

Staying True to Ourselves The Balanced Scorecard and Other Measures

Olympic Room :: 10:15 to 11:30 am, March 26, 2001

Notes by Marion DeForest

Introduction

Panelists are Vic Murray of the University of Victoria, Sue Sherbrooke of the YWCA, and Stephen P. Brown of YardConnect.com. Moderator is Putnam Barber of The Evergreen State Society

Topic of the session is the internal notion of accountability; staying true to ourselves. We are trying to understand the ways nonprofits stay confident they are using their resources of money and public trust wisely.

Put Barber asked three questions:

- How many use some system for tracking agency performance as a routine part of their jobs? Nearly everyone in the room raised their hands.
- How many have been involved in an effort to design or significantly modify such a system for an agency? A large proportion of the participants raised their hands (but not as many as the first time).
- How many would like to improve the quality of available data about the effectiveness of the programs they work with? Nearly everyone in the room raised their hands.

Vic Murray

Start by offering some personal reflections and advice on the topic of evaluation. First some definitions:

- Input: resources invested - money, people, technology
- Output: indicators of activities, functions and processes
- Outcome: evidence that the intended result has been achieved

Though the definitions are simple, it can be complex to establish a process to incorporate all these ideas into an evaluation system.

The "logic model" is another term used often. A logic model is implicit when designing an evaluation process. It specifies the relations between activities and outcomes. The logic implies the connections between inputs, outputs, outcomes and goals. A logic model must anticipate the other influences at work – side effects, other variables that can have a great impact. It is important when developing an evaluation process to have the logic model for the service or program established first.

Program-level evaluations are very common. What needs to be looked at more often is the connection between the program or programs and the mission.

My research project between 1992 and 1998 examined organizations and the available tools (summarized in the handout that's attached). The conclusions:

Is it worth pursuing evaluation: yes! The alternative is to have no means for decision making in a very human and subjective area. Formal processes can definitely improve the results. Evaluation builds mutual trust and respect; otherwise there is only spin doctoring.

For success, all participants must be committed, agree on the evaluation process, the measures and the ways the information will be used. Such an evaluation process must be both renewed on a regular basis and a part of the organization's routine.

Steve Brown

Will talk about three topics: (1) briefly about his own background and interest in the topic; (2) performance management theory; and (3) the balanced scorecard itself.

On the first: worked six years for McKinsey and Company and became a performance management "expert." In this time, worked mostly with for-profit organizations but can see good analogies for nonprofits. Excited to be part of this conference because of an interest in re-connecting with the Seattle nonprofit community.

In performance management theory, there are three levels:

1. The performance ethic, the culture of the company. For example, some companies are entrepreneurial, some driven by management, some rigid.
2. Business processes as the basis for internal assessment. What is the framework (for example, the balanced scorecard)? What is the target setting process? How is feedback on performance used?
3. Human-resources performance management. Focused on employee evaluation and often used for setting compensation.

The balanced scorecard is popular because it goes beyond a simplistic look at financial measures and causes organizations to think more broadly, paying attention to customers, for example, and the strengths of the internal organization. Using only financial measures is a little like driving using only the rear-view mirror. It is better to look at more dynamic and environmental factors. The balanced scorecard is more comprehensive because it is driven by the strategy of the organization overall; strategy drives what performance management approach, not the other way around. The balanced scorecard can be used in a cascading process to drive deep into the organization. Used this way, it ensures that each individual understands their contribution to overall strategy and goals.

Sue Sherbrooke

A little background on the YWCA. Since 1894, focused on improving lives of women and families. Offers programs in employment, housing, etc., for women and families in need. As such it is an organization with multiple constituencies, and multiple opportunities to lose its focus.

The Y needs, therefore, to have practices that create internal accountability to ensure that the organization fulfills its values. They do not use a formal structure but rather have an internal approach they developed on their own. It expresses the Y's values: mission driven, client focused, cultural competencies, good employment practices, and careful steward of time and money.

