and inefficient funding sources and transfers; Lack of accountability for decision-making and delivery failures; Misalignment of priorities and budgets between sector departments; and Lack of coordination and communication between sector departments. The identification, organisation and combination of departmental factors hampering delivery have contributed to knowledge in that an element of the complex delivery process has been isolated which the human settlements departments and governmental housing institutions at the three tiers of government would be able, collectively, to correct. The factors determined also confirm the suggestion in chapter 1 that delivery is being hampered not just by limited annual housing budget allocations, but also by internal constraints. This realisation could become the first step in addressing these constraints. A more detailed discussion of these factors is presented in paragraph 3.6.

- 4) Clarify the use of the BSC as a performance measurement tool for the public sector and do a preliminary appraisal of whether the present Monitoring and Evaluation or the BSC has the potential to collectively address the factors hampering delivery under the “programme”.

In meeting objective 4), the literature review revealed that dramatic changes have taken place in the business environment over the past 35 years which have necessitated improved performance measurement in the private and public sectors. It is argued that “if you can’t measure it, you can’t manage it” and that organisations must measure their present position before determining their future direction. Because of these changes and increased pressure on the

fiscus, results for every tax dollar spent and greater transparency and accountability are being called for by constituents, taxpayers and even national governments. The concept of results for every tax dollar spent is clearly related to the housing scenario, where it was argued that an approach of the best value for every rand spent should be considered and money should be used more wisely.

Completion, results and “making good on promises” are being demanded by the constituents, who are no longer simply accepting the launching of yet another new programme or cause. It was found that governments in general are being criticised for being: inefficient, ineffective, self-serving, and unresponsive to public needs and for failing in the provision of the quality and quantity of services being demanded. The change discussed above is directly related to the South African situation, where it was argued that there is a growing awareness that the present approach to informal settlements is inadequate and that the situation “constitutes a political and developmental powder-keg” (paragraph 1.5). Further, the government commitment to eradicating or upgrading all informal settlements by 2014 had to be reduced to the upgrading of a limited number of informal settlement dwellings because delivery did not accelerate as anticipated after the launching of the BNG plan (chapters 1, 2 and 3).

Stakeholders are requiring not simply that performance should be measured, but that it should be measured at an advanced level. Consequently, it has increasingly become the norm that the public sector is operating more like a business than ever before, partly through the borrowing of management tools from the private sector. The BSC is an integrated framework with a holistic perspective that helps organisations to achieve their mission by making strategy executable by translating the mission and strategies into objectives, measures and targets. Because of this, it was found that the BSC has dominated the



performance measurement debate for at least a decade. It was found that the BSC has been successfully adapted for use in the public sector by elevating the mission to the top of the BSC with the customer perspective flowing from and into it. The strategy remains at the core of the BSC and four perspectives are used to convert the strategy into objectives and measures.

The four public sector BSC perspectives are: Customer; Financial; Internal Processes and Employee Learning and Growth. Research found that through the application of the BSC, a complete and integrated framework is created that is able to measure: how value is created for current and future customers, how internal capabilities must be enhanced, and how investment in employees, processes, technology and innovation should be made. It is crucial that all the measures should be linked between perspectives in a cause-and-effect relationship, which is done through strategy mapping. The City of Charlotte, North Carolina, is widely considered to be the best example of the BSC in the public sector. Here the effective execution of the strategy has been attributed to the use of the BSC. The first BSC was implemented there 15 years ago, followed by refinements and adaptations, resulting in the present use of the benefits of the BSC as a measurement system, strategic management system and communication tool.

The following eight benefits of using the BSC in the public sector were identified: Strategy execution; Demonstrates accountability and generates results; Attracts scarce resources, namely funding and employees; Creates a focus on strategy; Produces information, not data, by identifying critical drivers of success; Prevents outsourcing by delivering quality results at efficient prices; Drives change to reach desired outcomes; and Inspires trust by proving accountability. When considering the above benefits of the BSC in relation to the factors hampering delivery under the Upgrading of Informal Settlements

Programme, the BSC was found to have the potential to address all these challenges.

The BSC supports the change in emphasis from the former practice in the public sector of focusing reporting on the funds spent on administrative costs. This perspective has been faulted in favour of the public sector increasingly asking the following questions:

- a) What difference is being made?
- b) What results are being achieved?
- c) What progress is being made in achieving the mission of the organisation?

