Strategic Performance Measurement and Management in Nonprofit Organizations

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The managers and constituents of nonprofits are increasingly concerned about measuring and managing organizational performance. Financial measures alone, or even supplemented with a collection of ad hoc nonfinancial measures, are not sufficient to motivate and evaluate mission accomplishments. This article describes the adaptation of a new performance measurement and management approach, the Balanced Scorecard, to the nonprofit sector. Several examples of actual implementation are provided.

The topic of accountability and performance measurement has become urgent for nonprofit organizations as they encounter increasing competition from a proliferating number of agencies, all competing for scarce donor, foundation, and government funding. Yet the public performance reports and many internal performance measurement systems of these organizations focus only on financial measures, such as donations, expenditures, and operating expense ratios. Success for nonprofits should be measured by how effectively and efficiently they meet the needs of their constituencies. Financial considerations can play an enabling or constraining role but will rarely be the primary objective. At the more micro, programmatic level, organizations may have myriad measures to track and control local initiatives. These measures, however, do not relate to overall organizational mission and objectives.

Note: I would like to acknowledge the indispensable collaboration of David P. Norton of the Balanced Scorecard Collaborative in developing and improving the Balanced Scorecard during the past ten years, and I also wish to thank Ellen L. Kaplan, who facilitated the scorecard implementation in most of the nonprofit organizations described in this article.

Even for-profit companies have recently recognized that financial measurements by themselves are inadequate for measuring and managing their performance. Financial reports measure past performance but communicate little about long-term value creation. To remedy this deficiency, Kaplan and Norton (1992, 1996) introduced a new performance management system—called the Balanced Scorecard—for private sector organizations. The new system retained financial measurements but complemented these with measures from three other perspectives: that of the customer, the internal process, and learning and growth (see Figure 1).

Nonprofit organizations lack the simple elegance of a financial measure—such as profitability or shareholder returns—used by for-profit organizations to assess their performance

The initial focus and application of the Balanced Scorecard was in the for-profit (private) sector. But the opportunity for the scorecard to improve the management of nonprofits should be even greater. For profit-seeking corporations, the financial perspective provides a clear long-run objective, but it provides a constraint rather than an objective for nonprofits. Although these organizations must certainly monitor their spending and comply with financial budgets, their success cannot be measured by how closely they keep spending to budgeted amounts, or even if they restrain spending so that actual expenses are kept well below budgeted amounts.

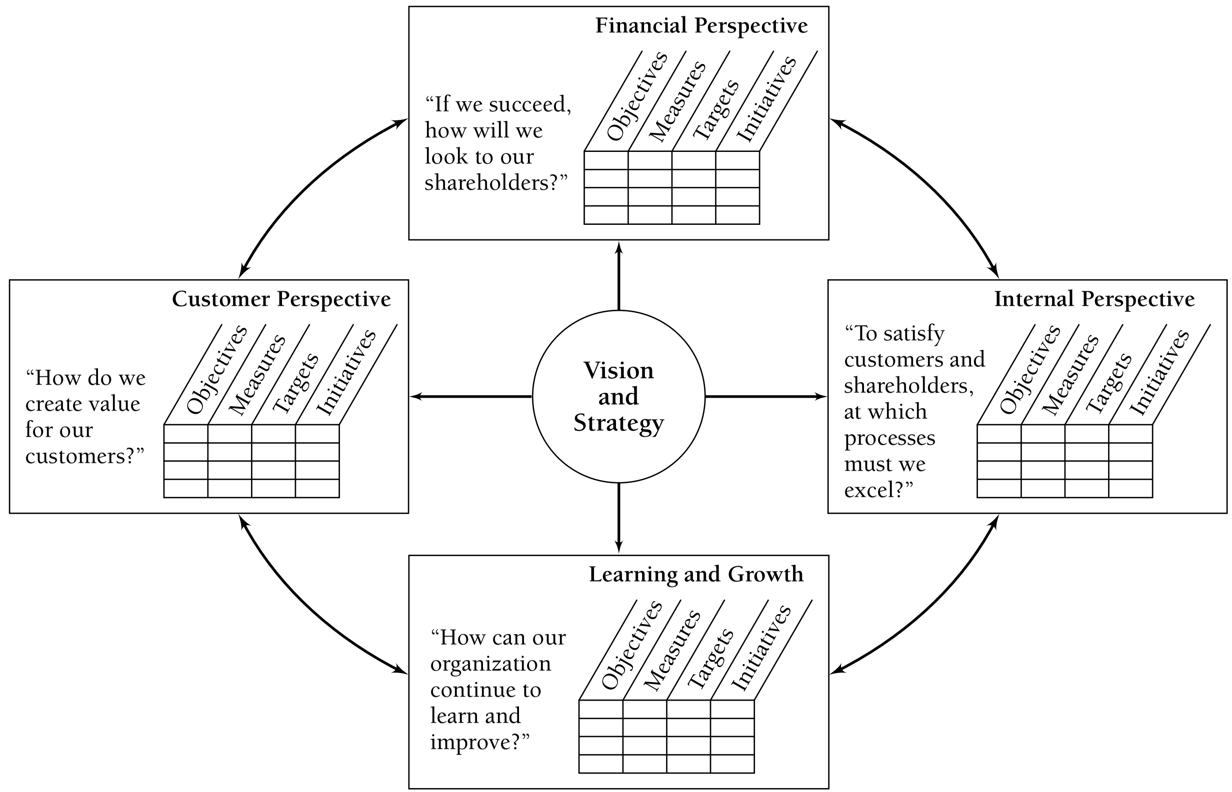
In this article, I describe the results from a multiyear action research program to apply the Balanced Scorecard to several nonprofit organizations. The next three sections contain a brief literature review, a description of the Balanced Scorecard, and a discussion of methodology. In the remainder of this article I present our observations and actual case studies on applying the scorecard to the nonprofit sector. These experiences have enabled me to draw some preliminary conclusions about the benefits and the pitfalls of deploying this new performance measurement and management system.

