



**ADAPTING THE BALANCED SCORECARD TO FIT  
THE PUBLIC AND NONPROFIT SECTORS**

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**Author's Note:** Before Government and Nonprofit organizations can develop a Balanced Scorecard they must consider alterations to the "geography" of the model to fit their particular circumstances. This excerpt from Chapter two of my new book (*Balanced Scorecard Step by Step for Governments and Nonprofits*) (June, 2003)) discusses potential adaptations these organizations may make to the Balanced Scorecard framework.

## **ADAPTING THE BALANCED SCORECARD TO FIT THE PUBLIC AND NONPROFIT SECTORS**

Thus far in the chapter we've peered through the window of performance measurement in both the public and nonprofit sectors. Clearly both sectors have seen the benefit of measurement and have embarked, with varying levels of effort and success, on measurement initiatives. What has been lacking, however, is the answer to this seemingly simple question: "Is what we're doing (both in the public and nonprofit sectors) making a difference – is anyone better off as a result of our efforts? To answer that question, executives, managers, and employees alike need to view performance from a broader perspective. They require a system that not only counts the inputs and outputs of the system, but one that provides an opportunity to assess progress in reaching the organization's true mission. The Balanced Scorecard has risen to the performance measurement challenge of the private sector and is equally well-equipped to facilitate a rapid and dramatic transition of 21<sup>st</sup> century nonprofit and public organizations. Figure 2 – 1 displays the Balanced Scorecard model which is applicable to public and nonprofit enterprises. We can use this diagram to differentiate between private and public and nonprofit sector use of the Scorecard.

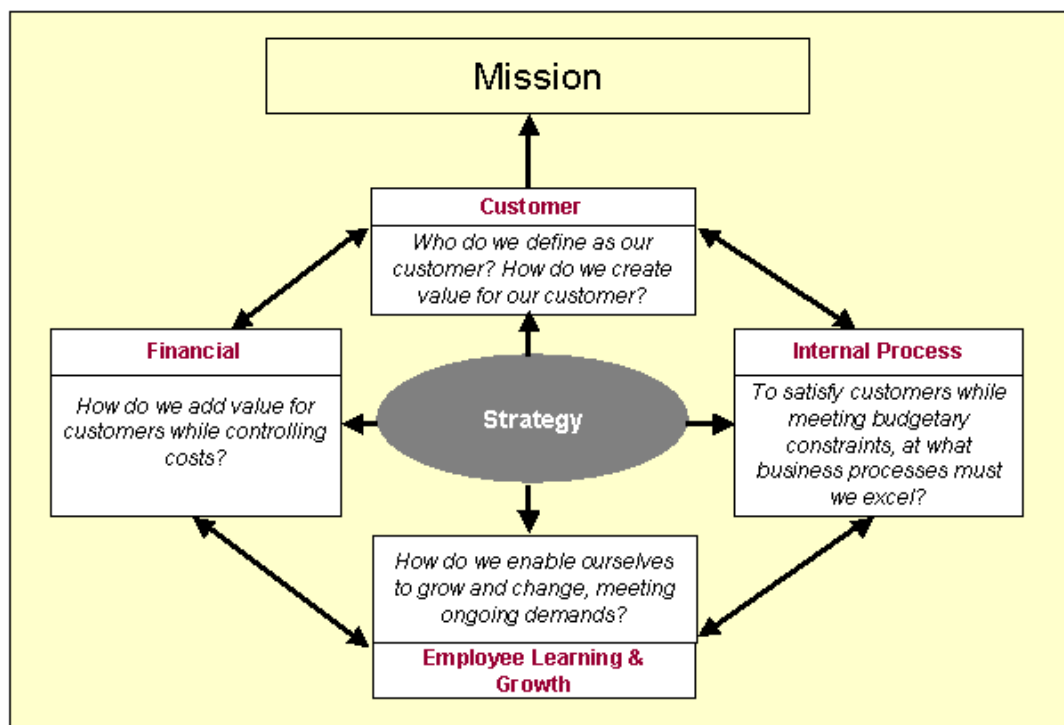


Figure 2 - 1. Balanced Scorecard for the Public and Nonprofit Sectors

### *Mission moves to the Top of the Balanced Scorecard*

In the for-profit Balanced Scorecard model all of the measures appearing on the Scorecard should lead to improved bottom line performance. Improving shareholder value is

the end game for profit seeking enterprises and they are accountable to their financial stakeholders to do just that. Not so in either the public or nonprofit organization.

While you are accountable for the efficient allocation of funds (a topic we'll examine more closely in the financial perspective) that is not your ultimate aspiration. You exist to serve a higher purpose, for example: 'reducing the incidence of HIV,' 'bringing classical music to your community,' or 'increasing public safety.' You may be hesitant to include such lofty objectives on your Balanced Scorecard claiming, 'we don't have total control over our mission,' or 'we can't influence the outcomes.' However, it is only through measurement that you are able to claim any real difference in the lives or circumstances of your constituents. Of course, you won't achieve your mission overnight, and in fact may see only periodic movement. This is precisely why the other perspectives of the Balanced Scorecard are so vital. Monitoring performance, and learning from the results, in the customer, internal process, employee learning & growth, and financial perspectives will provide you with the short to medium term information you require to guide you ever closer to achievement of the mission.<sup>i</sup>

### *Strategy Remains at the Core of the Balanced Scorecard*

Strategy remains at the core of the Scorecard system, regardless of whether it's a local theater company, city government, Fortune 500 company, or a mom and pop store. Nonprofit and government organizations often have a difficult time cultivating a clear and concise strategy. While many attempt to develop statements of strategy they amount to little more than detailed lists of programs and initiatives used to secure dollars from funding bodies. Many so called strategy documents can be upwards of 50 pages. We'll break down the topic of strategy and strategic planning in Chapter six. For now, suffice to say that strategy is about those broad priorities you plan to pursue in order to achieve your mission. The priorities must be consistent with your unique situation and fit one another in an effort to respond effectively to your challenges and opportunities. Once you've developed your strategy the Balanced Scorecard serves as the device for effective translation and implementation.