It was established that Monitoring and Evaluation, part of a Government-wide Monitoring and Evaluation (GWM&E) system is being used for performance measurement. On investigation, it was determined that Monitoring and Evaluation is centred around monitoring inputs and outputs, evaluation and impact assessment which is identified as the link between strategy and the impact on the community, a finding which supports questions a) and b) above. Recent developments indicated that performance must be measured from a broader perspective than merely that of inputs and outputs, but performance measurement should make it possible to answer all three questions, something for which the GWM&E system is not designed. The BSC supports the answering of all three questions, especially question c), namely the extent to which the mission is being achieved. The study found that the present performance measurement indicators for the Upgrading of Informal Settlements Programme, developed under the GWM&E system, only measure outcomes of past performance, or what has happened, but would not drive actions to ensure the achievement of future performance targets, which the BSC is able to do. In the present complex delivery situation, drivers of future performance must be included, which would ensure that delivery is driven as planned. Further, the complexity of delivery and the departmental factors hampering delivery under

the Upgrading of Informal Settlements Programme call for an integrated performance measurement framework, which the GWM&E is not able to provide, although the BSC is.

Objective 4) was met in the preceding discussion, when it was established that the BSC has successfully been adapted for use as a performance measurement tool in the public sector by elevating the mission to the top of the BSC, keeping the strategy at the core and using the following four perspectives, namely: Customer Perspective; Financial Perspective; Internal Processes Perspective and Employee Learning and Growth Perspective. Further, it was found that there is a need for a new approach or tool because the present Monitoring and Evaluation will not address the departmental factors hampering delivery, because it is not: sufficiently comprehensive, integrated and balanced between outcomes of past performance and drivers of future action; and it does not measure the extent to which the mission is being achieved. On the other hand, the BSC has the potential to address all of the above.

Because the BSC is an integrated framework designed for complex environments, intensive research was required to gain clarity on this development in Strategic Management Accounting as adapted for use in the public sector. This aspect was discussed in chapter 4. As the potential of the BSC gradually unfolded during the research process and more and more benefits and possibilities of the BSC could be linked to the delivery challenges faced by the Upgrading of Informal Settlements Programme, it was found to be a very rewarding and exciting experience and one that has contributed to improved personal understanding and growth in the discipline.

- 5) Critically assess the suitability of the BSC as a performance measurement tool for addressing the departmental factors hampering delivery under the “programme”.

It was argued that the BSC would have to be compatible with the principles for housing policy development and core values which are part of the national framework for the delivery of subsidised housing before any assessment could be considered in the housing environment. Table 6.1 below summarises the measurement of the compatibility of the BSC with the linked fundamental principles for housing policy development and core values.

**Table 6.1 Summary of the compatibility of the BSC with the fundamental housing principles and core values**

<b>Linked fundamental housing principle/core value per figure 5.1</b>	<b>Source of discussion in study</b>	<b>Compatibility status of principle/core value</b>
1. People-centred development and partnerships/ 6) Batho Pele principles 1– 5 & 8	Paragraph 5.2.1	√
2. Development of skills (Skills transfer) and economic empowerment/ 5) Innovation	Paragraph 5.2.2	√
3. Fairness and equity/ 2)	Paragraph 5.2.3	√
4. Choice/ 3)	Paragraph 5.2.4	√
5. Transparency, accountability and monitoring/ 6) Batho Pele principles 6 & 7	Paragraph 5.2.5	√
6. Sustainability and fiscal affordability/ 3) Quality and affordability; 4) Sustainability; 5) Innovation	Paragraph 5.2.6	√

Source: Own observation from own linked concepts and measurement of compatibility detailed in sources referenced above.

Key: √ the BSC appears to be compatible.

It appears from table 6.1 that the BSC is compatible with the principles for housing policy development and core values of the Department of Human Settlements. Because compatibility had been established, the discussion was able to proceed to objective 5) to critically assess whether the BSC is a suitable tool for addressing the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme. The assessment of the suitability of the BSC for addressing the departmental factors hampering delivery was done in eight figures. The overall assessment of the suitability of the BSC is summarised in table 6.2.

**Table 6.2 Summary of the suitability of the BSC for addressing the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme**

<b>Factor hampering delivery (paragraph 3.6 of the study)</b>	<b>Source of observation in study</b>	<b>Suitability</b>
1. Disjuncture between long-term visions and actual actions on the ground	Figure 5.2	√
2. Lack of detailed strategy for prioritised national housing programmes	Figure 5.3	P
3. Outdated information on income and needs of targeted beneficiaries	Figure 5.4	√
4. Lack of buy-in to, understanding of and compliance with policies by staff	Figure 5.5	√
5. Bureaucratic and inefficient funding sources and transfers	Figure 5.6	√
6. Lack of accountability for decision-making and delivery failures	Figure 5.7	√
7. Misalignment of priorities and budgets between sector departments	Figure 5.8	√
8. Lack of coordination and communication between sector departments	Figure 5.9	√

Source: Own observation from own application detailed in sources referenced above

Key: √ the BSC is deemed to be a suitable tool

P the BSC is deemed to be a partially suitable tool

In table 6.2 above, it appears that the BSC is a suitable tool for addressing seven of the eight departmental factors hampering delivery under the Upgrading of Informal Settlements Programme. Further, it was found that the BSC is partially suited to addressing the second departmental factor hampering delivery. The partial suitability is due to the fact that although the BSC is not a

tool for formulating strategy, part of the BSC translation process requires that the BSC team members should gain consensus on the strategy. By implication, to gain consensus, a strategy has to exist, therefore the BSC emphasises the need for a strategy and requires that consensus should be gained on a strategy because it is central to the BSC.

