

An Integrated Balanced Scorecard Strategic Planning Model for Nonprofit Organizations

Jan L. Ronchetti
City of Naperville, IL

Over a decade after Robert Kaplan and David Norton introduced the Balanced Scorecard as a strategic planning model in 1992, documented successes from the private sector can be found in much of today's business literature. However, little information is available on how to implement the Balanced Scorecard in a nonprofit organization so that exceptional ongoing results can be achieved. Unique from the private sector, nonprofits are often required to minimize administrative and operating costs under the watchful eyes of congregants or donors. Tight operating budgets, heavy workloads, and confusion about how to effectively perform strategic planning are all contributing factors which can cause leaders of nonprofits to shy away from strategic planning initiatives. However, without a mission and values-driven strategy in place to guide long and short-term decision-making, a nonprofit's ability to increase operational capacity, operate within budget allocation, enhance employees' skill base, and meet stakeholders' needs is compromised. This article discusses what the Balanced Scorecard is, describes implementation guidelines, and proposes practical scenarios of how to implement the Balanced Scorecard for a new outreach ministry within a nonprofit religious organization. Also, due to the widespread popularity of Rick Warren's (1995) Purpose-Driven Church model, a scenario is presented combining the Balanced Scorecard with the Purpose-Driven Church model to demonstrate the power and flexibility of the Balanced Scorecard as a strategic planning and performance measurement tool.

Strategic planning presents a unique challenge to most organizations today, whether they are private, public, or nonprofit entities. Not only do strategic planning efforts frequently monopolize precious staff resources, but staff assigned to the strategic planning effort can be uncertain how to approach and execute this formidable task. Is planning a science or is it an art? Should an organization attempt to do strategic planning internally or should a seasoned consultant be brought in to guide the organization through the turbulence of an in-house planning initiative? These are difficult questions to answer and, while any strategic planning effort is a journey into the unknown, much of the uncertainty associated with planning can be addressed by following the guidance and structure offered by the Balanced Scorecard model.

This article discusses what the Balanced Scorecard is, describes implementation guidelines, and proposes practical scenarios of how to implement the Balanced Scorecard for a new outreach ministry within a nonprofit religious organization. Also, due to the widespread popularity of Rick Warren's (1995) Purpose-Driven Church model, a scenario is presented

combining the Balanced Scorecard with the Purpose-Driven Church model to demonstrate the power and flexibility of the Balanced Scorecard as a strategic planning and performance measurement tool.

Balanced Scorecard as a Strategic Planning Model

In the early 1990s, researchers Robert Kaplan and David Norton of the Harvard Business School determined that 90% of their private sector clients were unable to implement their own strategic objectives into daily operations (Niven, 2003). According to Kaplan and Norton (1992), the reasons why those organizations failed to realize ongoing, sustainable results are the same reasons why, over 20 years later, strategic planning efforts in many of today's public and nonprofit organizations continue to fail: conflicting and competing work priorities, declining revenues or sources of funding, more work done with less staff, increased costs, and lack of an effective approach to plan and execute strategy. While the success of private sector firms is measured by return on investment and profit margins, success in public and nonprofit organizations is primarily realized through constituent satisfaction and cost containment. Even though organizational structures, methods of operations, and values may differ among private, public, and nonprofit organizations, the challenge of performing and implementing strategic planning is common to all of them. Whether an organization is profit or people-driven, Kaplan and Norton's Balanced Scorecard provides a practical model for managers to define strategic themes and objectives, to implement strategy through all levels of the organization, and to measure performance. Simply stated, the Balanced Scorecard is a tool managers can employ to measure an organization's operational success through direct cause-and-effect linkages back into daily operations (Huselid, Becker, & Beatty, 2005).

Is it just another Management Fad?

So, is the Balanced Scorecard a strategic planning model any organization can use to achieve breakthrough results or is its use confined only to certain organizations of excellence? Is it just another management fad *du jour* or does the Balanced Scorecard have long-term staying power as a strategic planning model? Labeled by the *Harvard Business Review* as "one of the 75 most influential business ideas of the 20th century" (Niven, 2005, p. 16), the Balanced Scorecard evolved from a 1990s planning model into an integrated strategic management system that links long-term strategy to short-term operations. This conceptual expansion is due in part to the evolution the Balanced Scorecard underwent as practitioners integrated it into new applications. While the generic appeal of the Balanced Scorecard has been the subject of numerous case studies, the real question is, "Is it here to stay?" Today there is no shortage of business management ideas. However, in an era of virtual organizations, instant communication, and quick fixes, according to Davenport, Prusak, and Wilson, the life span of a management idea in 2006 is approximately 3 years as compared to the 15-year average life span of a new management theory idea back in the 1950s and 60s (as cited in Niven, 2005). The fact that the Balanced Scorecard was introduced to the business world nearly 15 years ago, is still in use today in varied forms, and has evolved into a second-generation strategic management system due to its widespread use, does indeed suggest that the Balanced Scorecard is not a fad and is here to stay.

