

# The Balanced Scorecard

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AN APPROACH TO PERFORMANCE MEASUREMENT FOR  
NON-PROFIT ORGANISATIONS

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**Traditionally, the NFP sector has been somewhat laggard in measuring and improving its organisational performance, because their aims are often seen as less visible and quantifiable than the for-profit sector.**

# Introduction

## Measuring the impact of a NFP

There are a number of difficulties that arise in not-for-profit (NFP) organisations because, unlike for-profit (FP) organisations, their focus is not on shareholder wealth maximisation. Rather, the vision and mission play a critical role in measuring good performance. Measures of good performance, in this case, are often defined in qualitative non-financial terms which can be difficult to understand and translate to goal achievement. It is equally difficult to formulate the strategy of NFP organisations, and to understand how the actions they take will translate to excellent results.

The NFP sector, as a whole, has been somewhat laggard in measuring and improving its organisational performance. Some of the reasons

for this are because financials remain a focus due to for-profit measurement systems being generically adopted, workers feeling a disconnect between output and achievement, and the costs and time, as well as worker withdrawals, that may be associated with implementing new systems. Most nonprofit groups track their performance by metrics such as dollars raised, membership growth, number of visitors, people served, and overhead costs. These metrics are certainly important, but they don't measure the real success of an organization in achieving its mission.

What this resource aims to do is to translate the NFP's mission into something measurable that can promote organisational growth through

the means of the Balanced Scorecard. Certainly, given the diversity of the organisations in the nonprofit sector, no single measure of success and no generic set of indicators will work for all of them. However, there are pragmatic approaches to quantifying success, even for nonprofit groups with highly ambitious and abstract goals.

# Intro

# The Balanced Scorecard

The Balanced Scorecard (BSC) was created in 1992 by Drs. Robert S. Kaplan and David P. Norton. It was considered a revolutionary new method for handling strategy management at the time, and is still one of the top 10 most-used strategy tools.

Creating a BSC allows organizations to centre their strategy around key perspectives that have often been defined as, but which may be altered to meet organisational needs; *customer/constituent*, *internal processes*, *financial*, and *learning/growth*. It assists organisations in formulating and implementing strategy by understanding the cause-and-effect relationships between perspectives, and may be used to guide budgets, allocate resources, and reward good performance. To be used as an effective performance measurement and reward system, however, performance indicators must be quantifiable and assessable.

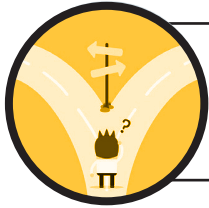
Religious non-profits are focused on achieving unique missions with a particular emphasis on some religious goal. It is important that these organisations describe their vision and mission clearly, and implement strategy that reflects their mission.

A BSC can:

- COMMUNICATE THE MISSION/STRATEGY, AS WELL AS EXPECTATIONS.
- HELP TRACK PERFORMANCE TOWARD A GOAL; AND BECOME A STRATEGIC FRAMEWORK.
- TIE IN WITH REWARD SYSTEMS (E.G. PAY BONUSES OR OTHER BENEFITS).
- HELP TO EVALUATE HOW WELL CERTAIN GOALS LINK IN WITH THE ACHIEVING STRATEGY.
- HELP TO EVALUATE HOW WELL CERTAIN GOALS LINK IN WITH ASSUMPTIONS OF CAUSE-AND-EFFECT RELATIONSHIPS.
- ENSURE ALL LEVELS OF GOVERNANCE HARMONISE WITH THE GOALS AND STRATEGY.
- ORGANISE TEAMS AROUND ORGANISATIONAL GOALS IN A CLEAR, CONCISE WAY.
- FOCUS VISION ON THE AREAS OF THE ORGANISATION THAT ARE IMPORTANT.
- EXECUTE AND TRACK THE SUCCESSES OF STRATEGIES IN A MEANINGFUL WAY.

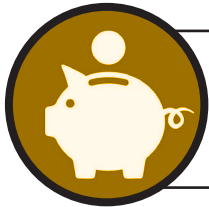
# roduction

# challenges of the NFP



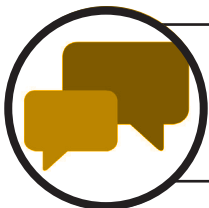
## 1. Describing strategy

Nonprofits are mission-centric. Their missions are often unrelated to financial gain and may be inspiring and visionary. However, many small nonprofits are unsophisticated in planning and governance, and either do not describe strategy, or do so poorly. The **Balanced Scorecard** encourages these nonprofits to implement strategic management practices, 'verbalise' their missions and strategies, and to implement them, consider the cause-and-effect relationships between their services and processes.



## 2. Fundraising

Nonprofits are focused on meeting their organizational goals and mission rather than maximising funds or beating financial expectations. However, they are still reliant on philanthropic investors and fundraising is a key aspect of any successful nonprofit. Nonprofits may use **BSCs** to attract donors by positioning their organisation as organised, accountable, and efficient in the use of funds.



