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The Balanced Scorecard and Improvement Performance in Nonprofit Organizations

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Nonprofit executives and board members rate measurement of performance as one of three key organizational concerns. The academic literature, however, does not identify a dominant methodology for organizational effectiveness and governance. The intent of the Balanced Scorecard approach to organizational strategic planning is to translate the vision and strategy into performance measures. By placing the customer domain and the mission at the top of the Balanced Scorecard, the organization is identifying accountability between itself and society. The Balanced Scorecard has proven successful in nonprofit organizations due to its ability to align intangible assets to strategy. Successful outcomes are unlikely if the Balanced Scorecard is implemented without a full understanding of its complexity and potential restrictions.

Keywords: Balanced Scorecard, performance, measurement, nonprofit, vision, strategy

In a study conducted by the Social Enterprise program at the Harvard School of Business, nonprofit executives and board members rated measurement of performance as one of three key organizational concerns (Kaplan, 2001). While the academic literature does not identify a dominant methodology for organizational effectiveness and governance, the Balanced Scorecard, developed by Robert Kaplan and David Norton in 1990 as a performance improvement process to be deployed in for-profit corporations, may provide a viable option to nonprofit organizations (Kaplan; Niven, 2005; Zimmerman, 2004). The Balanced Scorecard posits that financial measures will remain critical as a metric in corporations, for-profit or otherwise, but financial measures alone will not effectively project corporate success. Financial metrics remain critical to shareholders in the for-profit domain, but in the non-profit community the predominant focus is not on profit but on the organization's customers and its ability to meet its mission (Kaplan; Niven, 2010; Marin, 2012). The intent of the Balanced Scorecard approach to organizational strategic planning is to translate the vision and strategy of the organization into performance measures (Niven, 2005). A visual reference of the Balanced Scorecard, adapted from Kaplan and Norton (1996), and its four domains is available in the Appendix.

Effective strategic planning is not a simple process and it may be cost prohibitive based on the resources of the organization. Kaplan (2001) argues nonprofit organizational success should be measured by the organization's ability to meet the needs of its customers in an effective and efficient manner. Kaplan further states that finances remain critical either as an enabler or as a constraint to an organization, but financial consideration will rarely be the primary factor in strategic planning for a nonprofit corporation. Financial measures may provide an excellent backwards-looking perspective on how an organization has performed financially in the past but little information regarding future performance (Niven, 2005).

Kaplan (2001) suggested nonprofit organizations redefine the Balanced Scorecard by placing the customer domain at the top of the scorecard visual structure instead of the financial domain, as it is the dominant domain in for-profit corporations. By placing the customer and the mission at the top of the Balanced Scorecard, Kaplan continues, the organization is identifying the accountability between it and society. Profitability (or, in the case of a nonprofit organization, financial stability) alone does not sustain an entity's overall health, especially when it is achieved at the expense of other organizational components (Pandey, 2005).
According to Kaplan (2001, p. 357), “The Balanced Scorecard was developed for the private sector to overcome deficiencies in the financial accounting model, which fails to signal changes in the company’s economic value as an organization makes substantial investments in intangible assets.” Such intangible assets may include, but are not limited to, skills, motivation, employee capabilities, customer acquisition, customer retention, and information technology. Constituent satisfaction, state-of-the-art technologies, a learning environment and cost containment outcomes, not strict financial success, are the critical components to the nonprofit community (Pandey 2005; Ronchetti, 2006; Sharma, 2009). Mission focus and strategic alignment is difficult to achieve in nonprofit corporation strategic planning because the employee commitment to mission has preconceived outcomes and, for this reason, it is critical for strategic planning efforts be presented with clarity and cascaded to the lowest levels of the organization (Kaplan; Marin, 2012; Niven, 2005).

