

“The Balanced Scorecard: A Strategic Tool for the Nonprofit Sector”

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Published, January 2011

Abstract

In the early 1990s Harvard Business School researchers Drs. Robert Kaplan and David Norton determined that 90% of their clients were unable to integrate their strategic objectives into the daily operations of their organizations. To remedy this, and provide a framework to set goals, establish tasks and create measurements to assess the real value of the strategy for the organization, they created the Balanced Scorecard (BSC) performance measurement system. Over the years since its inception, the Balanced Scorecard has provided a practical model for nonprofit leaders, offering the tools needed to measure a nonprofit's operational success. In short, it enables the user to mix financial and non-financial measures, comparing each to a target value established by the group, ultimately creating a report to assist in decision making regarding the organization's key objectives.

This white paper will define the Balanced Scorecard and explore ways to adapt it to the nonprofit sector.

Table of Contents

1. What is a Balanced Scorecard?
2. Why Should a Nonprofit Use a Balanced Scorecard?
3. How Can a Nonprofit Organization Incorporate a Balanced Scorecard into Its Planning Model?
4. Case Study
5. About the Authors
6. About Sobel & Co.
7. Footnotes and References Cited

I. What is a Balanced Scorecard?

Dr. Robert Kaplan and Dr. David Norton of the Harvard Business School advanced the idea of a Balanced Scorecard (BSC) in order to provide organizations, both for profit and nonprofit, with a tool for integrating information across various disciplines (called perspectives) within the organization in order to measure the impact of each on the organization's future performance.

Prior to their work, companies had no useful way to consistently and accurately anticipate what trends or behavior might evolve for their organizations based on the principle of cause and effect. So a nonprofit, for example, that needed to generate a stronger balance sheet might eliminate the expensive role of Director of Development. In the short run, the benefit of this salary reduction would appear to have a positive financial impact, as costs would be cut and the 'bottom line' would increase. But in the long run, the benefits of having a Development Director, and the future revenue that would be generated by his efforts, would be lost to the organization, creating an even bleaker financial situation over time. The linkage between one action and another – the firing of the Development Director and the eventual future reduction in donor revenue - would be captured in the Balanced Scorecard reports in a way that would not be as obvious in traditional financial statements. This is mainly because the traditional financial systems we use were designed in previous generations when the assets of most companies were property, plant and equipment. Under these circumstances, a financial reporting system that provided historical data was adequate to owners' needs and therefore played a significant role in the decision making process. But the reality is that modern day leaders in the corporate and nonprofit sectors measure value much differently than in previous times. As we move from a product focused, manufacturing – driven environment to one that is founded on service delivery, the focus shifts from accounting for tangible assets to valuing assets that are less easily defined. In the nonprofit community such assets may include key relationships, collaborative efforts, human capital, expertise, knowledge and innovation. As such, today's leaders are relying more and more on measurements of intangible factors and the interaction between them to determine future activity.

This shift away from relying on tangible assets as the sole way of measuring value makes the Balanced Scorecard a useful strategy for the nonprofit sector. Those who operate in the nonprofit world have always had to deal with resource constraints and a heavy reliance on the integration of a clear and descriptive mission, goodwill of the community, loyal relationships, and human resources. They have always had to embrace a significantly different approach to measuring value than has been practical in a capital intense, corporate manufacturing environment.

Recognizing that under these changing circumstances, all decision-makers, including nonprofit leaders, would benefit from having a process that offered reliable information about future performance, Kaplan and Norton set out to create a new solution. Their concept was to go beyond the simple collection of independent perspectives across a nonprofit organization, and instead to create a logical connection between the viewpoints and activities to lead to better processes and an improved experience for donors, volunteers, and clients.

Their approach offered a 'balanced' view, taking into account all of the various aspects of the organization's behavior, shifting away from the accepted backwards-looking approach to instead establishing key performance indicators and then measuring external activities and internal procedures against these pre-determined indicators.

To do this, they needed to provide a measurement tool that combined information from multiple areas across an organization, connecting financial data, business processes, and customer (donor and volunteer) reactions to obtain a balance between internal and external measures, between objective measures and subjective measures and between performance results and the drivers of future results. This data is gained by monitoring the cause-and-effect links inherent in these relationships and then using the knowledge to find ways of increasing the growth and sustainability of the organization and its mission.

To fully understand the interaction between the four key disciplines, or perspectives, and the reliance on the contribution of each to the overall success of the whole, it is helpful to explain the breadth of each perspective:

Financial Perspective: This perspective includes the measurement of operating income, return on capital, and economic value added. Nonprofit organizations, just as for profit companies, must have a solid understanding of their financial situation. Timely data on funding sources, cost of services, and overhead costs must be incorporated into the nonprofit's strategic plan to provide a complete picture of the situation. The leadership must be well informed about the financial health of the organization and be comfortable with the financial statements and budgets. At the very least these financial reports provide a solid basis for operations and build confidence with funders, grantors and other sources of revenue.