Literature Review

The subject of performance measurement for nonprofit organizations is extensive but generally inconclusive (Forbes, 1998). Forbes noted that nonprofit organizations lack the simple elegance of a financial measure—such as profitability or shareholder returns—used by for-profit organizations to assess their performance. Forbes also observed that nonprofits have difficulty "developing surrogate quantitative measures of organizational performance . . . because [they] frequently have goals that are amorphous and offer services that are intangible" (Forbes, 1998, p. 184). Herzlinger (1996) argues that nonprofit organizations should disclose nonfinancial quantitative measures of the quantity and quality of services provided, but does not offer guidance about how organizations should select such measures.

The difficulty of clearly defining the metrics for organizational effectiveness, however, is not confined to nonprofit organizations (Goodman and Pennings, 1977; Cameron and Whetten, 1983). In their final book chapter, Cameron and Whitten (1983) offer two conclusions about organizational effectiveness: (1) "There cannot be

Figure 1. The Balanced Scorecard: Four Perspectives



one universal model of organizational effectiveness" (pp. 262–267); and (2) "It is more worthwhile to develop frameworks for assessing effectiveness than to try to develop theories of effectiveness" (pp. 267–269).

Foreshadowing the development of the Balanced Scorecard, researchers in the 1980s (Cameron, 1981, 1982; Connolly, Conlon, and Deutsch, 1980) advocated that multidimensional approaches be used for measuring nonprofit effectiveness. In this way users could access both the organization's ability to acquire resources (that is, fundraising) and its ability to mobilize its resources to achieve desirable outcomes. The multiple dimensions can also reflect the role of the multiple constituencies of many nonprofits.

Since the introduction of the Balanced Scorecard, companies using it have been able to implement new strategies rapidly and effectively, leading to dramatic performance improvements

Kanter and Summers (1987) reinforce the importance of reflecting the outcomes for multiple constituencies and the need to have both long-term measures (outcomes) and short-term measures (processes and activities performed). The authors note that conflict often occurs between external and internal constituencies, and they conclude that "a balanced approach would provide the data to help the organization know whether it is 'doing well' on any of the dimensions of performance with which an active constituency might be concerned."

Sheehan (1996) studied philanthropic organizations and concluded that although most had clear statements of mission, very few had developed performance measurement systems that revealed whether the organization had an impact on its mission. In effect, the organizations had no way to distinguish whether their strategy was succeeding or failing.

Sawhill (in this issue) reports a powerful illustration of the problems when performance measures are not linked to strategy. The Nature Conservancy has a mission to preserve plants and animals by protecting the habitats that rare species need to survive. For years, the Conservancy operated with a pair of basic performance measures known as *bucks and acres*—indicating how much money was raised each year and how many acres of land were acquired to be kept in their natural condition. These focused performance measures set the agenda for everyone, and the organization was apparently successful. During the 1990s, revenues grew at an 18 percent annual compounded rate and acres protected more than doubled. Yet the management team reluctantly concluded that success in raising money and protecting acres might not be contributing to the agency's fundamental mission of conserving biodiversity. The gap between mission and measures eventually led to the adoption of a much more balanced set of measures, better linked to its organizational mission.