Four Perspectives of the Balanced Scorecard

A Balanced Scorecard initiative begins with identifying strategies derived from the organization's vision and mission. Strategic themes are then developed by viewing the vision and mission statements from four distinct perspectives: Financial, Internal Processes, Customers, and Learning and Growth (Kaplan & Norton, 2004). Figure 1 provides a graphical representation of how mission and values-focused strategy drives the four perspectives.

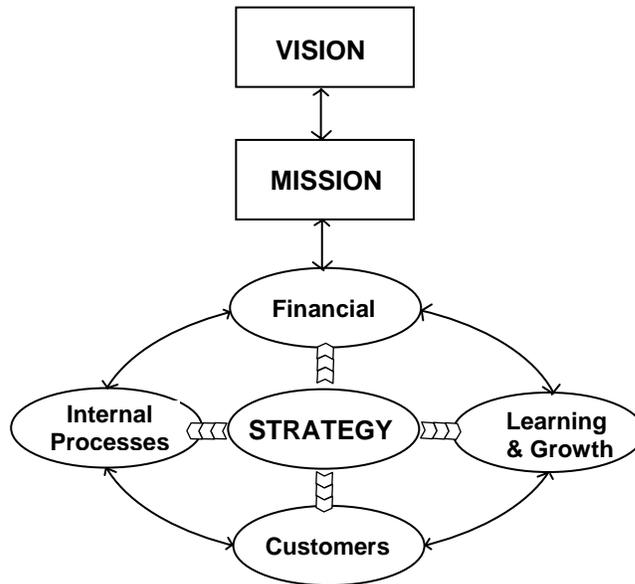


Figure 1. Balanced scorecard strategic management model for the private sector.

While private sector companies emphasize measuring success through financial measures, nonprofits also need to monitor budgets and expenses. The first perspective, the Financial perspective, defines financial strategic objectives and financial performance measures that provide evidence of whether or not the company's financial strategy is yielding increased profitability and decreased costs. This view also captures how the organization must look to customers in order to succeed and achieve the organization's mission. In the private sector, achieving financial strategic objectives is the primary means to realize the company's mission. However, financial performance is complemented and impacted by three other perspectives: Internal Processes, Customers, and Learning and Growth.

The second perspective, Internal Processes, represents the impact of product and service quality and helps identify which internal business processes must operate with excellence in order to satisfy customers. Internal process metrics are then developed, which communicate the level of product quality through the monitoring of in-process metrics, as well as measuring productivity associated with the number of units produced or services provided (Brown, 1996). Metrics defined for the Internal Process perspective are those that can be associated with

satisfying customers and delivering value. As a result, delivering value to the customer with excellence yields a stronger financial performance for private sector organizations. However, for nonprofits, realizing excellence in internal operations correlates to increased constituent or congregant satisfaction, not financials (Niven, 2003).

The third perspective, Customers, represents another view of internal operations that has a cause-and-effect relationship with the Financial perspective and addresses how the organization must appear to customers in order to fulfill the organization's mission. For the profit-driven private sector, the Customer perspective supports the critical Financial perspective. However, for nonprofits, it is appropriate that the Customer perspective assumes primacy over the Financial perspective due to the critical need for constituent satisfaction.

The fourth perspective, Learning and Growth, enables the other three perspectives and defines what type of staff and automation the organization must have in order to achieve the mission, support the internal processes, and satisfy the customers. In some organizations, this perspective may actually be labeled *Enablers*. Strategic objectives and metrics of the Learning and Growth perspective help to identify gaps between current employee skill levels, culture, and supporting information systems and discover the optimum level of operation at which these components become high performing internal processes (Niven, 2003).