Customer Perspective: This perspective is about the donor, volunteer or clientele (users of services) experience, which is found by measuring satisfaction and retention as well as assessing the nonprofit's market share in its niche. Every nonprofit should measure the attitude of its strongest and most loyal supporters to gain the most for the organization. Keeping donors and volunteers engaged and enthusiastic – and

identifying ways to do that through the Balanced Scorecard – provides an incredible advantage for any organization.

Business Process Perspective: This perspective involves measuring the cost, throughput and quality of the nonprofit’s key operational processes – such as programs provided, services offered, and ability to address targeted audience needs. This internal focus gives leaders a thorough understanding of how well the nonprofit is running and can help them determine which programs and services are meeting the real needs of the community. Often times, nonprofits “assume” a long standing service is valuable when, in fact, it may no longer be addressing the needs of the users as effectively as when it was originally launched. Without looking at the overall effect of each program, it is difficult, if not impossible, to determine its sustainability.

Learning and Growth Perspective: This perspective looks at the nonprofit’s human capital – its employees, volunteers and its board of directors - to measure satisfaction, necessary skills, community connections, retention and adherence to the organization’s mission. Since the staff and volunteers represent the organization’s major resources, it is imperative that their performance is appropriately measured. Decisions on training and skill building can be based, in part, on their level of knowledge about the organization. The leadership can also take into account the business skills needed to advance the mission, such as donor development, marketing and branding, leadership, communications and the use of technology to support every aspect of the organization. High performing boards, volunteers and staff are a prerequisite to the success of any nonprofit.

Most strategies offer a perspective from 30,000 feet, but neglect to provide the reasonable, measureable activities that will enable the group to achieve its goals. In contrast, the practicality of the Balanced Scorecard model can be seen in its reliance on facts and details. The BSC starts at the loftiest level (objectives) and drills down to the grass roots level (initiatives) to guarantee performance.

	Objectives	Measures	Targets	Initiatives
Financial				
Stakeholder				
Process				
Learning				

Kaplan and Norton understood the value to any organization of having a Balanced Scorecard, as they wrote, “...(previous) financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes,

technology and innovation.” Creating future value is as critical for nonprofits as it is for small and large business corporations.

II. Why Should a Nonprofit Organization Use a Balanced Scorecard?

Those nonprofit leaders that adopt this inclusive approach find that the Balanced Scorecard can do much more than create a framework for measuring the performance of their organization. Instead they find they can use the Balance Scorecard to transform their organization's strategy, set measureable goals and design a timetable for execution. Through BSC, they can focus on measuring and observing the cause and effect relationships between their key objectives and have an accurate report on leading and lagging initiatives. Instead of guessing which fund raising campaigns, events and services are valuable to the group, they will have substantial evidence on which to base their decisions.

Having a schedule of tasks and assigning responsibility for implementation allows the nonprofit organization to become more proactive, giving them the ability to react immediately to the timely measurements of the success of each activity without relying on a traditional approach that does not (and cannot) provide a current snapshot of what is working well and what isn't.

Getting the right performance information to the right people in the organization at the right time will greatly increase the ability of the group to reach or even exceed its goals. This can be done by:

- Clarifying strategies. This means translating the objectives of the nonprofit into quantifiable measures. Vague, feel-good aspirations are eliminated and the objectives are defined in a manner that everyone can understand and will work to achieve.

- Communicating strategic objectives. This means translating high level objectives into practical operational objectives. Leadership must communicate throughout the nonprofit exactly how these objectives will be accomplished.

- Planning strategies. This means setting achievable goals for every initiative within the organization and selecting stretch goals as well. This concept is integral to the success of the BSC because if tasks are not accomplished, objectives and goals will not be met.

- Feedback strategies. This means establishing a process for continued feedback so that learning takes place at all levels, and the insights gained through the Balanced Scorecard reports can permeate and define the organization.

III. How Can a Nonprofit Organization Incorporate a Balanced Scorecard into Its Planning Model?

For a Balanced Scorecard process to work within the nonprofit environment, there needs to be consensus on the mission and strategic purpose of the organization, as well as agreement on how to recognize when objectives have been attained. This is not as easy as it sounds because measuring success can take on many forms in a nonprofit because success is seen through the lens of the stakeholders, including donors, executive directors, volunteers, staff and clients, all who may apply different standards to achieving success.

