

Organizational Leadership and the Balanced Scorecard: Lessons to be learned from Marketing Activities in a Nonprofit Setting

Billy Dillon

University of Maryland Eastern Shore
PGA Golf Management Program
Old Access and Success Portable #1
Princess Anne, MD 21853
United States of America

Abstract

Leaders of nonprofit organizations have a difficult time assessing the success of their organization. When comparing nonprofit organizations to for-profit organizations, for-profits have the liberty of measuring their success simply by looking at the bottom line. Measuring success or failure of nonprofits is not so simple. As nonprofits tend to cater to emotion and the public good, the bottom line is not as valued as it is in for-profit organizations. Many nonprofits have turned to the Balanced Scorecard to measure their success rate. This paper looks at two real life examples as well as one case study that describe how the Balanced Scorecard has been altered by nonprofit leadership to fit organizational needs.

Key words: Cause-Related Marketing; Balanced Scorecard

Introduction

The Balanced Scorecard (BSC) was developed in 1992 by Robert Kaplan, a Harvard Professor, to help for-profit organizations measure their performance and accountability based on the company's mission statement and strategic plan. This focus forces organizations to look beyond the bottom line of the profit and loss statement and see themselves in a more humanistic way. In 1992 this was out of the box thinking. Organizations coming out of the decade of the 1980's, where profit was all that mattered, did not hold customer relations, employee satisfaction, or internal processes as highly as they do today. The BSC has helped organizations redirect their focus to included customers and employees as well as the financial aspects of the business to measure their performance.

Historically nonprofit organizations have not measured their success by looking at the bottom line. While profit is a major factor for nonprofits, the bottom line is not the main focus. It is important for nonprofits to create a revenue stream or cash flow just to cover expenses related to the mission. The mission of nonprofits tends to promote public good, emotion or awareness. These characteristics make it difficult to quantify the success rate of many nonprofits. As much of the funding that supports many nonprofit organizations comes from public dollars, they are held to a higher standard than for-profit organizations. The general public wants to know if the mission of the nonprofit is being carried out in a satisfactory manner. Over the past eighteen years, since its creation, the BSC has been used by numerous nonprofit organizations to improve management and accountability. Many nonprofit organizations are overseen by Board of Directors that have used a modified version of the Balanced Scorecard to measure the effectiveness and efficiency of the organization to meet the needs of the people they are suppose to serve.

The findings of the BSC create many challenges for leaders and marketing administrators of nonprofit organizations. Cause-Related Marketing (CRM) is used by numerous nonprofit organizations. CRM is a joint venture between for-profit and nonprofit organizations with the intention of promoting one cause. The nonprofit is interested in promoting the cause and while the for-profit cares about the cause, they also want to make a profit.

The challenge of the Marketing Director of the nonprofit organization lies in controlling the message that supports the cause. The BSC can be used to match for-profit and nonprofit organizations in CRM and can be used as a tool to decrease some of the challenges that Marketing faces.

Hypothesis

The BSC has been described as a way to provide a framework to map and execute strategies by serving as a management system, strategic management system, and communication tool (Niven, 2003). Although the BSC was designed for for-profit organizations, many nonprofits have used the scorecard with success in determining the effectiveness of the organization in relation to the mission (Kaplan, 2001). The BSC is made up of four perspectives 1) Financial; 2) Internal Business Processes; 3) Learning & Growth; and 4) Customer (Kong, 2007). As written, this approach works well for for-profit organizations. This approach also works well in nonprofit organizations with one modification. For-profits list the financial perspective first in the BSC, as profit is the main focus of the organization. Nonprofits can modify the BSC by moving the financial perspective to the bottom and moving the customer perspective to the top. This approach has served nonprofits well as they are not as concerned with the bottom line as they are with the emotional aspect and well being of the people that they serve. The modified BSC will be used by many nonprofit organizations in the future as they compete amongst themselves for available dollars from donors, foundations, and the government. Nonprofit marketing professionals will also utilize the modified BSC in determining how their customers perceive the effectiveness and necessity of their organization. Perception is a difficult thing to measure and the BSC is a vital tool that, when used properly, can steer leadership in a productive direction. The BSC is the best way to measure the effectiveness of nonprofit organizations, including marketing, if leadership develops and supports the use of the BSC and, if the BSC is modified by placing the Customer perspective on top and moving the Financial perspective to the bottom.

Literature Review

Kaplan developed the BSC in 1991 to address several deficiencies of the traditional accounting models, which are essentially based on the technological view of the firm. In addition, the BSC can address the narrow financial focus of shareholder-value management tools based on the traditional property rights view of the firm (Speckbacher, 2003)

The BSC allows an organization to carry out more comprehensive management and control. It includes four dimensions: Financial perspective, Customer perspective, Internal Process perspective, and Learning and Growth perspective. In addition it combines both financial and non-financial scales and measures the performance based on a company's vision and strategies (Wu and Hung, 2008).