Benefits and Cautions

One benefit of viewing an organization through the four Balanced Scorecard perspectives is that this approach reduces information overload by condensing critical data needed for decision-making. The Balanced Scorecard also meets managerial needs by distilling varied unrelated measures from multiple areas within the company into a single report and ensuring that managers are looking at all measures across the operation. This approach also introduces the safeguard that one measure is not improved at the expense of another (Kaplan & Norton, 1992). Developing organizational strategy through the Balanced Scorecard also minimizes participants' subjectivity as they take part in the strategy-setting process and enhances managers' ability to assess all programs for strategic impact without bias. Finally, strategic objectives represent concrete actions that support leaders in moving the organization toward achieving its mission and provide a methodology to align and leverage scarce work resources on tasks that will result in increased value to the customer.

As comprehensive as the Balanced Scorecard system has proven to be, it also carries some cautions. The amount of time estimated to implement a Balanced Scorecard initiative should be carefully estimated and evaluated. This is particularly true if no Balanced Scorecard subject matter expert is available on the implementation team. Bullard (2004) stated that effective strategy development and planning typically guide 3 to 5 years of an organization's future operations. Due to the length of this 3- to 5-year operating interval, it is beneficial that an organization allow an adequate amount of time to conduct a thorough Balanced Scorecard implementation. This 3- to 5-year operating interval contrasts sharply with the annual planning exercise conducted by many organizations that typically addresses the organization's operations only, for a 1- to 2-year period. Due to the amount of information synthesis required in a Balanced Scorecard initiative, an organization should realistically evaluate its ability to create and maintain an ongoing Balanced Scorecard effort.

Six Action Steps of the Balanced Scorecard Implementation

1. Formulate the Purpose (Mission Statement)

The mission statement should be brief, to the point, and state the reason why the organization exists. It should also include how the organization will operate in order to have maximum impact on its stakeholders. Using the practical example of starting an outreach ministry in a church setting (i.e., a nonprofit religious organization), it will be important to capture that the ministry is being created to respond to the needs of people in the community who are typically outside the reach of the organized church. The mission statement should also reflect that ministry will be accomplished by equipping, affirming, and supporting lay leaders and participants who will be impacted by this ministry. A sample mission statement embracing these purposes might read:

This outreach ministry responds to the churched and unchurched community's needs by:

- a. Creating and maintaining genuine, transformational relationships.
- b. Equipping and supporting those called to the vocation as an outreach lay leader.
- c. Using strategic planning to ensure desired results and realization of the ministry's mission.

2. State the Vision

The vision statement is a word picture of what the project ultimately intends to become 5, 10, or 15 years in the future. While mission statements are often abstract, the vision statement should contain as concrete a picture of the desired end state as possible in order to provide a basis for development strategies. In the start-up outreach ministry example, it's important to capture the ultimate vision of building relationships in the community as a means to discipleship. The underlying vision of this ministry is to be an impetus for spiritual growth in people with needs by building authentic, caring relationships with them and serving as a role model of Jesus' love for people.

The outreach ministry will be a model of service, discipleship, and fellowship that honors the Great Commandment by unconditionally loving people. Gifted and motivated lay leaders will be known for their authentic spiritual walk and caring relationships with people. We will be a springboard for meeting the practical needs and spiritual development of others. By helping people in the community build close and personal relationships with Jesus Christ, we will be used of God to build a community of resilience and faith.

3. Conduct a SWOT (Strengths, Weaknesses, Opportunities, and Threats) Analysis

A SWOT analysis is a tool used to collect stakeholder input and objectively examine the organization's operating advantages and barriers to effectiveness. What makes this tool so powerful is that it can help an organization identify internal operating strengths and external opportunities that are easy to pursue. Likewise, by understanding its weaknesses an organization identifies what processes could be improved and is made aware of possible external threats, giving that organization an opportunity to manage or eliminate them. Taking an objective look at

advantages and potential barriers the organization realistically faces is the start of developing a strategy that focuses on strengths, minimizes weaknesses, and takes the greatest possible advantage of opportunities available.

For the new outreach ministry scenario, a facilitated SWOT analysis session would optimally be held with a group that represents different levels of ministry stakeholders: church leadership, pastors, support staff, and lay leaders. In conducting the SWOT analysis, the following questions might be posed to generate responses regarding internal operations:

- a. Internal Strengths: “What do we do well?”
 “What advantages do we have?”
 “What do others see as our strengths?”
- b. Internal Weaknesses: “What could we improve?”
 “What should we avoid?”
 “What do we do poorly?”

After the SWOT analysis is complete, look for key strategic ideas that appear to fit in one large category of similar ideas (e.g., provide high-quality ministry support, plan to work more effectively, and streamline and automate work tasks) that might span multiple categories. These strategic ideas are valuable input to the next step of creating a strategy map using SWOT analysis input to examine the organization from the four Balanced Scorecard perspectives. Not only does the SWOT analysis provide valuable information about the organization’s operations, but it also gives the strategic planning team valuable information that may leverage resolution of other organizational issues.