The Balanced Scorecard can help a nonprofit determine how it is adding value to the community because it measures the impact between the organization's stated objectives, activities offered and *results*. When there is alignment between all these components, value is added. Too frequently though, the activities offered do not meet the organization's objectives, or may not have the desired impact on the community it serves. In these instances, the Balanced Scorecard will point out the discrepancies and will help the leaders to readjust their plans to attain new objectives.

As stated above, there are many good reasons for implementing a Balanced Scorecard, but for the nonprofit to use it successfully, there must be endorsement and commitment from the Executive Director and key administrative staff along with support from the Board President and all the board members. The entire leadership team must accept that using a Balanced Scorecard approach is a journey, not a destination - and that it will require discipline and continuous adherence from all. There also needs to be agreement on the use of software to gather and monitor data and a process must be established to use the data in a meaningful way.

There are key steps the nonprofit needs to follow to incorporate Balanced Scorecard into its strategic plan:

- Clearly state and communicate the mission and vision of the organization
- Translate the vision into achievable operational goals
- Link the vision to individual performance by establishing specific tasks for each person involved
- Identify the objectives and performance indicators to measure success
- Provide a way to interpret the metrics and to adjust the organization's strategy based on the feedback

Nonprofits can maximize their impact on the community by using the data generated to refine their services, adjust their fundraising efforts, and train their volunteers and board members more effectively.

What's the down side to all this? The challenge for nonprofits, just as it is for their for profit counterparts, is to be able to sustain the activity, leverage the feedback, and prepare to adjust their strategies. Those organizations that start out down the right path but find their leadership is not disciplined enough to maintain the process may be worse off than those that do nothing at all. This is because they will have raised expectations and created a situation that has set them up for failure. To alleviate this possibility, the organization must be thoroughly determined from the top down that these tools are critical for the future of the organization and in doing so, will guarantee its valuable role as a strategic planning tool.

IV. Case Study

As we have demonstrated in this paper, an effective dashboard uses various metrics to produce a report that makes it easy for a nonprofit organization to understand its situation and the progress it is making regarding unique events, services and programs. It is often difficult to understand this concept when described *in theory*, so we are sharing a case study here to explain how this might work for you. The following case study was adapted from resources found at the Learning Center at <http://home.techsoup.org/>.

The Indianapolis Museum of Art (IMA) has built their own open-source dashboard solution on top of Drupal, an open-source content management system.

One reason for this choice was based on the fact that IMA has been using Drupal for several years to maintain their website, so it was a compelling choice when they started considering options for creating a dashboard. They have found it extremely flexible (especially regarding the use of graphics and other design elements) and they were able to build additional dashboard functions on top of the out-of-box features.

IMA uses the dashboard for two purposes:

- Internal metrics tracking
- External snapshot to the public

To achieve these goals it was important that users could access an “at-a-glance view” and then drill down to the details if they were interested. Since the dashboard would be made public, it was also important that it was graphically appealing.

Once IMA knew what they wanted to track (everything from attendance, to new works of art and works of art on loan, to electricity consumption, to endowment size, to membership, and more), it took them about six weeks to get it up and running.

This is certainly a solution for an organization with a higher level of technological sophistication, but by releasing their own dashboard as a free and open-source module, IMA has made it easier for other organizations that are not as sophisticated but would like to create a similar dashboard in Drupal. You can see the public version at <http://dashboard.imamuseum.org>.

IMA has also found an interesting solution for maintaining the dashboard. The update process requires entering most data by hand into Drupal. However, IMA has spread out the tasks of updating to staff members based on their area of responsibility. For example, the person who receives the electricity bill updates the kilowatt usage. The IT staffer spends about an hour to an hour and half a month

performing maintenance on the site. For the metrics that are automatically updated, IMA found it very easy to integrate Drupal with their other reporting systems.

The dashboard has been extremely helpful in sharing the day-to-day activities with the senior managers. Additionally, it helps demonstrate how successful IMA has been in achieving its mission. For example, it is important to the museum that they reach people from all surrounding neighbourhood communities (an indicator of reaching a diverse population). The dashboard automatically tracks the number of people who are visiting the museum and from which zip codes (zip code data is tied in with their ticketing system, which feeds automatically to the dashboard) so that they can quickly see if they are reaching their goal for attracting people from diverse geographic areas.

V. About the Authors

Bridget Hartnett

Bridget Hartnett, CPA, a member of the Firm at Sobel & Co., has more than thirteen years of experience in public accounting which she draws on to provide high level services for clients.