Normally, one would expect that funders closest to an organization would be most likely to ask for measures of effectiveness. But Letts, Ryan, and Grossman (1999) conclude that "unfortunately, the big picture at foundations rarely includes concerns about organizational capacity and performance. Even worse, *the day-to-day* *grantmaking practices of many foundations actually undermine the ability of nonprofits to develop the capacity for sustained high performance"* (pp. 169–170, emphasis in original).

Thus, the literature concurs with the need to articulate a multidimensional framework for measuring and managing nonprofit effectiveness. This scorecard would seem to provide just such a framework.

Strategy and performance measurement should focus on what output and outcomes the organization intends to achieve, not what programs and initiatives are being implemented

The Balanced Scorecard

The Balanced Scorecard (see Figure 1) 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 (or depletes past investments) in intangible assets, such as the skills, motivation, and capabilities of its employees, customer acquisition and retention, innovative products and services, and information technology. Since the introduction of the Balanced Scorecard, companies using it have been able to implement new strategies rapidly and effectively, leading to dramatic performance improvements (Kaplan and Norton, forthcoming).

The scorecard's customer perspective measures the entity's performance with targeted customer and market segments by using such outcome measures as market share, customer retention, new customer acquisition, and customer profitability. This perspective should also measure the *value proposition*—how the organization creates value for its targeted customers. The internal process perspective includes measures of operating performance (cost, quality, and cycle times) of critical processes that deliver value to customers and reduce operating expenses. In addition, the internal perspective can include measures of innovation processes that create entirely new products and services. Organizational learning and growth arise from such sources as people and systems. Typical measures for the learning and growth perspective include employee motivation, retention, capabilities, and alignment, as well as information system capabilities.

Research Method

The research agenda on the applicability of the Balanced Scorecard to the nonprofit sector was launched in 1996, shortly after the founding of the Social Enterprise program at Harvard Business School. The program conducted a survey and learned that executives and board members of nonprofits consistently rated performance measurement as one of their top three management concerns. Although several nonprofit organizations in 1996 may have had multidimensional measurement systems, none explicitly derived their measures from strategy and mission or organized their measures using the multiple Balanced Scorecard perspectives.

Rather than wait to study organizations that have adopted the Balanced Scorecard on their own timetable and agenda, I pursued an explicit action research program (Kaplan, 1998). I approached United Way of America and United Way of Southeastern New England and gained their agreement to coach them to become pilot sites for applying the Balanced Scorecard. Subsequently, I worked in the same way with several other organizations, including an international relief organization, a social service organization, and an innovative venture philanthropy start-up. Many of the observations and conclusions in this article have arisen from my active involvement in the scorecard development of these organizations, though other organizations, such as Duke Children's Hospital, implemented the Balanced Scorecard without outside assistance.

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Role for Strategy in a Nonprofit Balanced Scorecard

In my experience, nonprofits have considerable difficulty in clearly defining their strategy. I have seen "strategy" documents that run upwards of fifty pages. And most of the documents, once the mission and vision are articulated, consist of lists of programs and initiatives rather than the outcomes the organization is trying to achieve. Such organizations, when implementing a performance measurement system, typically measure progress in achieving milestones on their initiatives. This is backwards. Initiatives should exist to help the organization achieve its strategic objectives. They are means, not ends. Strategy and performance measurement should focus on what output and outcomes the organization intends to achieve, not what programs and initiatives are being implemented.

Another problem is that many strategy documents represent a combined wish list from all the participants invited to engage in the strategy-setting process. Nonprofit organizations, in particular, value employee participation. But often they have difficulty channeling suggestions into a few coherent themes. Accustomed to reaching conclusions by consensus, they fail to accept some suggestions while rejecting others. Such organizations have to understand Michael Porter's admonition (Porter, 1996) that strategy is not only what the organization intends to do, but also what it decides *not to do,* a message that is particularly relevant for nonprofits.

Achieving focus and alignment, however, may be particularly difficult for nonprofit organizations. Many people who become employees of these organizations voluntarily accept below-market compensation because they believe in the mission of the agency. Their personal values motivate them to do good and to contribute to society through the agency's programs. This is wonderful and a great source of strength for the nonprofit sector. But it is also a danger. Such motivated individuals come to the agency already equipped with a clear, albeit personal, idea about how to accomplish the organization's goals. And they often encounter a nurturing environment in which all opinions are valued and listened to. This is an engine for diffusing organizational energy.