4. *Build a Strategy Map*

While a SWOT analysis results in knowledge about internal operations and external influences, the strategy map captures “buckets” of ideas called *strategic themes*. These themes are crafted into strategies for which objectives and performance indicators can be defined and made actionable. In the Balanced Scorecard model, these strategies are developed within the Financial, Internal Process, Customer, and Learning and Growth perspectives. While private sector firms are profit-driven and place the greatest emphasis on the Financial perspective, nonprofits usually rearrange the strategy map to have the Customer perspective on top renaming it the *Constituent* or *Community* perspective. Whether the Financial or Customer perspective is at the top of the strategy map, the topmost perspective is still supported by the other three perspectives.

In the new outreach ministry scenario, the planning team would review the SWOT analysis, look for similar comments, and group them together under a common theme. For example, if several points from the SWOT analysis alluded to work inefficiencies due to poor processes or little automation, a category of “Streamline and Automate Work Tasks” could be defined as a strategic theme. Figure 2 depicts a sample strategic map the outreach ministry team might have at this point in the planning process. In determining how the outreach strategic map should be arranged, the planning team might decide to use the labels of Internal Processes and Financial for these perspectives, but choose more descriptive titles for the remaining two perspectives. In this example, Learning and Growth was changed to *Enablers* and, since the label Customers is not particularly applicable to ministry, the label *Community* was used instead of Customers.

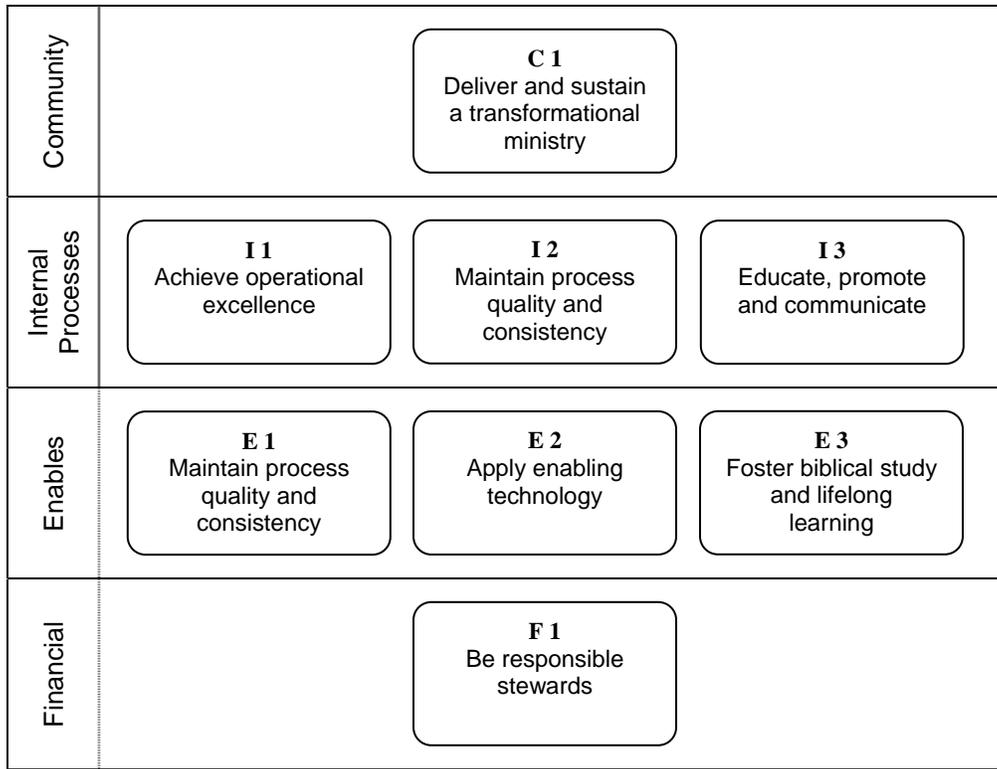


Figure 2. Sample strategic map for the outreach ministry team.

