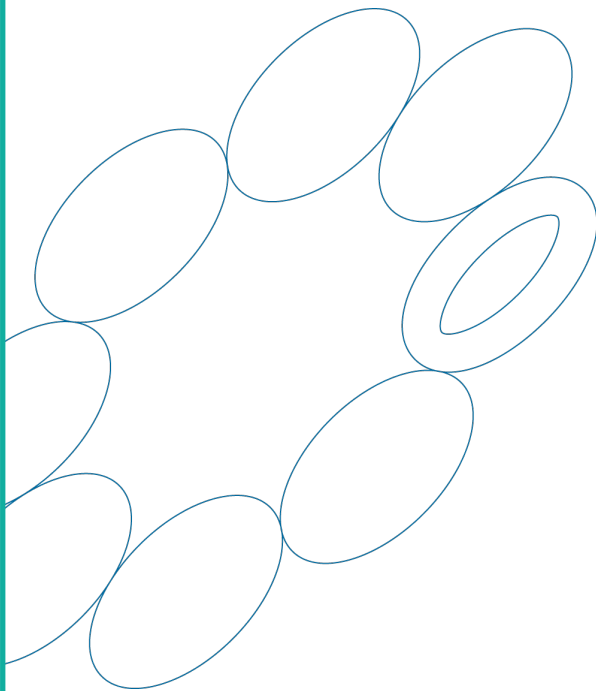


Can I apply Balanced Scorecard in a non-profit organisation?

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2GC Limited
Albany House
Market Street
Maidenhead
Berkshire
SL6 8BE UK

+44 (0) 1628 421506
www.2gc.co.uk
info@2gc.co.uk

Can I apply Balanced Scorecard in a non-profit organisation?

Overview

The Balanced Scorecard framework was first developed within for-profit organisations, during the late 1980s. These firms wanted a more comprehensive view of organisational performance than provided by financial measures alone. As the framework was popularised through the 1990's, non-profit¹ organisations began to apply the Balanced Scorecard. They concluded that a 'balanced' view of performance might also help them to better manage their organisations' performance. Since then, thousands of non-profits have adopted the Balanced Scorecard.

Several factors make non-profit Balanced Scorecards more complicated (and potentially more beneficial) than their commercial equivalent:

- the need to reflect a practical definition of what is 'success' in the non-profit's Balanced Scorecard
- the need for the Balanced Scorecard to accommodate the frequent changes in short and medium term organisation goals (and resources) that are typical in the non-profit sector
- the need to define workable measures for results
- the need to use the Balanced Scorecard in a way that accommodates a culture of limited "accountability for results"
- the need to modify the traditional Balanced Scorecard framework to reflect the non-profit's financial priorities

This FAQ addresses these factors, and also provides links to some non-profit Balanced Scorecards.

Factor 1 - Describing 'success'

Because Balanced Scorecards provide a (balanced) view of organisational performance, non-profit Balanced Scorecards need to reflect 'success' for the organisation in question. While the 'people', 'process' (and to some extent the 'customer') perspectives of for-profit Balanced Scorecards translate well into non-profits, the top-level 'financial' perspective does not – by definition, non-profits do not have financial performance as a primary goal. Non-profits do, however need to satisfy external stakeholders (the equivalent of shareholders in the for-profit world). Understanding these expectations and reflecting them in the non-profit Balanced Scorecard is essential.

For non-profits, these external stakeholders' expectations are usually an extensive set of mostly non-financial objectives addressing social, political, and economic issues in roughly equal measure. Stakeholders from political and social communities are unlikely to be solely interested in the financial performance of the organisation. As an added complication, the 'customers' of the organisation are often represented in the 'stakeholder' group (e.g. the customers of a government department are also the indirect funders of the department), and so are likely to present demands to the non-profit altogether more complex and open ended

¹ Governmental and non-governmental organisations, charities

than those faced by a private company.

As a result, the process of **strategy articulation** (an essential input to a Balanced Scorecard design process) is both more important, but also more complex than for a typical commercial organisation. Because the overall goal of a for-profit organisation is usually simple financial return, it is often possible to construct workable Balanced Scorecards without explicitly stating this goal. But there is no common 'default' goal shared by all non-profit organisations. So how can the strategic goals of a non-profit be articulated?