One example illustrates this pathology. I worked with an international relief agency, helping it to translate its strategy into a set of measurable Balanced Scorecard objectives. I read and interpreted their strategy statement and then consulted with their senior planning managers. Two full days of work ensued to develop a prototype, straw-model Balanced Scorecard for the agency. But as the managers prepared to depart, one of them remarked, "This has been a good exercise but the scorecard is not complete. It doesn't have anything on our land mine program." After a stunned silence, I responded that a land mine program had not been mentioned in any strategy document or at any time during the sixteen hours of discussion just concluded. The manager responded that there was a lot of interest and funding in the world to eliminate land mines and alleviate the suffering they caused. Several people in the organization and on the board had been encouraging the agency to address this issue.

Attempting to be everything for everyone virtually guarantees organizational ineffectiveness

This agency had wandered into a new initiative without any sense about whether the initiative fell within its mission and strategy, how the initiative fit with its core capabilities and competencies, or whether the agency was particularly well qualified, relative to alternative providers, to make a substantial, cost-effective contribution to land mine relief. Nonprofits, like their private sector counterparts, have to focus their limited resources on a limited set of objectives and constituents. Attempting to be everything for everyone virtually guarantees organizational ineffectiveness.

At United Way of Southeastern New England (UWSENE), the chief professional officer framed the strategic options faced by his organization: "Local United Ways have three primary choices. They can be donor-focused, agency-focused, or community-focused. Each of the three strategies is good, with the potential to yield positive end results. But each entails considerable downside risk. Many United Ways switch strategies, say, to meet specific community needs, for very good reasons, but then are surprised when their agencies and donors get upset. UWSENE has definitely become a donor-focused organization, believing that if the donors are satisfied, then agencies will be provided for" (Kaplan and Kaplan, 1997, p. 4).

With a clear focus on the strategy and the key constituent group, UWSENE could subsequently develop its Balanced Scorecard in a straightforward manner.

At Duke Children's Hospital, Jon Meliones (Meliones, 2000) was attempting to transform an organization that had a $50 million operating loss in 1995. The length of stay of its patients was 15 percent over target. Meliones believed that a new strategy based on better communication with patients and physicians, as well as patient-focused process improvements, would lead to cost reductions, revenue enhancements, and better patient care. He used the Balanced

Scorecard to communicate and monitor the interrelationships from the new strategy.

The start of any performance measurement system has to be a clear strategy statement. Otherwise, performance measures focus on local operational improvements rather than on whether the strategy is being achieved. But strategy statements can still lead to diversity in how individuals interpret them for their everyday jobs. Organizational goals, in general terms, often mask real disagreement about what the organization is trying to accomplish. By quantifying and measuring the strategy, organizations reduce and even eliminate ambiguity and confusion about objectives and methods. They gain coherence and focus in pursuit of their mission.

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Elevating the Role of Customers

Most nonprofits had difficulty with the original architecture of the Balanced Scorecard, which placed the financial perspective at the top of the hierarchy. This is a proper concern. I have stated earlier in this article that achieving financial success is not the primary objective for a nonprofit. Many nonprofit organizations have rearranged the geography of their Balanced Scorecard to place the customer perspective at the top. For example, United Way of America initially followed the private sector tradition by having the financial perspective at the pinnacle of their scorecard. They finally decided that their customer perspective belonged at the top, and that the financial perspective should be at the bottom.

In fact, nonprofit agencies should consider placing an overarching mission objective at the top of their scorecard. The mission reflects the agency's long-term objective, such as a reduction in poverty, illiteracy, malnutrition, homelessness, disease, pollution, or discrimination. Then the objectives within the scorecard can be oriented toward improving such a high-level objective. For a private sector company, financial measures provide the accountability measure between it and its owners, the shareholders. That is why the financial perspective was placed at the top of the Balanced Scorecard hierarchy. For a nonprofit, however, the agency's mission represents the accountability between it and society—the rationale for its existence. The mission should therefore be featured and measured at the highest level of its scorecard. Such an objective may only show progress with long lags, which is why the measures in the four main perspectives of the Balanced Scorecard will provide the short- to intermediate-term targets and feedback.

As another modification of the private sector scorecard framework, nonprofits need to expand the definition of who their customer is. In a private sector transaction, customers both pay for the service and receive the service. The two roles are so complementary that most people don't even think about them separately. But in a nonprofit organization, donors provide the financial resources—they pay for the service, whereas another group, the constituents, receives the service. Who is the customer, the one paying or the one receiving? Rather than making such a decision, organizations have placed the donor perspective and the recipient perspective in parallel, at the top of their Balanced Scorecards (see Figure 2).

I now illustrate the Balanced Scorecards developed at several nonprofit organizations: United Way of Southeastern New England, Duke Children's Hospital, and New Profit Inc.

United Way of Southeastern New England

As mentioned earlier, UWSENE's strategy featured its financial intermediary role of collecting funds from a broad population of donors and disbursing the funds to community-based agencies. Therefore, the UWSENE project team retained the financial perspective at the top of the scorecard.