### *The Customer Perspective is Elevated*

A clear distinction between private and public sector Balanced Scorecards is drawn as a result of placing mission at the top of the framework. Flowing from the mission is a view of the organization's customers, not financial stakeholders. Achieving a mission does not equate with fiscal responsibility and stewardship, instead, the organization must determine who it aims to serve and what how their requirements can best be met. Rick Pagsibigan is the Chief Strategy Officer at the Red Cross of Philadelphia. When developing their Balanced Scorecard, placing the Customer perspective at the top of the model was a logical choice. Rick explains, "*We put the Customer perspective at the top. The message is that anything and everything we do regarding financials, revenues, etc. is there to support our customers.*"<sup>ii</sup>

In the profit seeking world, companies are accountable to their capital providers (shareholders) for results, and they monitor this accountability through the results attained in the Financial perspective of the Scorecard. Again, this is not the case in the nonprofit and public sectors. Here the focus is on customers, and serving their needs in order to accomplish the mission. But the question of "who is the customer" is one of the most perplexing issues that nonprofit and government Scorecard adopters face. In these sectors, unlike the for profit world, different groups design the service, pay for the service, and ultimately benefit from the service. This web of relationships makes determining the customer a formidable challenge. Establishing the real customer in many ways depends on your perspective. In the public sector the legislative body that provides funding is a logical choice, as is the group you serve. However, think about that group you "serve." Would law enforcement agencies consider the criminals they arrest their customer? You could probably make a case for that. Conversely, many would argue that constituents are the ultimate beneficiaries of policing activities and are therefore the real customers. Fortunately, the Balanced Scorecard doesn't force you to make this difficult decision. Including all customers is permissible and possible using the

public sector Scorecard framework. Not only is it possible, it's desirable since meeting the mission will most likely entail satisfying disparate customer groups, each of whom figure in your success. Each group of customers identified will likely result in different measures appearing in the other three perspectives of the Scorecard. Once nonprofit and public sector executives and managers have made their way through this tangled maze, the job of choosing performance measures in all perspectives becomes much simpler.

#### *No Balanced Scorecard is Complete Without a Financial Perspective*

No organization, regardless of its status, can successfully operate and meet customer requirements without financial resources. Financial measures in the public and nonprofit sector Scorecard model can best be seen as either enablers of customer success or constraints within which the group must operate. Many will argue, with merit, that it's difficult to put a financial price on the work they perform. Consider a nonprofit agency attempting to provide prenatal care to disadvantaged expectant mothers. Their prized outcome is the birth of a healthy baby - as far from financial concerns as you can stray. However, we must persuade reluctant managers that financial measures aren't inconsistent with quality service delivery and achieving the mission. In fact, when services are performed at least cost, or with great efficiency, the program will likely attract more attention and warrant even greater investment from funders. A win for everyone.

#### *Which Internal Processes Drive Value for Customers?*

When developing objectives and measures for this perspective we ask ourselves, "what are the key internal processes we must excel at in order to drive value for our customers?" Every organization from the smallest local service agency to the largest departments of the Federal government will have documented processes for establishing their goals. Small organizations may have dozens, while larger entities may have processes numbering in the hundreds. The key to Balanced Scorecard success lies in selecting, and measuring, just those processes which lead to improved outcomes for customers, and ultimately allow you to work towards your mission. The processes you choose to focus on will normally flow directly from the objectives and measures chosen in the Customer perspective. It's not uncommon for the Internal Processes perspective to house the greatest number of objectives and measures on the Balanced Scorecard.

#### *The Employee Learning & Growth Perspective Provides the Foundation for a Well-Constructed Balanced Scorecard*

Operating as mission-based organizations, nonprofit and public sector agencies rely heavily on the skills, dedication, and alignment of their staff to achieve their socially important goals. Employees and organizational infrastructure represent the thread that weaves through the rest of the Balanced Scorecard. Success in driving process improvements, operating in a fiscally responsible way, and meeting the needs of all customer groups depends in a large extent on the ability of employees and the tools they use in support of your mission.

As crucial as the objectives and measures of the Employee Learning and Growth perspective are, they're often overlooked. Considered "soft stuff" or "pure overhead," many organizations will ignore these base ingredients to building a successful Balanced Scorecard. They do so at their own peril. Motivated employees with the right mix of skills and tools operating in an organizational climate designed for sustaining improvements are the key ingredients in driving process improvements, working within financial limitations, and ultimately driving customer and mission success.

Three areas are particularly relevant to capture in this perspective. First, employee skills and competencies. Do you have the right mix of skills to meet your challenges (and opportunities) on an ongoing basis? Second, the flow of information or what is sometimes termed "information capital." Do employees have the tools and information they require to make effective decisions that impact customer outcomes? Finally, the organizational climate

should be addressed. This typically consists of elements such as alignment and motivation. We'll examine each of these in more detail in chapters eight and nine.

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<sup>i</sup> Robert S. Kaplan, "The Balanced Scorecard and Nonprofit Organizations," *Balanced Scorecard Report*, November-December, 2002. pp. 1-4.

<sup>ii</sup> From interview with Rick Pagsibigan, September 19, 2002.