Strategic themes in the Balanced Scorecard must be derived from the organization’s vision and mission and then developed through the four domains: financial, internal processes, customer, and learning and growth (Ronchetti, 2006). The financial domain defines desired financial performance measures for the organization based on vision and mission, but finances are often viewed as a constraint of scope and strategy in the nonprofit community (Kaplan, 2001; Ronchetti; Sharma, 2009; Zimmerman, 2004). Entities may use lagging financial indicators as a component of a strategic process, but the process only becomes whole when it also includes current and leading indicators (Pandey, 2005). The second domain, internal processes, identifies which internal business processes must operate with excellence in order to satisfy stakeholders’ expectations and deliver the desired value to all stakeholders in the organization, not financial performance (Niven, 2005; Ronchetti). The internal processes domain also includes innovations to deliver new products and services (Kaplan). The customer domain is critical to nonprofit organizational viability and establishing the value proposition, or how the organization creates value, for its stakeholders and constituents and its ability to deliver its stated mission (Ronchetti; Sharma).

Finally, the learning and growth domain of the Balanced Scorecard assists the organization to identify and prioritize the skills, knowledge and needs of the first three domains in order to achieve the mission and maintain customer satisfaction as the overall priority rather than the financial perspective in the nonprofit organization (Ronchetti, 2006). Kaplan (2001) identifies the needs in this domain as employee motivation, retention, capabilities, and mission alignment. Continuous learning combined with a focus on the knowledge-worker is a critical necessity for establishing an essential foundation in the learning and growth domain to create value and effectively utilize intangible assets (Kaplan & Norton, 2001; Sharma, 2009).

The Balanced Scorecard has proven successful as a strategic planning methodology, in part, due to its ability to align intangible assets to strategy and to not improve one domain at the expense of another (Kaplan & Norton, 2004; Ronchetti, 2006). It may be effectively deployed by nonprofit organizations as a strategic planning mechanism with a focus on organizationally defined outcomes and metrics to gauge organizational effectiveness. Metrics must be created to measure the outcomes the organization desires rather than using existing measurements and metrics (Zimmerman, 2004). Ronchetti identified five key points critical to a successful nonprofit deployment of the Balanced Scorecard: select a leader with knowledge of the business and measurement outcomes; conduct a kickoff event to define and clarify Balanced Scorecard terminology; define metrics for the intangibles in the growth and learning domain; be prepared to address change during the process; and cascade objectives down to the operational level.

Successful outcomes are unlikely if the Balanced Scorecard is implemented without the leadership’s understanding as to what it is supposed to accomplish or if the complexity of the Balanced Scorecard is underestimated (Zimmerman, 2004). Potential restrictions to a nonprofit corporation’s implementation of the Balanced Scorecard as a strategic planning and effectiveness measurement source include: a multi-year commitment, inexperienced managers with measurement programs and metrics, and a lack of resource commitment (Ronchetti, 2006; Zimmerman). Managers rarely think long-term for organizational improvement but a 3-5 year window is not out of the ordinary for an entity without a Balanced Scorecard champion or consultant (Marin, 2012; Ronchetti, Saraiva, 2011). The process is subtle and complex and should not be underestimated (Sharma, 2009).
Whether it is the Balanced Scorecard or another methodology, a performance improvement process is only a part of strategic planning (Pandey, 2005). Research indicates if the Balanced Scorecard process is cascaded down through the organization and effectively communicated to the upper, middle and lower echelons, all levels are positively impacted by aligned and integrated strategies (Marin, 2012; Shutibhinyo, 2012). A lack of acceptance of a Balanced Scorecard process is correlated with inadequate communications by an organization’s leadership (Chen & Jones, 2009). Next, a nonprofit entity must identify the outcomes desired and develop the necessary metrics; it cannot rely solely upon available measures for effective performance measurement (Zimmerman, 2004). Finally, the Balanced Scorecard is only a part of a comprehensive strategic planning process and may serve as a link between strategy and action (Pandey, 2005; Sharma, 2009). After vision and mission, most nonprofit strategic planning efforts are not outcome-based but, rather, focus on lists of current programs and desired initiatives (Kaplan, 2001). A predominant aspect of the popularity of the Balanced Scorecard is its ability to capture the essence of an organization through a single page encapsulating the four primary domains: financial, internal processes, customer, and learning and growth to create opportunities to meet the needs of its various stakeholders (Pandey, 2005; Saraiva, 2011).
References


