

Can I apply Balanced Scorecard to my Non-Profit Organisation?

Overview

The Balanced Scorecard was developed in the early 1990's to address the limitations of relying solely on traditional financial measures as the measurement of corporate performance. It has evolved since then to become a tool that is equally applicable both to profit and to non-profit organisations.

Two keys to the successful application of Balanced Scorecard in the non-profit sector are

- for the designers and users of the tool to understand how to reflect in the Balanced Scorecard a useful definition of what 'success' is for the non-profit sector organisation;
- for the Balanced Scorecard to be designed in a way that reflects the frequent changes in short and medium term organisation goals (and resources) that are typical in the non-profit sector.

This FAQ looks at these issues, and also provides some details of where to go to look for examples of non-profit Balanced Scorecards.

Key 1 - Understanding how to describe 'success' in a non-profit ...

The objectives of a non-profit organisation will centre on the satisfaction of external stakeholders in a similar way to those of private sector organisations. The dominant stakeholder requirement for a private sector organisation is usually simple financial returns on investments made. The situation for non-profits is far more complex: the requirements of external stakeholders of a non-profit usually comprise 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 less likely to be solely interested in the financial performance of the organisation. In addition, the 'customers' of the organisation often also represented in the 'stakeholder' group (e.g. through local political representation), and so are likely to present demands to the non-profit altogether more complex and open ended than might be faced by a private company.

Accordingly, the process of **strategy articulation** as a precursor to a Balanced Scorecard design process is both more important, but also more complex than would be the case for a typical private sector organisation. Because the overall goal of a private sector organisation is usually simple financial return, often it is possible to construct workable Balanced Scorecards without needing to state explicitly that this is the goal. There is no common 'default' goal shared by all non-profit organisations. Formal recognition of the need to create a clear statement of organisational goals in the form of a **Destination Statement** as part of the Balanced Scorecard design process is a distinctive feature of the **3rd Generation Balanced Scorecard** methodology from 2GC. Our experience has been that the creation of a Destination Statement helps clarify stakeholder requirements helps managers to clarify and make explicit their understanding of stakeholder goals, and subsequently this document can make it easier to reach agreement about the right organisational objectives to incorporate in the Balanced Scorecard itself.

Key 2 – Coping with more variability in success criteria

Often driven by political or social concerns, non-profits usually work to address problems because they are there, not because they have got the freedom to pick the easiest or best ones. But the types of success criteria identified by managers of non-profits are nonetheless similar to those found in private sector organisations. Non-profits are faced with "resource constraints" analogous to the financial constraints on private organisations – for example, maximising the utility gained from capital invested by the organisation. Likewise, the organisational constructs used to manage non-profit organisations are also similar to those found in commercial ones and these generate similar managerial issues relating to operational management and organisational development.

However, the lack of an overriding or 'default' financial or economic goal for the non-profit sector, and the vagaries of political change can combine to trigger frequent changes to the success criteria adopted by key stakeholder groups. For example, it is rare for politicians and voters to be required to choose policy goals for non-profits that are necessarily economically attractive or achievable, or that have substantial continuity with previous priorities. Managers of non-profits thus face a degree of

variability that is not matched in the commercial environment, and where policy changes are normally economically rational. Further, social, political or contextual issues that may have little linkage to planning or budgeting horizons within a non-profit will also drive the frequency by which a policy decision may change. This means it is possible that key stakeholder expectations will change within a given timescale in such a way as to diminish the importance of (and at worst invalidate) prior success criteria and action plans, introducing, new, unplanned, strategic goals.

An example of this could be where 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.

Dynamic Balanced Scorecards Needed

With regard to these frequent changes in strategic goal, non-profit managers can react in one of two ways. One option 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 within the non-profit since if the goals are sufficiently abstract, whatever happens can be construed to have been achieved because them. However, this approach also limits the scope for any specific outcomes to be achieved, because since the strategy is so abstract, no one knows quite what to do to achieve it.

The other option is to acknowledge the need for 'dynamic' strategic planning – flexing how the strategy is defined and managed over time. This second approach may present cultural challenges, especially if the organisation has become used to working with non-specific abstract strategies. It also presents managers with increased internal political risks: political capital may be lost each time the organisational goals are seen to change. Dynamic strategic management can enable an organisation to gain better traction behind key goals, and overall become more successful. Since the goals are less obscurely defined, it is more likely that staff within the organisation will be able to work out how to contribute to achieving the goal. By challenging an organisation to both acknowledge and respond more effectively to routine changes in policy, it may also lead to internal organisational changes that make the organisation more responsive to such changes.

Our experience is the second of these two options is the better basis for the design of a Balanced Scorecard. A key goal of 3rd **Generation Balanced Scorecard** design methods is to create a design 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 might apply to make changes.

Conclusions

The Balanced Scorecard is a powerful framework for supporting the flexible implementation of strategic plans, and has proven itself to be a robust approach to drive the communication of goals and the distribution of accountabilities within complex organisations. Balanced Scorecard, by design, is considerably more capable of reflecting multiple financial and non-financial goals within a consistent management tool than traditional strategic planning devices.

The challenges facing non-profits using Balanced Scorecard stem mostly from the increased complexity of stakeholder demands and the potential variability of these requirements over time, when compared to for-profit organisations. However, it is clear from the large number of non-profit organisations using the Balanced Scorecard as a management tool (see some examples overleaf) that these challenges can be met successfully.



2GC Limited
Albany House, Market Street
Maidenhead, Berkshire
SL6 8BE UK
+44 (0) 1628 421506
www.2GC.co.uk info@2GC.co.uk

Further Information

A great deal of information exists about non-profit organisations' experience with Balanced Scorecard and similar approaches; many are from sources in the United States of America. Here are a few useful 'jumping off points' for anyone seeking to find out more.

- ⇒ [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.

Other 2GC FAQs relating to the Balanced Scorecard describe factors that should be considered when 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.

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Albany House, Market Street
Maidenhead, Berkshire
SL6 8BE UK
+44 (0) 1628 421506
www.2GC.co.uk info@2GC.co.uk