Experience in the Nonprofit Niche

Bridget spends most of her time working closely with clients in social services and nonprofit areas, including educational institutions. As a member in the firm's Nonprofit and Social Services Group, Bridget supervises the audit engagements conducted by Sobel & Co. for the Cerebral Palsy Association of Middlesex County, the Youth Development Clinic of Newark and Catholic Charities of the Trenton, Metuchen and Newark dioceses, Freedom House, and C.J. Foundation. In addition, she handles all of the firm's education audits and holds a Public School Auditor's license. Bridget is also responsible for reviewing and overseeing the preparation of nonprofit tax returns.

Philanthropic and Social Service Commitment

Bridget carries her commitment to social services beyond the work place to include her personal involvement in several areas, such as at St. Benedict's school in Holmdel where she is always available for volunteering for projects and special events as needed as well as giving her resources and time to various children's charities, such as the New Jersey Chapter of Make-A-Wish and others. She is also a volunteer with professional business groups in the New Jersey community, including Monmouth Ocean County Nonprofit Committee and the Western Monmouth Chamber of Commerce where she helped to found the successful Young Professionals' Group and currently serves as Co-Chair and founder of their newly formed Nonprofit Committee. Bridget is also an active member of the New Jersey CPA Society's Nonprofit Interest Group.

Professional Credentials

As a licensed Certified Public Accountant in New Jersey, Bridget is a member of both the American Institute of Certified Public Accountants (AICPA) and the New Jersey Society of Certified Public Accountants (NJSCPA).

Educational Background

Bridget graduated with her Bachelor of Science degree from Montclair State University.

Ron Matan

Ron Matan, member in charge of Sobel & Co.'s Nonprofit and Social Services Group, brings a unique blend of public accounting and business acumen to every client engagement. A key member of Sobel & Co.'s Leadership Team since joining the firm in 1997, Ron works primarily with non-profit organizations, including United States Department of Housing and Urban Development ("HUD") projects, A-133 engagements, and low income housing tax credit programs ("LIHTC").

Experience in the Nonprofit Niche

Ron, as member in charge of the firm's Nonprofit and Social Services Group (A-133 and HUD audits and LIHTC programs), is responsible for the firm-wide quality of this practice area and is the firm liaison for the AICPA's Government (Nonprofit) Audit Quality Center. With over 35 years experience in public and private industry accounting experience with all types of nonprofit and social service organizations, Ron brings a unique blend of knowledge and insight to these specialized engagements. Ron is a Certified Tax Credit Compliance Professional and is listed in the Guide which is circulated to all State Agencies Allocating Tax Credits as well as the Internal Revenue Service. He has also taken courses in advanced training for peer reviews and performs peer reviews of other accounting firms.

Philanthropic and Social Service Commitment

Ron is a member of the Board of Directors of First Occupational Center where he serves as Treasurer and is a member of the Education Committee for the Mid-Atlantic Chapter of the Society of Association Executives. Ron is a member of both the Plainfield Neighborhood Health Center Board (where he serves as Treasurer) and Union County Educational Services Foundation Board. Ron was the former treasurer and board member of Kids Peace Treatment Centers for emotionally disturbed children, located in Bethlehem, Pennsylvania.

Professional Credentials

Ron is a Certified Public Accountant licensed to practice in New Jersey, New York and Pennsylvania. He is a member of the American Institute of Certified Public Accountants and the New Jersey Society of Certified Public Accountants (NJSCPA). Ron has been elected as Vice-Chairman of the PKF North America's Nonprofit Committee, and in June 2004, Ron was appointed to the New Jersey Society of Certified Public Accountants Peer Review Executive Committee. Ron is also a member of the NJSCPA's Nonprofit Interest Group.

Educational Background

Ron is a graduate of Kings College in Wilkes-Barre, Pennsylvania, where he received a Bachelor of Science Degree in Accounting.

VI. About Sobel & Co.

Sobel & Co. is a regional accounting and consulting firm with headquarters in Livingston, New Jersey. The firm has been providing nonprofit and social service organizations in the metropolitan area of New Jersey/New York with audit, accounting, tax and advisory services since its inception in 1956.

The firm currently works with more than 175 nonprofit organizations with revenues ranging from \$100,000 to over \$65,000,000. Based on this depth of experience, the professionals in the nonprofit group are keenly familiar with the issues facing nonprofits and they will apply this knowledge to bring added value to every engagement.

As a further demonstration of the firm's commitment to the nonprofit community, several complimentary programs are offered throughout the year. These include quarterly webinars and roundtable discussions and an annual symposium on timely and relevant topics. Monthly newsletters, articles, benchmark reports, surveys and white papers are also distributed to the nonprofit sector to provide them with access to cutting edge information.

Please visit Nonprofit & Social Services at www.sobel-cpa.com.



VII. Footnotes and References Cited

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