Balanced Scorecard
INSIGHT, EXPERIENCE & IDEAS FOR STRATEGY-FOCUSED ORGANIZATIONS
REPORT

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by Robert S. Kaplan

By adopting strategic performance measures, nonprofits can bring focus and discipline to their mission and much-needed information to donors and supporting organizations. The result: a more efficient marketplace that rewards effectiveness, thereby bringing bigger benefits to society. And in the post-Enron era, the stewardship and accountability that the Balanced Scorecard can help nonprofits achieve is just as relevant to the private sector as it is to the public sector.

Executives of nonprofit organizations typically do not use performance measurement systems, which leads to poor focus and limited accountability. This widespread lack of performance information also contributes to a highly inefficient external market for allocating financial and human resources to nonprofits. Large, mature nonprofit agencies receive funding year after year, regardless of their performance, while young, entrepreneurial, and often more effective nonprofits lack the sustained funding that would enable them to scale up their innovative programs. This market inefficiency occurs because the sector's resource providers — volunteers, donors, foundations, and government agencies — have virtually no information with which to assess the efficiency and effectiveness of the organizations they support.

What little information exists is limited to financial measures, such as donations, expenditures, and operating expense ratios. But financial performance is not how nonprofit success should be measured. Success should — indeed, must — be measured by how well these organizations provide benefits to their constituents, not by whether they can raise money or balance their budgets.

The Mission/Measures Gap

A few nonprofits have attempted performance measurement with nonfinancial indicators, but they typically use operational and compliance performance measures, not strategic ones. For example, The Nature Conservancy (TNC), an organization dedicated to species preservation through habitat protection, operated for years with two basic performance measures: "bucks" (how much money it raised each year) and "acres" (how many acres of land TNC acquired to keep in pristine condition). These measures set the agenda for everyone, and the organization was apparently successful along these two dimensions. During the 1990s, revenues grew at an 18% annual compounded rate, and the number of protected acres more than doubled. Yet TNC's management team reluctantly concluded that success along these measures was not contributing to its fundamental mission of protecting biodiversity. The gap between mission and measures eventually led TNC to adopt a much more balanced set of measures that were better linked to its organizational mission.[1] The new measures led to TNC's trading some of its large acreage for much smaller, yet more strategically positioned, land tracts.

Around 1995, a few organizations, such as Massachusetts Special Olympics, United Way of America, CARE, and United Way of Southeastern New England, started to apply the Balanced Scorecard. By working with them, we identified several barriers that nonprofits need to overcome when implementing a strategic performance measurement system.

The Role of Strategy in a Nonprofit Balanced Scorecard

Most nonprofits don't have a clear, succinct strategy. Their "strategy" documents often run upwards of 50 pages, and the so-called strategy consists of lists of programs and initiatives, not the outcomes the organization is attempting to achieve. Nonprofits' idea of strategy must shift from what the organization plans to *do* to what it intends to *accomplish,* especially outcomes that can be measured and for which the organization will be accountable.

Another problem is that most strategy documents represent a combined wish list from all of the organization's constituents. Because nonprofits value employee, volunteer, and board participation, they are generally unwilling or unable to narrow the list to focus the organization on a few coherent themes. As Michael Porter says, strategy is not only what an organization intends to accomplish, but what it has decided *not* to accomplish[2] — a message that is particularly relevant for nonprofits, given their limited resources.

Achieving such focus, however, is often difficult. Many employees, volunteers, and board members sign up because they believe in the organization's mission. Their personal values motivate them to do good, which is not only commendable but also a great source of strength for the nonprofit organization. But it is also a danger. Such individuals arrive already equipped with a clear, albeit personal, idea about how to accomplish the organization's goals. The nurturing environment they encounter, in which all opinions are equally valued, is in fact an engine for diffusing organizational energy. Each nonprofit organization must make choices; with its limited resources, no single organization can possibly solve all the problems in the world or even in its community.

Developing Strategy: Elevating the Role of Mission and Constituents

Since financial success is not their primary objective, nonprofits encounter difficulty with the Balanced Scorecard's standard architecture. We learned that they must rearrange the traditional strategy map and place the customer, or constituent, perspective at the top of their BSCs.

In fact, many nonprofits place their mission objective — usually a long-term objective such as reducing poverty, school dropout rates, disease, or discrimination — at the top of their scorecard strategy map. New Profits, Inc., an innovative venture philanthropy organization based in Cambridge, Mass., puts a Social Impact perspective at the top of its strategy map and those of all of its portfolio organizations.[3] *A nonprofit agency's mission represents its accountability to society, the rationale for its existence and ongoing support.* The mission should be featured and measured at the highest level of its scorecard. Such an objective may show only intermittent progress, which is why the measures in the four other perspectives provide the short- to intermediate-term targets and feedback necessary for year-to-year control and accountability.

Who Exactly Is the Customer?

Nonprofits need to modify the scorecard framework in another way: they need to expand the definition of *customer*. Donors provide the financial resources, while another group (the constituents) receives the service. So who is the customer — the one paying or the one receiving? Rather than having to make such a Solomonic decision, some organizations have placed both the donor and the recipient perspectives in parallel at the top of their Balanced Scorecards. (See *Figure 1*.)