2GC experience

An increasingly popular solution comes in the form of a **Destination Statement**, the first component of the 3rd **Generation Balanced Scorecard** framework. 2GC's experience is that the creation of a Destination Statement helps clarify and make explicit the key stakeholders' requirements, expectations and goals, so making it significantly easier for non-profit managers to agree the right organisational objectives to include in their Balanced Scorecard.

Factor 2 – Changing definitions of success

Non-profits operate in an environment where political agendas trigger regular changes to key stakeholders' definition of 'success'. As a result, non-profit managers face a degree of variability not seen by their for-profit counterparts, for whom policy changes are normally economically rational. Changing stakeholder expectations can diminish or invalidate the importance of prior success criteria and action plans by introducing new, unplanned strategic goals. For example, an authority that is investing millions in a tax collection system is told that the tax system is to be fundamentally changed upon the election of different political party.

To deal with changing priorities, non-profit managers have two options. One is to adopt very 'abstract' organisational goals – i.e. ones that remain 'true' independently of the changes in stakeholder demands. This approach has political advantages for managers because if goals are abstract, whatever happens can be construed to have been achieved because them. However, with vague goals, managers don't know what to *do* to achieve them.

A second option is to acknowledge the need for 'dynamic' strategic planning – flexing how the strategy is defined and managed over time. Dynamic strategic management helps an organisation to gain better traction behind key goals, and overall become more successful. Since the goals are less obscurely defined, staff can work out how to contribute to the goals. And by challenging an organisation to both acknowledge and respond more effectively to regular changes in policy, it may also lead to beneficial organisational changes, building a more responsive, adaptive and learning organisation.

2GC experience

Our experience is that the second option is a better basis for the designing a Balanced Scorecard. A key output of 3rd **Generation Balanced Scorecard** methodology is a Balanced Scorecard that can be easily and effectively updated by its users to reflect changes in goals over time. Part of this comes from ensuring that the design itself conforms to best-practice guidelines, and part from ensuring the management team themselves are fully comfortable with the tool and the methods they can apply to make changes.

Factor 3: Measuring success

While financial and customer measures are defined and available in commercial organisations, the equivalent is less easily found in non-profits. For example, influencing the development of the non-profit's 'market' ('advocacy') is often a priority, but measuring the non-profits' success

with this is hard. In the private sector the relationship with customers is relatively straightforward; non-profits have complex and varied relationships with other actors, each difficult to measure. How do you objectively measure the effectiveness of your relationship with the regulator?

A good measure is one that management can significantly control. But a non-profit's top-level goals are usually influenced by many powerful factors and actors beyond its influence. A development agency may seek to reduce child mortality and work to do so, but its contribution to falling (or rising) child mortality is difficult to gauge. Regulators seek to strengthen an industry; actual industry performance is only partially attributable to the regulator's efforts. So how do we find good top-level ('results') measures for the non-profit?

2GC experience

2GC recommends that non-profits manage these challenges pragmatically. Several things can be done. First, recognise that the strategic objective is more important than the measure and so manage the objective not the measure. Do not change objectives to align with inappropriate measures simply because these are available. Second, do not be afraid to use qualitative measures where good quantitative measures are not available. For example, self-evaluation on a well described 1 to 5 scale for 'quality of relationship with regulator' is imperfect, but nevertheless ensures the objective remain on the management agenda and in focus. Third, measure and manage the controllable 'drivers' of top-level performance; the things non-profit managers are doing to drive delivery of the top-level results sought.

Factor 4 – Managing the financial perspective on success

Commercial Balanced Scorecards traditionally have a financial perspective at the top of the strategic logic and mapping. For the non-profit, financial goals are not the end, they are (part of) the means. Traditional practice is to push the 'finance' perspective down to the bottom of the strategy map for non-profits, treating financials as input to the strategic model. This is problematic because financially oriented goals are also sought by non-profits. Consider 'value for money', 'cost reduction', or 'funds raised' – all are outcomes of some activity. From a process perspective, budget adherence, project funding spend, cash management and financial guideline adherence may also be important to the non-profit, and may need to be reflected in a Balanced Scorecard.