## 3. Communication

Nonprofits are often run by volunteers who may have different visions of how the organisation will function and benefit society. **BSCs** communicate strategy and areas of focus within and throughout an organisation to align the focus of all members onto a single goal. Furthermore, they can be supplemented by rewards systems that encourage members to reach performance goals specified within the **BSC**.

## Case Study:

We can consider a **FAKE NOT-FOR-PROFIT** as an example of how to implement a **Balanced Scorecard**. **RELIGIOUS ORG INC.'s** (fake organisation) mission is to be a leading place of religious congregation and education.

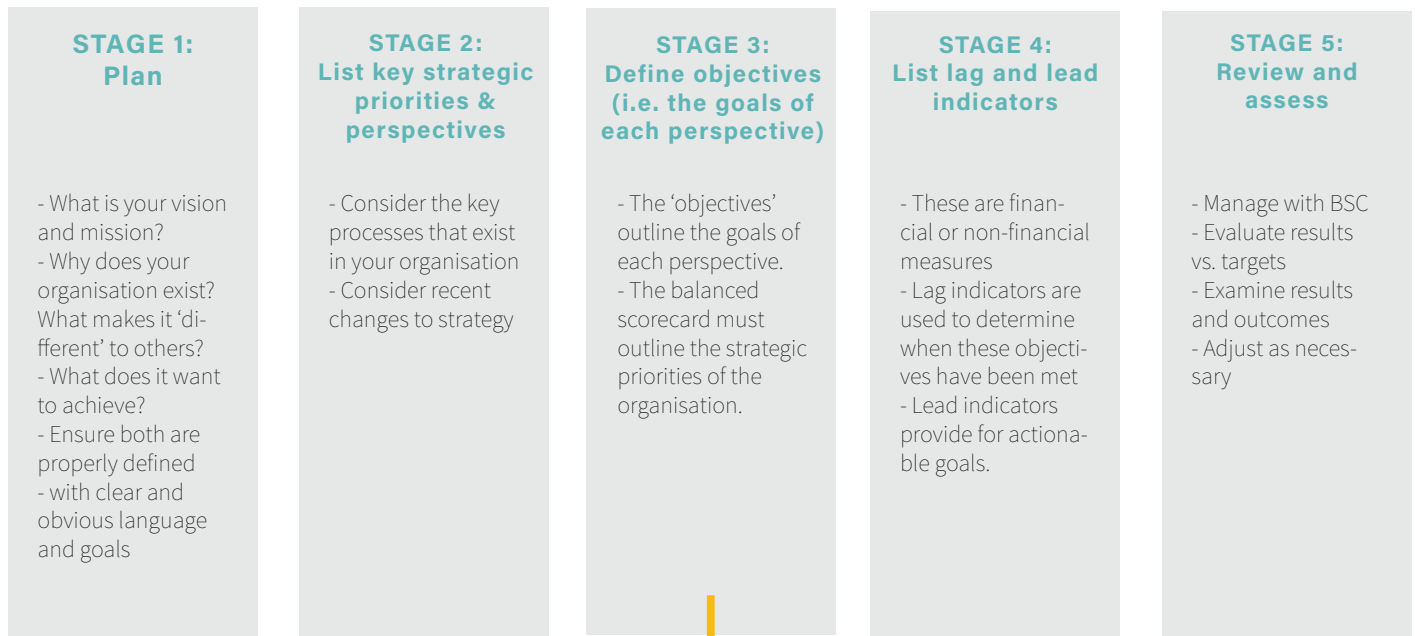
**Muslim Women's Centre:** The Muslim Women's Centre (MWC) is a religious-based organisation located in Melbourne CBD that offers a variety of services for women including, but not limited to, religious education, employment services, and counselling services. Their mission is to support Muslim women located within the inner suburbs of Melbourne by offering services and support that adhere to Islamic beliefs

and practices.

At the end of every financial year, MWC produces an annual report detailing how well their organisation has performed in terms of meeting their mission statement. Since their start up in 2014, MWC has only considered how well their organisation has managed their donations and general grants, and how closely they met their budget. It was not until the last financial year, 2016-17, that MWC realised they had not

# Methodology

## BSC PROCESS



The **balanced scorecard** must outline the strategic priorities of the organisation. These are reflected through the four perspectives: **'Customer and Perception'**, **'Finance and Resources'**, **'Service'**, and **'Learning and Growth'**. However, a **balanced scorecard** can include any perspectives, such as 'Worshippers' rather than 'customers', or includes totally new considerations like religious 'Environment' (and how well it is being built). Typically, the flow on effects are from the fourth to the first perspective, and this is how the BSC shall be discussed.

been keeping track of how well their organisation was performing in relation to achieving their mission. They felt they were out of touch with their community and were unsure of their social impact.

After conducting some research in how they could better manage their performance, they came across a booklet that recommended the use of a Balanced Scorecard to measure performance.

