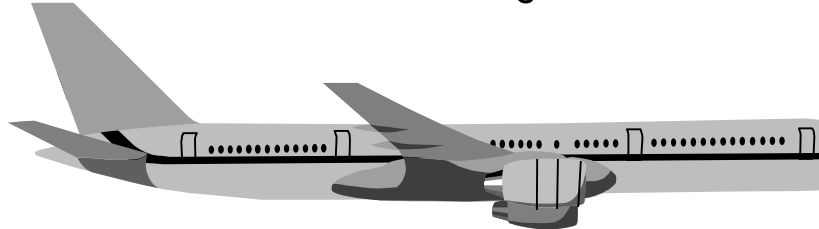


# - Balanced Scorecard - a promising performance management system for Non-Profit-Organisations



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Would you board a plane with no cockpit instrumentation for the pilot? Hardly!

Doubtless you feel safe in the knowledge that, thanks to his cockpit instruments, the pilot is fully in control even under turbulent weather conditions and poor visibility. His instruments provide information on altitude, speed, positioning, fuel level, air pressure and temperature in the passenger cabin, and remaining distance to the destination.

## Why a Performance Management System?

What gets measured gets done.

If you don't measure results, you can't tell success from failure.

If you can't see success, you can't reward it.

If you can't reward success you are probably rewarding failure.

If you can't recognise failure, you can't correct it.

If you can't demonstrate results, you can't win public support.

(Osborne & Gaebler, 92)

No-one would contemplate monitoring cruising altitude alone without checking the fuel level, or want to pilot the plane to its final destination merely on the strength of the flight's self-financing ratio.

What the pilot's instrument panel shows is not the reality. Nevertheless it provides a faithful overview - a useful model of reality. Faults, minor incidents and major plane disasters are carefully analysed with a view to improving this model and providing pilots with a better management system.

This article focuses on how the pilots of non-profit organisations and public administrations can better accomplish their key task, the performance management, using the Balanced Scorecard. The BSC<sup>2</sup> can be compared to a custom-built cockpit.

## 1. What is a BSC?

Developed by R. Kaplan and D. Norton, the Balanced Scorecard is a well-balanced instrument panel which displays the key dimensions of an organisation. In line with the plane analogy, the term "cockpit controlling" is often used as a synonym for Balanced Scorecard. A BSC uses a simple Excel diagram to show the selected dimensions and associated goals, measurement indicators and activities, as well as the collected actual and target data.

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<sup>2</sup> Industrial enterprises such as Novartis, Roche, Sulzer, ABB and Siemens use the BSC. It is also used in the service sector by companies in the travel, banking and consulting fields and in the non-profit sector by hospitals, the Canton of Geneva (environmental management) and many branches of the US administration. SMEs with only a few employees have also introduced the BSC successfully. Since every organisation defines its own key dimensions, the BSC must be tailored to individual requirements.

Usually the following four dimensions are selected: financial, internal process, customer and innovation perspectives. These four perspectives are logically inter-related.

**Financial perspective:** How do we measure financial sustainability?

The financial perspective is usually the most important dimension: after all, like any other organisation, NPOs cannot be sustainable if their activities cannot be financed.

**Customer perspective:** What are our customer segments and which factors are key to customer satisfaction?

Customers (users, donors, sponsors, the public, etc.) finance the organisation in some form or other through their demand.

**Process perspective:** What are our core processes?

Continual improvement of processes enhances efficiency and effectiveness and increases customer satisfaction.

**Innovation and learning perspective:** What is the learning and innovation capability of the organisation

and how does it build and retain know-how in order to implement strategy? Learning processes and innovations are a prerequisite for process improvement.

The BSC differs from a loose collection of indicators in that the key figures are mapped onto cause-effect relationships between as well as within the perspectives, providing a clear and concrete expression of the organisation's functioning and strategy (see Fig. 1).

The strategy of the organisation, the development phase and other factors such as organisational culture dictate whether the BSC should focus on measuring efficiency, effectiveness or impact. If your organisation is relatively young, you will be most interested in determining whether your business processes are effective. Once this has been established, you will gain more effectiveness by working more efficiently. At this point the BSC has to be adjusted, since it makes little sense to do something ineffective efficiently! One important rule of the BSC inventors was to incorporate only those indicators which can themselves actively control the organisation. So the BSC offers no magic formula for measuring impact.