In the discussion above, objective 5) was met in that a critical assessment of the BSC found it to be a suitable tool because it was able to address seven of the eight departmental factors hampering delivery under the Upgrading of Informal Settlements Programme. Further, the BSC was able to partially address the second factor, namely: Lack of detailed strategy for prioritised national housing programmes, because the BSC translation process requires that consensus be reached on the strategy. By implication, this calls for a strategy to be formulated. The detailed discussions are presented in paragraphs 5.2 and 5.3.

In meeting objective 5), a contribution has been made to knowledge in that a tool, namely the BSC, has been found to be suitable to assist the Department of Human Settlements in addressing the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme. The BSC is a tool which is also compatible with the housing principles and core values of the department. Before this research, no possible solution existed for addressing the departmental factors hampering delivery under the Upgrading of Informal Settlements Programme.

6) Develop a conceptual framework to guide a possible future application of the BSC to the “programme”.

In meeting objective 6), a conceptual framework was developed to guide a possible future application of the BSC to the Upgrading of Informal Settlements

Programme. In the first part of the conceptual framework, pitfalls that should be avoided in the implementation of the BSC were identified. Three points were raised which were crucial to the successful implementation of the BSC, namely: Leadership and support of senior executives; Burning platform for change; and BSC team and leader. Seven situations in which the BSC may not work were identified, namely: BSCs which are not reviewed periodically; BSC development labelled a short-term or systems project; Lack of disciplined management and leadership; Keeping the BSC at the top; Drawn out development process; Appointing inexperienced consultants; and Only introducing the BSC for compensation.

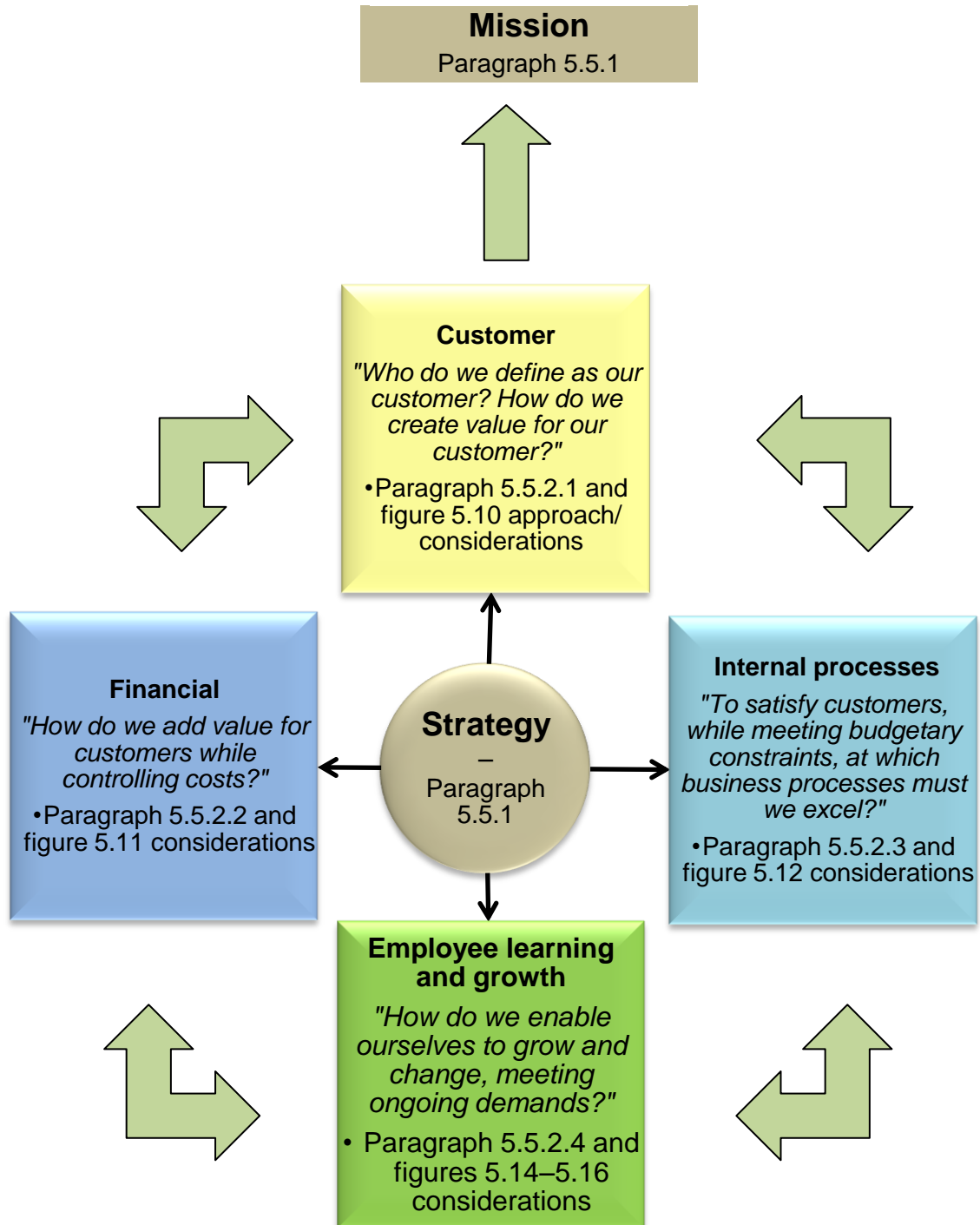
In the second part of the development of the conceptual framework, an understanding of the BSC translation process was used to guide the application of the BSC to the Upgrading of Informal Settlements Programme. The BSC translation process began by gaining consensus on the mission, core values, vision and strategy. The next step in the translation process was to apply the four BSC perspectives to the strategy to convert it into objectives and measures. This step was only partially applied because successful BSC implementation calls for a BSC to be developed by a BSC team, and therefore a study of this nature conducted by one person would not comply. In addition, the strategy for the provincial and municipal levels was not found in the literature, but only the national strategy in terms of the BNG plan. The argument was made that the strategy would be the game plan for housing delivery at provincial and municipal levels and that it would in principle be the same for all provincial human settlement departments because they are all subject to the same “national framework”. Similarly, municipalities with similar accreditation levels would have the same strategy. The point was made that even though the Upgrading of Informal Settlements Programme does not reflect a strategy, it does include detailed provisions on certain elements of how delivery should proceed. Because this is a conceptual framework, the decision was taken to