### Defining the mission:

- **'Leading'** = what does this mean? Most number of people? In which case we focus on number of attendees.
- **Education** = ties in with learning and growth (educated staff), internal processes/services (providing effective education - i.e. children actually learning). As they're a NFP they need to always keep an eye on their funds (providing educational resources, paying clergymen, etc.), and this should all tie in with the "most important aspect" = being a leading place... has a customer feel to it... so people love it, want to attend (and in big numbers).

# Case Study

Perspective	Objective	Lag	Lead
Customer and Perception	To be perceived as supportive and offering high-quality services	1. Assessing feedback received from women across all sectors of the organisation - verbal and nonverbal	1. Number of media appearances made in the last year and the public's response
	To be accommodating of all women of various backgrounds	2. Produce a report that provides an insight on the type of women that use the services and their backgrounds (race, socio-economic background) in order to determine whether MCW are reaching out to all demographics	2. Number of new users of their employment/counseling services
		3. Assessing the rate of newcomers over the past 12 months	3. Number of new students accessing their religious education classes
Finance and Resources	Ensure they manage their budget well and invest adequate money in the right sectors	1. Assess the quality of service through satisfaction surveys	1. Analyse number of complaints
		2. Review financial report - have they gone under, met or went over budget?	2. Assess whether their current budget was met
		3. Are the technologies used within services up to date and the employees up to standard with their skills?	3. Analyse the current technologies used and skill levels of current employees
Service	Provide great quality religious education services, employment services and counseling services	1. Feedback from users across the various sectors	1. The rate of successful graduates of students
		2. Assessing the academic progress of users of the religious classes, the rate of successful job seekers of the employment services and the progress and satisfaction rate of users who use the counseling services	2. The number of job seekers who find jobs through the employment services
			3. The number of people who would recommend the counseling services to others
Learning and Growth	Ensure their staff are well-trained	1. Yearly assessment of the staff's performance - how well their customers have rated their experience with each staff member	1. Assessing the satisfaction rate from customers who interact with all the staff members
		2. Ensuring psychologists and counselors in the counseling service sector have updated licences to practice	2. Analysing the education and skill levels of their staff members - can they be provided with opportunities to expand their skills?
		3. Making sure admin are up to date with the latest advancement in computers and other office technologies	3. The satisfaction rate of staff members and their experience working within the organisation

**Fig. 1: CASE STUDY MWC BALANCED SCORECARD - can be adjusted for a religious institution.**

The fourth perspective is 'Learning and Growth'. This is the base upon which the other perspectives are built, and involves training staff to be highly skilled service providers. Skilled employees or volunteers will not only be in a better position to assist customers seeking religious education, employment services, or counselling services, but will do so using minimal organisational resources, whilst building a strong customer base.

The third and second perspectives are 'Service' and 'Finance and Resources'. It is important to note that

although they have been tabled sequentially, these two perspectives operate on the same 'level' and influence each other. As mentioned above, skilled employees will provide better quality service and consume less resources. The key objective for 'Service' is to provide high quality services that will attract customers - which can be measured objectively and communicated to the community. It is the evidence to which MWCs professed 'excellence' can be substantiated. Furthermore, when the community is informed about the great work the organisation does, there are



more opportunities for fundraising and securing grants. Great service also involves staff creativity in delivering programs using minimal resources. This improves the 'Finance and Resources' perspective, which aims to minimise costs and ensure the service is affordable for all members of the community. The 'Finance and Resources' perspective also involves raising funds through donations and grants so that there are resources available to provide quality service during the financial period and into the future.

The first perspective primarily focuses on customer perceptions of MWC. This is a reflection of the vision and mission, as being the 'best' requires not only that the religious education, employment services, or counselling services are exceptional and objectives are met, but that within the industry and community, MWC is believed to truly be the best. Word of the organisation's fantastic service will naturally spread 'by mouth' from satisfied customers. However, to truly form a relationship with the public and be able to promote inclusion (or anything!), it is important that the organisation communicates its successes, superior service, and organisational process to the public (through the media). This will also encourage philanthropists to fund the centre and improve profitability.

## Concluding Remarks

Following a balanced scorecard approach to performance measurement is certainly an important tool for non-profit organisations to turn strategy into action, and enable the attainment of strategic outcomes.

However, it must be noted that to be effective, the organisation must take the information from the BSC, evaluate the results, draw conclusions and take action.

Ultimately, performance measurement never truly stops - and the balanced-scorecard is merely one of the many steps and avenues that NFPs can measure its performance and pursue its most relevant opportunities and ideas.

With this resource, the authors hope the BSC framework can assist any NFP to become a high-performing, mission-focused organisation.

## Additional Sources of Information:

Epstein, Mark, Performance Measurement of Not for Profit Organizations, Management Accounting Guideline (Mississauga: The Society of Management Accountants, 2009).

Kaplan, R.S., and D.P. Norton, The Balanced Scorecard: Translating Strategy into Action (Boston: Harvard Business School Press, 1996).

Niven, P.R., Balanced Scorecard Step by Step for Government and Nonprofit Agencies (Hoboken, NJ: John Wiley and Sons Inc., 2008).