Kaplan (2001) states that the BSC was developed for the private sector to overcome deficiencies in the financial accounting model, which fails to signal changes in the company's economic value as an organization makes substantial investments in intangible assets, such as the skills, motivation, capabilities of its employees, customer acquisition and retention, innovative products and services, and information technology.

The BSC provides an integrated format that supports the strategic focus and is a sophisticated business model that helps organizations understand what really drives their success. The BSC seeks to provide measurements grounded in the organization's strategic objectives and competitive demands. It also seeks to create measures that are multidimensional as well as forward thinking and integrate strategy development with its implementation. In a single management report, the BSC brings together the elements of the company's competitive agenda (Forsythe, Bunch, and Burton, 1999). Carter (1999) suggests that during the development of a BSC that measures an entity's performance, the entity's important stakeholders and their needs must be identified. In other words, Carter argues that the four perspectives of the BSC need to be variable depending on the organization's needs.

Kong (2007) sees the BSC as a tool for business organizations to convert intangible assets such as corporate culture and employee knowledge into tangible outcomes. While Kong sees the BSC in much the same way as others that have studied its use, his research is the only one that suggests that the BSC is not the best way to measure the effectiveness of non-profits.

He argues that there are a number of reasons to suggest that the BSC offers an inferior framework for the non-profit context. First, the BSC proposes a strategy which is formulated and executed under the assumptions that presupposed existence of a stable target group of customers are always in place and the maximization of the bottom line profitability between two competing organizations always exist. Second, there is a concern that the cause-and-effect relationships among the four BSC perspectives are logical rather than causal. The assumption about the logical cause-and-effect relationships is less convincing in non-profits because the organizations are accountable to multiple constituents. Third, the BSC is criticized for being fairly rigid because the four linked perspectives and the indicators within them are relatively limiting. The potential risk is that non-profit leaders and managers may be misled by focusing only on the four perspectives in the BSC and may end up missing other equally important factors in their organizations (Kong, 2007).

Cause-Related Marketing is defined as the public association of a for-profit company with a non-profit organization with the intention of increasing the interest of both parties (Wu and Hung, 2008). CRM can improve corporate performance, strengthen the corporate and brand image, and expand the target market. From a company's point of view, CRM is a marketing strategy that combines company charity, social responsibility, and fundraising for the nonprofit organization. To evaluate CRM's effect, a nonprofit organization still refers to traditional financial data, which does not understand the influence and effect of CRM on a nonprofit organization completely. The BSC can be used as a framework for CRM evaluation (Wu and Hung, 2008).

The dimensions of a BSC are used by management to control mechanism design rather than as a performance index. For nonprofit organizations, the financial perspective is a restraint rather than an objective. Since these organizations have to control their expenditures under budget, the performance of these organizations should be evaluated by whether they have satisfied fund supporter's demand or achieved a vision or mission, instead of focusing on budget control (Wu and Hung, 2008). According to Wu and Hung (2008), that comprehensive evaluation is the spirit of the BSC. Kaplan states that the standard model is easily transferable to nonprofit organizations by moving the Financial perspective from the top to the bottom and putting the customers on top. Wu and Hung went a step further in modifying the BSC. They moved the Customer perspective from the bottom to second, just below the Financial perspective, leaving the Financial perspective on top. Then they added a fifth perspective called the Mission perspective and placed it above the Financial perspective. This model reads 1) Mission; 2) Financial; 3) Customer; 4) Internal Process; 5) Learning and Growth. Wu and Hung argue that these five dimensions have a cause-and-effect relationship.

That is, the performance of the Learning and Growth will guide the performance of the Internal Process and achieve the mission through the Financial and Customer perspectives (Wu and Hung, 2008). With this modified model of the BSC, Wu and Hung state that CRM allows the public to have a greater understanding of the services provided by the organization or its founding purpose. From the nonprofit organization's standpoint, the performance of CRM campaigns should be explored from different aspects instead of financial outcomes (Wu and Hung, 2008).