5. Define the Strategic Themes

Once strategic themes are categorized and placed on the strategy map, the planning team should ask more questions about each strategic theme before proceeding in the planning process. Two helpful questions to ask at this point are

- a. “What is it?” – What is the definition of the strategic theme, taking into account the SWOT analysis input, assumptions made, and discussion points associated with the strategic themes?
- b. “Why is it important to the organization?” – As further discussion about a strategic theme occurs, it is easy to forget why the planning team thought it was important at the time. By documenting the “Why?” question, the team has an important reference point for future discussions about indicators, measures, and targets.

For the outreach ministry project, detailed notes should be taken during the planning team’s meetings to capture key discussion points. These notes will be reviewed later by the planning team and formulated into definitions for the strategic themes. Once definitions are developed, the team should discuss each strategic theme in order to decide why it is or is not important to the organization. During these meetings, strategic themes may be added or removed, wording is frequently adjusted, and opinions should be constructively challenged to ensure that the results

capture important operating principles that reflect the purpose, vision, and values of the organization.

6. Identify Strategic Objectives and Performance Indicators

Strategic themes are operationalized through the definition of strategic objectives that describe very specific things the organization must do well to achieve its mission. However, defining strategic objectives is not enough. Performance indicators are then developed to provide measures of success. Indicators are not to be confused with metrics or targets that provide measurement standards and report performance. Indicators typically track trends, are less precise, and act as a barometer of whether progress of a strategic objective is positive or negative. In the case of a negative trend, further investigation will be required to determine the source of the root cause driving the negative trend.

In the outreach example, the strategic planning team may feel that the “Deliver and sustain a transformational ministry” strategic theme in the Community perspective (which is identified in the “C1” box of Figure 2) is the most important objective to be accomplished in order to achieve the ministry’s mission. To track the organization’s progress on this objective, outreach participant data will be accumulated every quarter to assess if the objective is being met. As more data is collected, the team will need to assess whether the indicators they have defined are true representations of the ministry’s success. If no new indicators are chosen, more extensive analysis should be done to formulate precise measures and targets.

Integration of the Balanced Scorecard and Purpose-Driven Church Models for Nonprofits

In considering an alternative nonprofit strategic planning model, one of the most popular is Rick Warren’s (1995) Purpose-Driven Church model for religious organizations. This model promotes church growth through strategy built around five New Testament purposes of the church: evangelism, worship, fellowship, discipleship, and service. In this model, purpose (i.e., vision and mission) is driven by data collected about the targeted church growth group. In the Balanced Scorecard terminology, these are stakeholders.

Key components of the Purpose-Driven Church model that contribute to its appeal are the use of data and emphasis on communication. Supporting this concept is Drucker’s (1990) conclusion that one of the most critical activities a nonprofit organization can do is to “build itself around information and communication instead of around hierarchy” (p. 30). The Purpose-Driven Church model’s use of quantitative data assessment, evaluation, and validation sets the stage for positive results, similar to the data-driven Balanced Score model. Another strength of the Purpose-Driven Church model is seen in how this model guides church leaders in the definition of how the five purposes apply within the context of their own organization. The main deficiency of this model is evidenced by the lack of direction in how to operationalize strategic objectives into the daily flow of work. Without a cause-and-effect linkage established between strategy and daily work, organizations applying the Purpose-Driven Church model are more likely to grasp the concept of defining purpose rather than understanding how to implement strategy amid the reality of conflicting daily priorities and programs. The implementation shortcomings of the Purpose-Driven Church model invite users to explore alternative models to integrate into the Purpose-Driven Church model in order to actualize a nonprofit’s mission. The flexibility of the Balanced Scorecard model lends itself to this integration and is graphically

depicted in Figure 3. The strength of an integrated model is emphasized by the data gathering approaches common to both models and by the contribution of the Balanced Scorecard's cause-and-effect linkage down into low-level operations. This integrated model also fosters a deeper level of critical thinking with regard to stakeholders, internal processes, employee and volunteer development, and financial considerations, all significant in the daily operation of any nonprofit today.

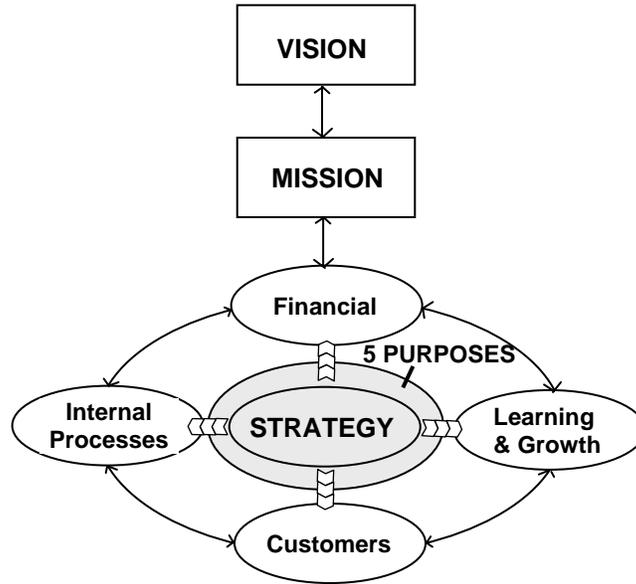


Figure 3. Integrated Balanced Scorecard and Purpose-Driven Church strategic model.