The UWSENE team discussed whether the four perspectives of a for-profit Balanced Scorecard were adequate and appropriate for its scorecard. Some suggested adding additional perspectives, say, for agencies and for volunteers. Agencies, using United Way funds, supplied needed services to communities. Volunteers, through their board service and extensive participation in the annual campaign, provided substantial personnel resources to UWSENE. The senior executive, however, felt that the four basic perspectives had sufficient flexibility to include objectives that would address the organization's relationship with agencies and volunteers. This choice did bother some in the organization who felt that the agencies were so critical to the mission of UWSENE that they would have liked them to be featured with a separate perspective.

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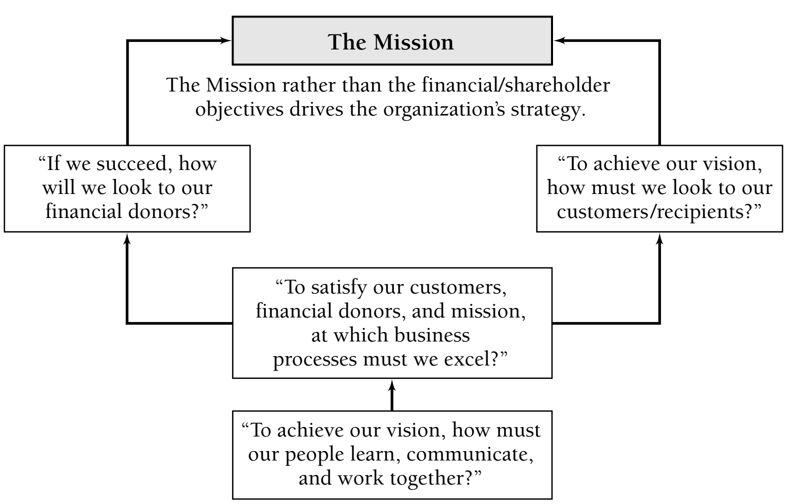
Figure 2. Adapting the Balanced Scorecard Framework to Nonprofit Organizations



UWSENE Balanced Scorecard

The team, after several months, produced the scorecard shown in Table 1. Reactions to the scorecard were favorable. One middle manager noted, "You can see how you contribute to the customer or financial needs of the organization, and to staff advancement. It's nice to feel that what you're doing is worthwhile, that it relates to the big picture."

A member of the project team expressed the enthusiasm among the staff for the Balanced Scorecard: "In the past, if you raised more money than the previous year, you felt that you had done a good job. But those departments not involved with fundraising didn't get any recognition for the success of the organization. Now we will look to all the Balanced Scorecard measures to assess our success in reaching our goals. Each employee can be seen as making an important contribution."

The UWSENE experience highlighted the impact of communicating the Balanced Scorecard down to all employees. The chief

Table 1. United Way of Southeastern New England

	Outcomes	*Strategic Objectives*
Financial	External growth	Increase net amount of funds raised
	Internal stability	Balance internal income and expenses to maintain our 100 percent guarantee to others
	Community building	Increase amount of funds that go to services
		Increase amount of funds that go to proprietary products
Customer	Customer satisfaction	Recognition
		Ease of giving
	Market growth	Products that customers care about and that will improve the community
	Customer retention	Information on results
		Quality, timely service
Internal	Key internal business processes based on quality	Improve key internal processes in the following areas: • Fundraising • Fund distribution • Community building • Information processing/communications • Pledge processing • Product development • Volunteer/staff development • Customer service • Interdepartmental communications
	Innovative products	Develop a research and development process to come up with new, innovative products
	Viable product line	Develop a consistent process for evaluating existing products and services

financial officer (CFO) went to talk to the building's custodian. The custodian told him that strategy was something that people at the top floor did, not him. His job included sweeping the floor, painting walls, and removing trash, and he didn't feel that these had anything to do with strategy or mission. The CFO used the scorecard to explain that the custodian's efforts were central to UWSENE's strategy: "The tenants in the building generate considerable rental income for us. By maintaining the property well, tenants and United Way employees will be pleased to work in the facility. That will help us generate more rental income that helps us fulfill our 100 percent guarantee to donors, and also to attract, retain, and motivate our employees. In addition, donors and volunteers who visit our building will value a clean building, attractive landscaping, and streets from which the snow has been removed. I could see the light of recognition cross his face. He said, 'You're right. I can see now how what I do is important.'"