2GC experience

The 'balance' in a 3rd Generation Strategic Linkage Model (SLM) comes also from it having only two main perspectives on 'performance': activity-outcome (input-output; cause-effect; means-end). This SLM structure is both logical and flexible. Non-profit managers do things to get results and so measure both the doing and the results. Because 3rd Generation Balanced Scorecards allow 'threads' or 'themes' to run vertically through the Strategic Linkage Model, a set of linked financially oriented objectives and measures is logically incorporated within the non-profit's Balanced Scorecard.

Factor 5 – Accountability for success

This concept is a relatively recent arrival to non-profits, in particular governmental non-profits where it is hardest to implement. In non-meritocratic non-profits, the benefiting managers recognise the transparency brought by the Balanced Scorecard as a threat, and usually resist, undermining the Balanced Scorecard, potentially to the point of failure. Even in relatively well-governed non-profits, a culture of "accountability for measurable results" is weak, partially as a result of the issue described in Factor 3 above.

2GC experience

2GC recommends a transparent Balanced Scorecard design process involving all responsible managers. By involving the key players in the discussions and decisions, potential resistors are more likely to commit to the decisions and resulting action. It is also harder for managers to visibly resist after participating in a 'contracting' process with peers on the subject of strategic objectives, targets and responsibilities. While it is true that Balanced Scorecard is easier to implement in more transparent, better-governed organisations, it also helps to build accountability through its use.

Management accountabilities towards various Balanced Scorecard objectives should be defined carefully and progressively. Initially, managers can be 'accountable' solely for ensuring the objective's performance is reported (not the performance itself). Later, objective accountabilities can be strengthened to include "coordinating activities in support of the strategic objective" and finally to "accountability for objective results". A graduated approach may be more effective than an applying a strict definition of performance accountability at the beginning of the Balanced Scorecard implementation.

Conclusions

The Balanced Scorecard is a powerful framework for supporting the flexible implementation of strategic plans. When implemented well it effectively drives the communication of goals and the distribution of accountabilities within complex organisations. Balanced Scorecard, by design, reflects multiple financial and non-financial goals better than traditional strategic planning systems.

The challenges facing non-profits using Balanced Scorecard stem partially from the increased complexity of stakeholder demands and the variability of these demands over time. Other challenges exist around measuring success, integrating the financial view, and building a culture of accountability. Nevertheless, the large number of non-profit organisations using Balanced Scorecard (examples below) show that these challenges can be successfully met.

Further Information

Much information exists on non-profit organisations' experience with Balanced Scorecard; many are from sources in the United States of America. Here are some places to start:

- [UK Environment Agency](#): Between October 2001 and April 2003, 2GC supported a major development of Balanced Scorecard based management tools within the UK Environment Agency. One of the most advanced strategic Balanced Scorecards implementations ever attempted, this successful project is described in an academic paper written jointly by 2GC and the Environment Agency and available from the 2GC web site
- [The Balanced Scorecard Institute](#): - An independent site specialising in providing information on Balanced Scorecard for non-profit organisations
- [Procurement Executives Association \(PEA\)](#): - A 'Guide to the Balanced Scorecard Performance Management Methodology' produced by the PEA - an association of civilian procurement executives
- [The City of Charlotte Balanced Scorecard](#): - A series of annual performance reports in the Balanced Scorecard format - used to support the strategic aims of this American city

- [The State of Washington Performance Management](#): – A presentation on Performance Management using Balanced Scorecards within Washington State government entities.
- Association of Washington Cities: (<http://www.awcnet.org/conf2003/LocalGovtBalancedScorecard.pdf>) - A presentation on Balanced Scorecard for local government.

Other 2GC FAQs on Balanced Scorecard describe factors to address in developing and using a Balanced Scorecard (e.g. FAQ - How to create a Balanced Scorecard). The [Resources](#) section of the 2GC web site contains recommendations for books and articles on the subject and links to useful web sites.

For information on 2GC's services including our consultancy, audit and review, and training programmes, visit our Services section of the web site or email Services@2gc.co.uk

About 2GC

2GC is a research-led consultancy expert in addressing the strategic and performance management issues faced by organisations in today's era of rapid change and intense competition. Central to much of 2GC's work is the application of 3rd Generation Balanced Scorecard, an innovative design that increases the likelihood of successful long-term use of the Balanced Scorecard.