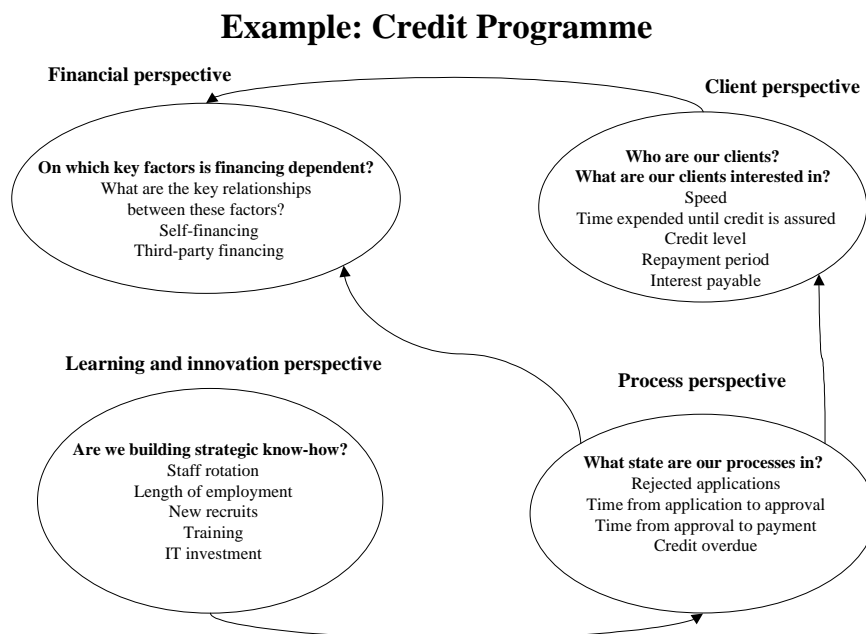


Fig. 1: Once the relevant perspectives are selected, the strategic goals are defined for each perspective. The next step is to illustrate the goals and key success factors through cause-and-effect links. The result is a cohesive map of the organisation's functioning and strategy, indicating how the strategy is to be implemented. Finally, a matrix provides an overview of the dimensions, goals and variables which can be actively influenced.

### A special form of the Balanced Scorecard: the Accountability Scorecard

A highly interesting, if as yet untested form of the BSC is the Accountability Scorecard. It works on the premise that NPOs and public administrations are responsible for a large number of customers/interest groups. These organisations are successful over the long term if they can effectively balance reciprocity in respect of key interest groups (including stakeholders). The perspectives are formed accordingly by the key stakeholders. (F. Nickols)

## 2. What are the advantages and benefits of the BSC?

The need to achieve ever greater benefits (efficiency, effectiveness) with ever diminishing resources and repeatedly have to justify these resources under growing competitive pressure is driving up demand for management systems that support the learning process. The BSC offers a concrete step towards the “learning organisation”. Today’s rapid pace of change calls for viable strategies, and strategies can only be implemented if the organisation acquires and uses the appropriate knowledge and know-how. The Balanced Scorecard provides feedback on whether the strategy is being implemented and initiates the requisite investigative processes if this is not the case. By choosing a BSC you are primarily purchasing a process and a method which will provide you with a management system tailored to your requirements. The BSC delivers the following advantages and benefits:

**Integration and focus function:** An organisation is effectively managed if its vision is turned into reality. The BSC measures the attainment of strategic goals and focuses on strategic implementation. It draws the attention of leading persons to four key perspectives. It is customer-driven and interdisciplinary. It supports balanced interpretations (e.g. environmental goals versus financial terms and conditions) and focuses on the essential. It weeds out projects/activities of low strategic importance.

**Reduction function:** It helps to reduce the flow of information to the data essential for decision-making, enhances transparency and organisational manageability, and greatly facilitates decision-making processes.

**Linkage function:** The BSC fills the yawning gap in management systems, i.e. the lack of systematic processes for implementing and delivering feedback on corporate strategy and its linkage with the budget.

**Visualisation, communication and learning function:** A well-designed BSC and the associated development process articulates the basic premises of a business and leads to a dynamic system approach, team learning and analysis of assumptions.

It serves to present and examine the relationships between actions and strategic implementation. It enables a common understanding of the strategy, enhances motivation and identification with the organisation, and ensures greater consistency in implementing strategy. The focus is on prevention rather than control.