Some nonprofit executives claim that their organization's performance is too unique and subjective to assess quantitatively. To counter this claim, we illustrate the application of the BSC to nonprofits through two cases: Boston Lyric Opera (BLO), an arts organization, and Teach for America, an organization that enhances educational opportunities for children. Both examples prove that the BSC can create value for all nonprofits.

Figure 1. The Balanced Scorecard Is Readily Adaptable to Nonprofit Organizations

The mission, rather than financial/shareholder objectives, drives the organization's strategy.

Case 1: Boston Lyric Opera

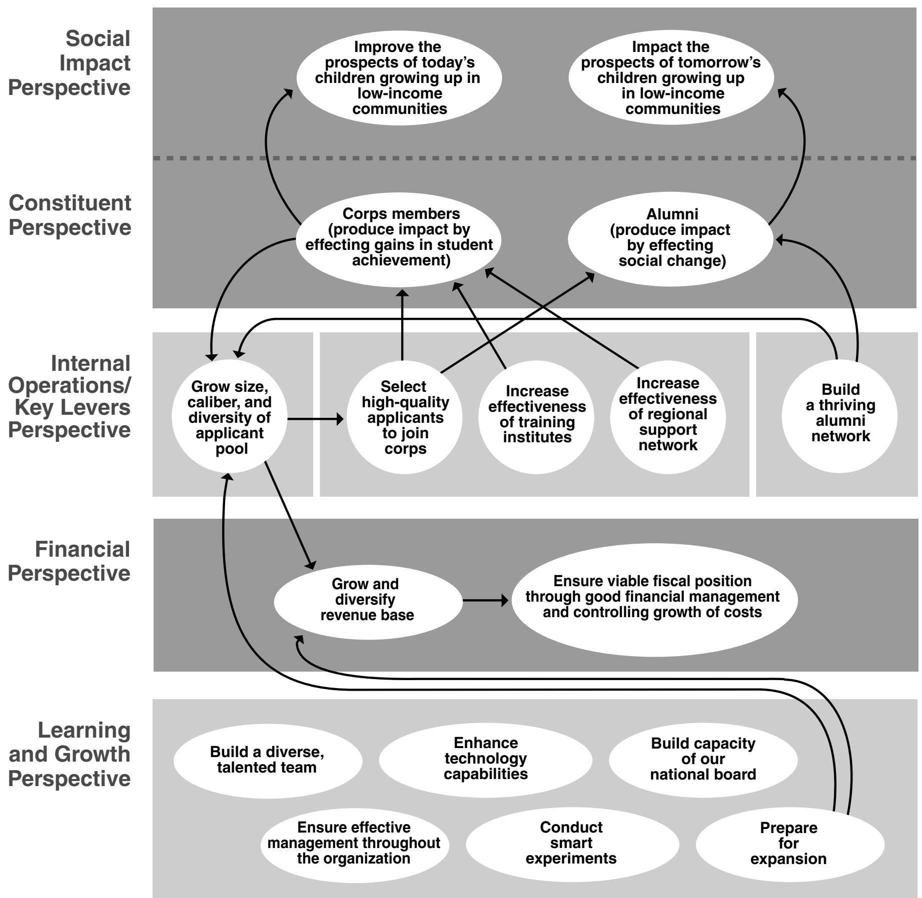
The Boston Lyric Opera features world-class emerging singers, conductors, directors, and designers. Its mission: to produce high-quality professional opera productions, develop future opera talent, and promote opera appreciation through educational and community outreach. This three-pronged mission statement was enough to sustain the BLO through its early growth. Between 1995 and 2000, subscribers more than doubled, and the number of performances increased by 50%, making it the fastest-growing opera company in North America.

In 2000, the company faced the challenge of what it should become. Even with the higher audience base, revenues from ticket sales remained less than 40% of operating expenses. The BLO needed to convert more subscribers into donors and attract significant funding from its supporters. A key board member felt that the BLO's kitchen cabinet–style governance structure was no longer sufficient and that a formal strategic planning process was essential. An active participant in several arts organizations, he had seen organizations fail because leaders had not actively involved the board in strategy and planning deliberations. Janice Del Sesto, the BLO's general manager, formed a project team of senior BLO executives and key board members to develop an explicit strategy that could be described with a Balanced Scorecard strategy map. The team eventually defined three high-level strategic themes, each relating to a key customer group:

1. ***Loyal and generous supporters.*** With ticket revenues raising only 34% of the annual budget, the BLO needed extensive, ongoing support from donors, foundations, and the community. Customer objectives for this strategic theme included attracting new donors, increasing support from existing donors, and recruiting new board members who could help the BLO accomplish its strategic objectives.
2. ***National and international opera scene.*** BLO could not hope to compete with the world's great opera houses but wanted to differentiate itself from the many regional companies in North America. The objectives for its second set of constituents included attracting the best young talent (future performers with the world's most prestigious opera companies) and developing a unique BLO style: crisp, simple, and elegant productions of popular, lesser-known, and contemporary works.
3. ***Community.*** To attract new generations of audiences, the BLO would build support for opera in the greater Boston community and develop opera education programs for children, their families, and their schools.