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Duke Children's Hospital

Duke Children's Hospital (DCH), a 138-bed in-patient facility, included a neonatal intensive care unit, a pediatric intensive care unit (PICU), and beds for bone marrow transplant and intermediate-care patients. Its cost per case had increased by 35 percent from 1994 to 1995 and its 8.0-day average length of stay was 15 percent over target. It was losing money, staff members were dissatisfied, and recent process improvement initiatives had been unsuccessful. Yet DCH needed $40 million for expansion programs. Jon Meliones, head of the PICU, identified several burning platform issues:

- The organization was confused about which services were the most important to provide.
- There was no shared purpose between administrators, staff members, and physicians.
- The quality of communication and coordination with referring pediatricians was poor.
- There were competitive threats to the organization's market position.
- There was great difficulty in balancing quality care, patient satisfaction, staff satisfaction, education, and research with financial objectives (Meliones and others, 1999).

Meliones led a pilot Balanced Scorecard program in the PICU (Meliones and others, 1999). Based on success there, he helped to extend it throughout all of DCH's pediatric facilities, including two large hospitals in the region that were acquired as the program was rolling out. The project started with the leadership team developing a mission and vision statement "to provide patients, families, and primary care physicians with the best, most compassionate care possible, and excel at communication." The strategy hypothesized that with better communication and care, referrals and revenues would increase. In addition, DCH's new strategy would focus on reducing costs and length of stay to restore financial viability.

A multidisciplinary team developed the scorecard for the strategy (see Table 2). The team renamed the learning and growth perspective "Research, Education and Teaching" to reflect its role in an academic medical center.

Meliones used the scorecard to screen initiatives so that only high-impact ones were considered (Meliones and others, 1999). The staff implemented many new internal processes; for example, care providers discussed each patient to be discharged, they informed the family about treatments before a patient was released, and they informed the primary care physician about inpatient treatment and recommended treatment after discharge. DCH supplied its physicians with monthly cost and case statistics as well as patient and referring physician satisfaction scores, benchmarked against the total physician population. Staff physicians could now compare themselves against their colleagues and peers and search for ways to improve.

Table 2. Duke Children's Hospital Balanced Scorecard

Our Mission Excellence in Service, Training, and Research				
Customer Perspective	Satisfied consumers, families, and funders	Recognized as a leader in conducting and disseminating research	Optimizes quality of life	Recognized as a leader in the media and by legislators
Learning and Growth Perspective	Agencywide adherence to performance improvement via PDCA methods	Access to career development and mentoring for all staff	Strategic job coverage at all levels	Diverse staff working productively—guided by the agency's balanced scorecard
Internal Perspective	Effective, comprehensive information systems (external and internal communications)	Effective, comprehensive, and cost-effective care for consumers	Safeguard rights, responsibilities, and ethics via corporate compliance office	Effective collaboration and partnering with other agencies/providers
Financial Perspective	Achieve continued improvement in net asset and liquidity to support new service development	Effectively link clinical and financial data systems and decisions	Effectively link staff compensation, performance, and service delivery	Sufficient funding support for all programs/services

The near-term results from the scorecard, initiatives, and process improvements were dramatic. Cost per case dropped by 25 percent in three years, despite an increase in case mix complexity.

Average length of stay also dropped by 25 percent (from eight to six days) in two years. Revenues and margins increased, transforming a loss operation of more than $40 million into a positive margin of about $10 million. Most important, the cost and length-of-stay reductions were not accomplished at the cost of patient care. Awareness of the recommended medical plan jumped from 47 to 94 percent, the rate of readmission to the PICU dropped from 11 to 4 percent, and the rate of readmission to the intermediate ward dropped from 11 to 7 percent.

Family satisfaction scores increased by 9 percent (from 4.3 to 4.7 on a 1–5 scale) and were now the highest among the twenty-eight institutions surveyed by the outside research firm. The score on whether families would recommend DCH to others jumped by 8 percent (from 4.3 to 4.7) and was also the highest among the twenty-eight institutions surveyed. Patient discharges by 1:00 P.M. increased from 20 to 60 percent, and complaints about the admission and discharge process decreased by 15 percent within six months. Primary care physicians also reported their increased satisfaction with the communication they received from DCH.

Through the use of the Balanced Scorecard to focus and align the clinical, academic, and administrative staff to a new strategy, DCH had improved patient and physician satisfaction and achieved dramatic financial and operational improvements over a period of two to three years.

New Profit Inc.