Speckbacher (2003) argues that simply moving the Financial perspective to the bottom and putting Customers on top is not sufficient. He claims that it is particularly important for nonprofit performance management to define clearly what key stakeholders have to give the organization in order to fulfill the mission and how to satisfy these stakeholders in return. Speckbacher (2003) feels that the BSC model acknowledges the existence of different stakeholders, especially customers and shareholders, but presupposes that shareholders are a primary part of the stakeholders and this perspective should be placed at the top of the BSC. In essence he wants to create the Stakeholders and Customers perspective and place this on top for nonprofit organizational use. Kaplan (2001) suggests that it is advisable to adopt the elements of the BSC that have proven to be of practical value, especially since the mission-and-strategy rationale that underpins the model has demonstrated its success. Some perspectives of the BSC fall almost 100% under the responsibility of the marketing department, particularly the perspectives that concern the relationships with customers (Boorsma and Chiaravalloti, 2010).

Yang, Cheng, and Yang (2005) suggest the BSC applied in nonprofit organizations and those applied in private enterprise differ in two ways. First, vision and mission are more important to nonprofit organizations than to business; and, second, the Financial perspective is not the No. 1 priority as profit is not the most important issue to nonprofit organizations.

They also agree that nonprofit organizations should place stakeholders and customers at the top of their BSC and use the Customer perspective to develop Internal Processes, and Learning and Growth perspectives to maximize their customer value. This is similar to Wu and Hung with one exception, Wu and Hung believe that the Internal Process and Learning and Growth will guide the performance of the mission and Yang et al. believe the Customer perspective guides the other three perspectives. They also see the BSC for nonprofit organizations as a three phase model: 1) planning; 2) development; 3) feedback.

Obtaining a clear objective is essential to planning a BSC. Before implementing a BSC, nonprofit organizations should consider their property, what services they should supply for clients, what strategy they should use for long-term success, and how to implement a BSC with limited resources. Before a department, marketing included, executes a BSC, it must first execute a series of value-creative activities throughout the organization's value chain. The BSC should not be limited by single functional indexes. The most important element of a BSC is whether a department has a coherent mission and strategy; the BSC will help an organization transfer strategy into clear objectives and measurement tools. Without a clear strategy, a Balanced Scorecard will just be collection of indexes (Yang et al. 2005).

Yang et al. suggest that it is vital for top leadership to take ownership of the BSC and provide the human resources and financial backing needed to ensure the acceptance of the scorecard throughout the organization. The BSC can be used as a communication tool between the organization and its key stakeholders and hence as a substitute for the financial statements that profit-seeking firms publish to inform shareholders about the value of their implicit claims (Speckbacher, 2003). Kaplan touches on one example where the BSC failed.

As the United Way of Southeastern New England (UWSENE) implemented the use of the scorecard, the CEO did not actively involve the Board of Directors. Six months into the implementation of the scorecard, the CEO retired. The new CEO did not understand the scorecard and had no commitment to it and he discontinued its use. Kaplan states that if the Board had been involved from the beginning, they may have stayed committed to a new of managing their organization.

The major goal in developing a BSC is to identify the mission, vision, core values, and strategy. Leadership should understand that an effective BSC should contain a mix of lead and lag indicators that provide all members an opportunity to contribute to the organization's overall goals, and supply managers with the tools that can measure overall progress toward strategic goals (Yang et al. 2005).

Once the BSC has been executed, the plan can ensure the results of the indexes are attained. The principle purpose is to supervise, double check, and improve the BSC indexes based on feedback. These tasks must be part of the planning and development phases. The feedback or results should be provided to leadership so they can initiate improvements to reach the final goal. Aligning these steps is the complete process of planning, developing, instituting and maintaining a BSC (Yang et al. 2005).

Analysis of Literature Review

Although Kong (2007) argues for the inferiority of the BSC to measure the effectiveness of non-profits, others that have studied the use of the scorecard when applied to non-profits feel that it is an essential tool of measurement, if it is modified for non-profit organizations. Placing the Customer perspective on top and moving the Financial perspective to the bottom is vital in implementing the use of the BSC for non-profits.

Wu and Hung (2008), show that CRM have positive efficiency on all four of the BSC perspectives. In the Customer perspective, CRM gives the public a better understanding of the mission and purpose of the nonprofit and lets those that the nonprofit was developed for to come willingly. In the Financial perspective, CRM allows the donors to generate a positive perception of the nonprofit then provide long-term support to the organization and the cause (Wu and Hung, 2008). In the Internal Process perspective, CRM relay the message to more people that can use the services. It opens the doors of the organization to build a positive relationship with the local communities. In the Learning and Growth perspective, CRM allows the nonprofit organization employees to work with the for-profit employees as they learn from each other and work toward one common goal.

Speckbacher (2003) found that the BSC can be used as a communication tool between the organization and key stakeholders. It can also be used as a alternate to financial statements that for-profit organizations look to as a measure of effectiveness. Accountability is difficult to measure and the BSC can provide such measures if leadership is specific in the development stage of the BSC.