With these three strategic themes as the basis for the BLO strategy map

Figure 2. Teach for America: FY2002 Balanced Scorecard Strategy Map



TFA's new strategy map clearly showed that success was not defined solely by the two-year teaching experience.

and BSC,[4] Del Sesto now used the strategy map to communicate with her entire staff and board. This enabled all the internal constituents to become aligned and focused on the BLO's strategy.

Pre-BSC, Del Sesto noted, the company's fundraising and subscriber events had few measures of success and little linkage to strategy. Post-BSC, the development office set priorities for its work and positioned its day-to-day activities within a larger, more strategic context. The staff began to focus on initiatives and events that were likely to have the greatest impact on organizational objectives. Cross-departmental initiatives arose: one junior staff person designed a new database application that streamlined donor information and increased the success of solicitation activities. The development department began to work more closely with the marketing/box-office department on VIP seating and donor education initiatives.

Many suggestions emanated from employees. A junior production staffer created a backstage tour for board members and prospective large donors to show how the magic in *The Magic Flute* was produced. For its community objectives, the company delivered a major new program, "*Carmen* on the Common," two evenings of opera performed free before more than 130,000 people in a downtown Boston park. For many, this was their first opera experience. The BSC had become a management tool for setting priorities among initiatives, motivating employees, aligning the board, and soliciting external support for the BLO's production and community outreach activities.

Case 2: Teach for America

Teach for America (TFA) was founded in 1989 by Wendy Kopp, based on her undergraduate honors thesis at Princeton. Her vision: to ensure that one day all children in this nation would have the opportunity to attain an excellent education. TFA recruits a national teacher corps drawn from talented, highly motivated graduating seniors who commit two years to teaching in urban and rural public schools.[5] TFA was one of the most successful nonprofit start-ups in recent years. By 2002, more than 8,000 young people had served as corps members, reaching more than one million students in 16 urban and rural areas.

Teach for America used performance measurement to guide its operations, but most measures focused on activities that staff could influence throughout the year, such as success in attracting applications, the number and diversity of new corps members, satisfaction and retention of corps members, and financial performance.

These were all good measures, and they contributed to TFA's success. But such operational measures captured neither TFA's main vision nor its goal of having corps members act throughout their lifetimes as change agents for TFA's agenda to expand children's educational opportunities.

TFA's senior staff went through a facilitated process that translated the high-level vision and mission statements into a Balanced Scorecard strategy map of linked strategic objectives. (See *Figure 2*.) The Social Impact perspective now explicitly recognized two high-level objectives: improving the educational performance of today's students and enhancing the educational opportunities for tomorrow's students. This latter, more strategic objective, led to new measures, such as:

- Number of alumni (corps members) in high-impact, visible positions effecting social change

- Number of alumni engaged in special initiatives

These new measures communicated to staff, resource providers, and especially the corps members themselves that success was not confined to their two-year teaching experiences. To achieve TFA's vision, corps members would have to become lifetime agents for educational change and innovation. The TFA project team identified an extremely important new internal process, "build a thriving alumni network," that would help alumni exchange ideas on how to become more effective change agents.

The new scorecard retained most of the existing operational measures but integrated them into cause-and-effect linkages along with the new strategic measures. The TFA executive team soon put its new strategy map and Balanced Scorecard to work as it solicited significant new funding from growth investors (including New Profit, Inc.), who could now clearly see TFA's strategic objectives — and who now had performance measures to which TFA would be accountable for its new funding.

Delivering Benefits Efficiently

Leaders of nonprofits are now using the BSC to make their organizations more strategy-focused, delivering demonstrable performance aligned with their vision and mission. At a macro, economy-wide level, Balanced Scorecard reports can function like financial statements in the for-profit sector. By clearly communicating mission-specific performance, nonprofit BSCs facilitate the migration of scarce funding and volunteer support to those nonprofits that are most effective and efficient in delivering tangible performance benefits to their targeted constituencies. New, entrepreneurial, and high-performing nonprofit ventures like Boston Lyric Opera and Teach for America can grow and prosper. Resources can shift away from more established organizations that no longer deliver innovative or effective performance. Through this competitive dynamic, society's "third sector" will become far more efficient in delivering benefits to society.

[1] *J. Sawhill, "Mission Impossible? Measuring Success in Nonprofit Organizations,"* Nonprofit Management & Leadership *(2000).*

[2] *M. Porter, "What Is Strategy?"* Harvard Business Review *(Nov.–Dec. 1996): 79.*

[3] *R. S. Kaplan, "New Profit, Inc.,"* HBS Case # 9-100-052.

[4] *See "Using Strategic Themes to Achieve Organizational Alignment,"* Balanced Scorecard Report *(Nov.–Dec. 2001).*

[5] *W. Kopp,* One Day, All Children...: The Unlikely Triumph of Teach for America and What I Learned Along the Way *(New York: PublicAffairs, 2001).*