A novel Balanced Scorecard application occurred at New Profit Inc. (NPI), a Boston-based venture capital philanthropic fund (Kaplan and Elias, 1999). NPI represented a new model for overcoming the nonprofit sector's lack of an efficient and active capital market. NPI founder Vanessa Kirsch (in Kaplan and Elias, 1999, p. 3) articulated three principles to guide the fund's investment strategy:

- *Choose scalable organizations.* The fund would seek out social entrepreneurs who had proven track records and were seeking to grow their organizations.
- *Use a performance-based design.* Both NPI and the organizations it supported would be made accountable by reference to mutually agreed-upon benchmarks based on measurable performance criteria. Fund dispersal would depend on organizations reaching their goals.
- *Employ active life cycle investing and monitoring.* The fund would commit to multiyear investments. In addition to funding, NPI would provide management and technical assistance to help the

organization become more effective and grow. NPI would be expected to take board seats on its portfolio organizations.

NPI used the Balanced Scorecard to evaluate the performance of its portfolio organizations. Unlike the previously cited literature (Cameron, 1982; Kanter and Summers, 1987), which expressed concern about the inherent conflicts among a nonprofit's multiple constituents, NPI's general partner, Kelly Fitzsimmons (Kaplan and Elias, 1999, pp. 8–9) stated that the scorecard provides a common reference point for its stakeholders: "The scorecard aligns all our stakeholders for creating social innovation and social returns. That means the boards, investors, fund managers, foundations, and social entrepreneurs can bring all their resources to bear in the right ways to strategic applications."

NPI, being a financial intermediary like UWSENE, retains the financial perspective for its high-level objective, which is to raise adequate capital and operating funds and then use them in an efficient and sustainable manner. NPI identified fund investors as the primary customers and highlighted investor satisfaction as an outcome objective for its customer perspective.

Like the UWSENE debate about the role of agencies, the NPI team debated whether its portfolio organizations were customers or whether they were part of the internal business processes that needed to be managed. The team finally decided that portfolio organizations are so critical to the success of NPI that they warrant their own perspective. The success of the portfolio organizations would be an important driver of the investor satisfaction objective. Extending this principle, the team proposed that the scorecards from the portfolio organizations should include a perspective to represent their contribution to NPI's strategic objectives. The scorecard approved for initial use at NPI is shown in Table 3.

NPI also demanded that its portfolio organizations also develop their own Balanced Scorecards to demonstrate how they contribute to NPI's mission for growth, scalability, and social impact.

Kirsch (in Kaplan and Elias, 1999) also used the scorecard as the primary communication tool to the board of directors and funders. One board member commented: "The Balanced Scorecard allows the board to be updated in a brisk way about what is happening across the organization, factoring in a breadth of issues ranging from those of the balance sheet to the softer aspects involving people and their knowledge. Discussions don't become monolithically focused on how much money was raised if no one is paying attention to how the money will be spent."

Finally, NPI used the Balanced Scorecard to offer a highly attractive product-leadership value proposition to potential investors: a unique performance management system for accountability to donors, a system that would help fund managers search out the best opportunities for investing, and a mechanism for active management

Table 3. New Profile Inc. Balanced Scorecard

Focus	*Strategic Objectives*	*Measures*
Financial	*Fund capitalization*—Secure \$5m in fund commitments from investors using pyramid strategy. *Operating revenues*—Secure 500k operating funds from foundations and friends for FY99 & FY00. *Sustainability*—Manage cash flow to maintain an operating surplus with 3 months' cash on hand. *Efficiency*—Maintain ratio of 1:4 staff \$/pro bono \$, optimize pro bono and volunteer resources.	Raise \$4.5 million. Maintain operating cash flow with 3-month surplus.
Investor	*Investor community*—Close target investors and engage them in key aspects of NPI network through events, formal roles, and so on; develop reports to inform investors of performance. *Investor satisfaction*—Use satisfaction survey and one-on-one interviews to solicit feedback. *Focused investor strategy*—Develop investor segmentation, profiles, and marketing strategy to optimize size and scope of funding base.	Close 3 founding and 3 lead investors. Achieve 80% satisfaction.
Performance of Portfolio Organization	*Growth*—Set and reach specific growth targets (such as increased revenue, expansion to new sites) with portfolio organizations for the life of fund (5 years). *Social impact*—Set and reach specific targets for increasing the scope of portfolio organization's social impact (such as number of customers/clients served) for the life of fund (5 years). *Balanced scorecard performance*—Build and implement first scorecards for each portfolio organization. *Satisfaction with fund services*—Solicit satisfaction and feedback from portfolio organizations regarding NPI and monitor resources; use survey on fund launch, implement feedback. *Best practices*—Share best practices across portfolio organizations.	Create four scorecards with specific targets. Achieve a minimum of 80% performance for portfolio organizations. Count shared learning and collaboration events between portfolio organizations.
Internal Business Processes	*Portfolio management*—Q3: Set terms with portfolio organizations, implement performance management system; Q4: deploy monitor and NPI resources, continue pipeline development, and develop reporting infrastructure. *Define leadership position*—Q3: Establish collaborative relationships with intellectual partners (such as secure Fidelity relationship, orient key players and larger monitor community), establish marketing and external community relations, launch public relations, positioning strategy, market research, and focus groups; Q4: establish best practices for performance-based funding, become policy spokesperson on philanthropic issues (such as number of conferences invited to attend, number of press hits, invitations to speak). *Board and governance*—Q3: Define role of board; Q4: Expand and develop national board and develop academic board. *Plan NPI Institute*—Q4: Plan for institute; determine resources (human and capital) necessary for introduction; formalize leadership position and learning focus.	Finalize terms process with portfolio organizations. Meet targets for press hits and invitations to speak. Secure relationships with 100% of potential intellectual partners.
Learning and Growth	*Fill strategic positions*—Hire fundraiser, design strategy for attracting and retaining talented staff. *Technology*—Q3: Identify technology needs and plan for procurement. *Knowledge management*—Q4: Develop limited but targeted system for improvement and learning related to key processes (due diligence, terms setting, BSC); develop template for process improvement. *Alignment*—Ensure that open lines of communication exist between investors, NPI, and portfolio organizations through culture building, events, reporting, and focus groups.	Fill 100% of necessary strategic positions. Finalize HR strategies for attracting and retaining staff.