Implementation Tips

Organizations differ in size, culture, and complexity, but key implementation points should be considered when using the Balanced Scorecard to develop strategic objectives.

1. Choose a leader with good overall knowledge of the business as a Balanced Scorecard champion. Do not delegate this responsibility out to a member of the staff. Be realistic in the amount of time this person will need to dedicate to the implementation effort (Olve, Petri, J. Roy, & S. Roy, 2003, p. 192).
2. Hold a kickoff meeting to define the Balanced Scorecard terms and clarify terminology. Niven (2005) reported to having seen the Balanced Scorecard projects take weeks longer than planned simply because participants made assumptions about the meanings of words (p. 57).
3. Keep in mind that it is often difficult for managers to define strategic objectives and metrics for the Learning and Growth perspective since it deals with the intangible areas of training and culture. When strategic objectives are being defined, it is not uncommon that Learning and Growth is the last view that has action plans and metrics defined.

4. Be prepared to address change. New strategies will introduce some level of organizational change (Schaller, 1993, p. 91); therefore, plan for change prior to the kickoff meeting and remain vigilant to see how changing one component in the organization may impact other operations in the organization.
5. Cascade objectives down to the operational level from the strategies. Develop objectives, metrics, key performance indicators, and performance targets based on the identified strategies (Niven, 2003, pp. 133-139).

Summary

While many approaches to strategy development exist, the unique characteristics and mission of each organization must dictate the approach used to move the organization toward fulfilling its mission. The use of the Balanced Scorecard model provides an innovative alternative for many nonprofit organizations that do not find private sector strategic planning models applicable to their unique planning needs. The use of the Balanced Scorecard model or an alternative integrated solution where the Balanced Scored model supplements another strategic planning model already in use is an option for those nonprofits seeking to plan with the precision of a private sector firm, and committed to meeting the unique needs of their community-focused organizations.

About the Author

Jan Ronchetti, PMP, is employed with the City of Naperville, Illinois and is a professional project manager with expertise in software development, human resources, and organizational effectiveness. With over 20 years of project management experience in the private, public, and nonprofit sectors, she is currently implementing a public sector Balanced Scorecard project and leading several municipal project management initiatives.

Email: jronchetti@sbcglobal.net.

References

- Brown, M. G. (1996). *Keeping score: Using the right metrics to drive world-class performance*. New York: Productivity Press.
- Bullard, G. W. (2004). Using consultation in strategy planning. *Review and Expositor*, 80(4), 561-569.
- Drucker, P. F. (1990). *Managing the non-profit organization*. New York: HarperCollins Publishers.
- Huselid, M. A., Becker, B. E., & Beatty, R. W. (2005). *The workforce scorecard: Managing human capital to execute strategy*. Boston: Harvard Business School Press.
- Kaplan, R. S., & Norton, D. P. (1992). The balanced scorecard – Measures that drive performance. In *Harvard Business Review on Measuring Corporate Performance* (1998, pp. 123-145). Boston: Harvard Business School Press.
- Kaplan, R. S., & Norton, D. P. (2004). *Strategy maps: Converting intangible assets into tangible outcomes*. Boston: Harvard Business School Press.
- Niven, P. R. (2003). *Balanced scorecard: Step-by-step for government and nonprofit agencies*. Hoboken, NJ: John Wiley & Sons, Inc.
- Niven, P. R. (2005). *Balanced scorecard diagnostics: Maintaining maximum performance*. Hoboken, NJ: John Wiley & Sons, Inc.
- Olve, N., Petri, C., Roy, J., & Roy, S. (2003). *Making scorecards actionable: Balancing strategy and control*. Hoboken, NJ: John Wiley & Sons, Inc.
- Schaller, L. E. (1993). *Strategies for change*. Nashville: Abingdon Press.
- Warren, R. (1995). *The purpose-driven church*. Grand Rapids, MI: Zondervan.