Yang et al. (2005) studied implementing the BSC in a case study of a nonprofit, private hospital. Yang, Cheng, and Yang broke down the BSC from four perspectives to three phases and seventeen steps of development. They found that the BSC is appropriate to nonprofit organizations and is expected to help them reach their mission effectively. They also suggest that it takes five years to implement a BSC properly.

Kaplan argues that the BSC works well for nonprofits as it helps them shift their focus to the outcomes and initiatives they are suppose to achieve. It allows for departments to work together to reach a common goal. The BSC, while allowing departments to work closely together, it also keeps them aligned and allows them work toward the mission.

Aligning the departments allows them to individually do what they do best, for example, allowing the marketing department to control the message when using CRM. One should expect Kaplan to support the use of the BSC, as he is credited for its existence.

Carter effectively used a modified version of the BSC to measure the effectiveness of WorkSource Enterprises, a private, nonprofit organization that provides on-the-job training for to citizens that have disabilities or severely disadvantaged backgrounds. Carter's modified version of the BSC includes four perspectives, internal efficiency, client development, business development, and innovation. According to Carter, these modifications gave him the ability to report to the Board on the entire entity and show a clear picture of the direction of the organization.

Boorsma and Chiaravalloti also modified the BSC into two separate categories, primary and secondary objectives, to fit their needs in a real world Arts Marketing study. They agree that Customers are the key stakeholder group. Then they break down each of the other three perspectives by measuring per stakeholder group on financial, internal and marketing innovativeness as the primary objectives and by measuring per stakeholder group on financial, internal, and artistic innovativeness as the secondary objective. They argue that marketing innovativeness and artistic innovativeness cannot be compared on an even level. Then they made one other modification. They added the term external to the internal perspective as the art world has too many outside partners that help complete the mission.

In another real world study, Forsythe et al. suggest that the BSC provides the comprehensive model for measurement, whether it is for-profit or nonprofit. They found that the BSC is a valuable tool for implementing change across organizations as it monitors cause-and-effect linkages across the four perspectives. A change in one perspective will affect the others, whether positive or negative.

Conclusions

The BSC has been used by many nonprofit organizations to measure the effectiveness of meeting the mission. Studies have shown that the BSC, while developed for for-profit organizations, is flexible and can be modified in numerous ways for successful implementation. It is apparent that there are two key variables in effectively implementing the BSC. First, leadership must be involved from the beginning of development and support the process emotionally and financially. Second, the customer perspective must be moved to the top as this is the most important measure of nonprofit organizations. The Financial perspective can be moved anywhere else in the line, as finances are a critical part of nonprofit organization. The main difference between for-profit and nonprofit is nonprofits only need a sustainable cash-flow and for-profits are looking for profit over revenue.

This study has shown that marketing departments of nonprofit organizations can use the BSC to measure the effectiveness of their mission. Marketing departments of nonprofits typically have few dollars to work with and it is imperative that they use those dollars in the most lucrative way. By using CRM and teaming up with for-profits, this strategy can create more dollars to advertise the message. The BSC can be used to measure the effectiveness of the message to the customer, employees, and donors.

The BSC is a vital tool and although Kaplan did not originally develop it for nonprofit organizations, going forward, it may be used by more nonprofits than for-profits in the future to measure the overall effectiveness of the organization in relation to the mission.

This paper argues that the BSC is the best way for nonprofit organizations to measure their effectiveness.

Limitations

As the BSC has only been in existence for 18 years, there is little research in regards to nonprofit organizations implementing the BSC. The flexibility of the BSC may dilute its effectiveness over time. As shown by Yang, Cheng, and Yang (2005), the BSC was broken down into 17 steps of development and implemented over a five year period. It is possible that the BSC is too flexible for overall effective in nonprofit organizations. Future researchers should study the modifications by nonprofits to see if any manipulation of the effectiveness in relation to the mission is found.

Summary

The BSC was developed in 1991 by Robert Kaplan to help for-profit organization measure how well they meet their mission. Leaders understand that it takes more than just profit to operate a successful company. They must go deeper than the profit and loss statement and assess their effectiveness with their customers and employees. Most nonprofit organizations don't have the luxury of measuring their effectiveness against a bottom line. Even if they can, they shouldn't. They need to measure their effectiveness by placing customers, the people they serve, at the forefront. This is a difficult measure, especially for marketing of a nonprofit. They must spend their dollars wisely while controlling the message at the same time. They need to know if they are doing the right things with those dollars to attract the people they are trying to help or serve. The BSC is the best way for these organizations to measure themselves against what they are trying to do. Although unplanned, the evolution of the BSC over such a short time has served nonprofit organizations well.

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