of portfolio organizations to improve their performance against stated objectives.

Some Failures

The Balanced Scorecard management systems at most of the organizations studied are considered to be a great success and central to participants' ability to improve the performance and accountability of their organization

The Balanced Scorecard management systems at most of the organizations studied have been sustained and are being extended at the time of this writing. Participants considered the innovation to be a great success and central to their ability to improve the performance and accountability of their organizations. The Balanced Scorecards at United Way of Southeastern New England and United Way of America, however, did not survive changes in leadership. We knew that the chief professional officer (CPO) of UWSENE would retire from the organization within six months. We went ahead anyway to get the experience from an early implementation. During the project, the CPO did not actively involve his board in developing the scorecard, believing that the board should monitor the strategy but not participate in its formulation.

The consequences from not involving the board in the development of the Balanced Scorecard soon became apparent. In the search process for a new CPO, the board did not place high weight on finding a new leader who would be committed to the new strategic performance management system. The board selected a retired bank executive who felt that his immediate priorities would be to deal with some operational issues left by his predecessor and to ensure that each position had a complete job description. The Balanced Scorecard was new to him, he had no commitment to it, and he discontinued its use at UWSENE, much to the disappointment of several managers who had invested much time and energy in the project. The board, given its lack of involvement with the Balanced Scorecard, did not press the issue.

At United Way of America (UWA), the CEO resigned unexpectedly during the project. The new CEO, hired from outside UWA, arrived with her own management style and highly formalized planning process. The Balanced Scorecard did not fit within her planning process and therefore did not survive the transition.

These implementation experiences match the lessons from the private sector. For a new performance-oriented management system to succeed, the executive leadership team must be deeply committed to—not just supportive of—a new way of managing their organization. The new way places strategy, not job descriptions, at the center of the management system. It emphasizes the value of communicating to all units and individuals, aligning them to the strategy, and encouraging them to find innovative ways to achieve strategic outcomes in their daily operations.

Summary

During the past five years, nonprofit organizations have adopted and adapted the private sector Balanced Scorecard to their situations. Several have elevated the role of mission and customer to the top of the hierarchy of perspectives, recognizing that nonprofits should be accountable for how well they meet a need in society rather than how well they raise funds or control expenses. Also, as the individuals or groups that provide financial support to nonprofits are usually different from those who are the direct beneficiaries of the services provided, many nonprofits recognize donors or funders, as well as recipients, as their customers.

The Balanced Scorecard has enabled the nonprofit organizations to bridge the gap between vague mission and strategy statements and day-to-day operational actions. It has facilitated a process by which an organization can achieve strategic focus, avoiding the pathology of attempting to be everything to everyone. The measurement system has shifted the organization's focus from programs and initiatives to the outcomes the programs and initiatives are supposed to accomplish. It has helped organizations avoid the illusion that they have a strategy because they are managing a diverse and noncumulative set of programs and initiatives. It has enabled them to align initiatives, departments, and individuals to work in ways that reinforce each other so that dramatic performance improvements can be achieved. Used in this way, all organizational resources—the senior leadership team, technology resources, initiatives, change programs, financial resources, and human resources—become aligned to accomplishing organizational objectives.

The new way emphasizes the value of communicating to all units and individuals, aligning them to the strategy, and encouraging them to find innovative ways to achieve strategic outcomes in their daily operations

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