apply the BSC to the provisions of the Upgrading of Informal Settlements Programme to present a glimpse of the potential of BSC implementation. This part of the documented application of the BSC could therefore not be viewed as a solution, but rather as an approach and a set of considerations to be taken into account by the BSC team once they have gained consensus on the strategy and start formulating the objectives.

The BSC framework for the public sector has been used as the outline for figure 6.1 below. On the diagram, references have been made to supporting discussions and diagrams, which include a possible approach and considerations that could be taken into account by the BSC team when starting strategy mapping. These considerations are detailed and will not be repeated here.

**Figure 6.1 Possible BSC approach to delivery under the Upgrading of Informal Settlements Programme**



Source: Own application; Niven 2003: 32.

Objective 6) was met, because a conceptual framework was developed and presented which could guide a possible future application of the BSC to the Upgrading of Informal Settlements Programme. The supporting discussions and diagrams are reflected in chapter 5, paragraphs 5.4 and 5.5. In meeting objective 6), a contribution has been made to knowledge in that a conceptual framework has been developed that could guide the possible future application of the BSC to the Upgrading of Informal Settlements Programme, something which did not exist before.

The six objectives that have been met were originally formulated from the overall research aim. The objectives have been met, which by implication means that the overall research aim has been achieved.

In conclusion, this study has firstly contributed to knowledge by identifying departmental factors hampering delivery under the Upgrading of Informal Settlements Programme, factors the human settlements departments at the three tiers of government collectively have control over addressing. Secondly, this study has contributed to knowledge by showing that the BSC is a suitable tool for addressing the departmental factors hampering delivery. Thirdly, the conceptual framework which was developed to guide any possible future application of the BSC to the Upgrading of Informal Settlements Programme reflects a new approach in streamlining the delivery of housing under the Upgrading of Informal Settlements Programme, a concept not previously considered.

#### **6.4 RECOMMENDATION**

It is recommended that the BSC be applied to the Upgrading of Informal Settlements Programme and that the conceptual framework in this study be used to guide the application process.

## **6.5 SUGGESTIONS FOR FURTHER RESEARCH**

During the course of this study, the following possible areas for future research were identified:

- Research could be done on whether departmental factors similar to those of the Upgrading of Informal Settlements Programme could be hampering delivery in other government departments and whether the use of the BSC could assist in addressing these factors.
- Research could be done on whether the application of the BSC could assist with the delivery of government programmes which have been identified as a priority.
- Research on whether the transitional process of devolving housing delivery down to municipal level is negatively affecting delivery by causing inertia/paralysis/uncertainty in provincial and municipal housing departments due to confusion of what roles should be performed.

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