## 3. How does the BSC differ from other well-known management systems?

Based on the presentations to date, you may have already detected the difference between the BSC and New Public Management (NPM), Total Quality Management (TQM), Project Planning by Objectives (PPO), Scenario Planning and annual planning and budgeting, to name but a few.

From a historical viewpoint the BSC arose from the TQM movement. If your organisation already practises TQM, you are ideally positioned to introduce a BSC since you have already come to grips with customer and core processes and are used to self-criticism and teamwork. The BSC helps you to combine individual activities and efforts and focus on a strategy, as well as keep the learning process alive. The BSC supports the focus of TQM and its daily incorporation in management decisions. There are also organisations who first develop a BSC, then recognise the need to introduce a TQM process.

NPM is also an ideal platform for the BSC. Experience has shown that NPM cannot by itself bring about the desired changes. NPM is not a system for monitoring strategic implementation and cannot contribute much to changing the organisational culture.

Your PPO can be BSC-compatible. The BSC-approach can easily be integrated in PPO methodology<sup>3</sup>. As the name implies, PPO is designed for individual projects. The BSC enables individual projects to be evaluated for strategic relevance. If an organisation's cause of being is basically the implementation of a specified project then the project-plan would be the point to start with the BSC-project.

The relationship between annual planning and the BSC is complementary. If every department formulates annual objectives, these should also be reflected in the BSC. If this is not the case, the relevance of the planned departmental objectives is questionable. If they are nevertheless deemed important, they must be integrated in the BSC.

#### 4. How is a BSC introduced?

No doubt you are interested in some tips on how to introduce a BSC.

An analysis of the status quo determines the action required and clarifies whether the prerequisites are in place or first need to be created. Developing and introducing a BSC is no easy task and necessitates commitment on the part of upper-level management and executive staff.

The key prerequisites for developing a BSC are:

**Vision, objectives,  
strategies, guiding principles.**

The BSC is not an instrument for developing these prerequisites, but assumes their existence and builds on them accordingly. A clarifying statement and a clear definition are drawn up at the beginning of the process.

I would probably put the following questions to you and indicate a possible plan of action. The questions should further crystallise the purpose of the BSC and also give you an idea of what to expect if you embark on the learning process of developing and introducing a BSC - remember, the BSC cannot be bought "off the shelf".

1. Which organisational levels need to be addressed in your opinion? Your head office or the local counterpart, a project or a department?
2. Are the vision, mission and strategy clearly formulated?
3. Is the strategy formulated based on measurable objectives and performance indicators?
4. What management information is essential for you?
5. Are the sources and prerequisites for organisational success transparent to your decision-makers?

6. Is this information included in management reporting and easy to comprehend at a glance?
7. How many pages do you need to peruse and what is the average time you need to invest in order to gain an overview and be able to ask the salient questions?
8. Is your reporting system historical or future-oriented?
9. Is your reporting system used as a control instrument or a learning instrument?
10. Is all the information action-oriented or does it consist rather of non-value-adding analyses of targeted versus actual data. Is what you measure what you wanted to achieve?
11. Is every employee clear on how he/she can contribute to implementation of the strategy and to the success of the organisation?
12. Are the goals, structures and incentive schemes aligned?
13. How do you intend to legitimise and market your organisation to the public in the future?
14. If you were to put these questions to your executive staff, board of directors and employees ....would their responses be mostly similar or different?

Are you interested in conducting a BSC pilot project? Contact the SDC team and the author of this article. We welcome feedback and enquiries.

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<http://www.lbl.ch/internet>

#### Literature:

- R. Kaplan and D. Norton, The Balanced Scorecard
- Performance Management in the Public Sector: A Critical Analysis and Case-Study, Brigitte Veronica Cuendet, MBA Project Report
- Balanced Scorecard as a Tool for Strategic Implementation, PriceWaterhouseCoopers, Vol. 4/99

#### Recommended internet addresses:

- BalancedScorecard:  
<http://www.balancedscorecard.org/default.html>
- Accountability Scorecard:  
<http://home.att.net/~Nickols/scorecard.htm>
- New Public Management:  
[http://www.ivb.ch/News/48\\_97\\_NPM.html](http://www.ivb.ch/News/48_97_NPM.html)

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<sup>3</sup> Meant is here the integration of the BSC-approach in the planning process. An integration of the BSC-approach into existing project plans may need in most cases an additional team process.