The Y's system uses five tools:

1. Financial planning: Budget building by the board and community volunteers review fees, services, costs, funds invested in each program.
2. Funding by grants and contracts from both foundations and governments; in these cases the contract outcomes can be used as indicators of the programs' success.
3. An internal audit that looks at both benchmarks as financial indicators and at the big picture.
4. Human Resources reports. Exit interviews with people that leave; training reports and other evidence of living up to the goal of being a good employer that exhibits cultural competency.
5. Management performance. There are checklists for all managers in the organization. Program outcomes – What did you set out to achieve? Why? Did you meet your goals? Financial measures – How were the results? What did you learn? Human resources – Measures of cultural diversity? Training to meet goals? What else is needed? And community involvement – How many volunteers, in what roles? Collaboration with other organizations, in place and potential?

By following this checklist with managers, the organization can ensure a connection between financial planning and program management and thus maintain the link between performance and values and mission.

We recognize that what gets measured gets done and that not all important things are measurable. We work to maintain a balance.

Participant Questions

Questions were recorded and summarized on butcher paper. Here is a transcription of what was asked:

- Is there a balanced scorecard especially for nonprofit organizations? Has there been progress in developing applications of the idea in the nonprofit context?
- What does the balanced scorecard include?
- How do you translate this concept to the smallest organizations?
- How do you house (store and manage) the data that's needed?
- What are some strategic measurement techniques?
- How do you tie financial management back to the mission?
- How can measurements of this sort serve the goal of sustainability?
- What's the role of the board in all this?
- How does one go about linking outcomes to mission in measurable ways?

- How can this idea be adapted to arts and humanities organizations? Can measurements in those contexts be both meaningful and hard?
- How do you handle the relations with front-line managers?
- What has been the impact on the management staff of shifting over to a system like this? In particular, how did it affect management staff at the YWC A?
- How can you make measurement of this sort meaningful throughout the organization?
- What are the implications for workers? Do these new techniques have an impact on the overall labor pool that nonprofits draw upon?
- Are there some outcomes that are more fundable than others?

Panelists' responses

Q: How do you make measures meaningful throughout the organization, especially for front-line managers, in a way that avoids having the process seen as a "big stick"?

SB: The development of a performance management system needs to be a collaborative process to set and agree on everyone's own measures. It is indeed a big undertaking, but leads to a better payoff. Often employees will set higher targets for themselves than would be set by upper management acting in isolation.

SS: In the YWCA, our checklist is still new, but so far it has not been seen as a stick. It is developed collaboratively for budgets, measures and staffing. It is not tied to compensation in any direct way. It goes back to our clients, how are we helping them, and thus helps us keep our focus. It is one of several tools for telling the Y's story; people recognize the more ways we have of doing that, the better. But of course evaluation is a stick, since the organization needs to recognize weak areas and change. Therefore we need to be honest with ourselves: programs will change if they are not working.

VM: There are basically three approaches: Cascade down; Bottom up; and Iterative. To be effective, evaluation needs to be part of a strategic planning process that describes mission, values and stakeholders and sets strategic priorities. Asks what does the plan mean at the program level. To achieve that, everyone needs to be part of the design: what, how, who will measure, and how will the results be interpreted and used. Organizations need to arrive at a consensus.

Q: Has it been hard to have a common language or vocabulary?

SS: Not really; at the Y, we need the basics but because our commitment is to being mission driven and client-centered, there is usually broad agreement.

Q: How can the balanced scorecard method be applied in nonprofit organizations?

SB: My experience is mostly with larger organizations. Typically they choose 3 to 5 areas of achievement that support the mission. Within each, they choose 2 - 4 specific measures, then set targets, then specify initiatives to achieve those targets. This framework allows them to evaluate at regular intervals to see how the initiatives are working to meet targets. The areas are tailored to the mission of the organization. Some common themes: How are our customers being served? Are we securing necessary funding and meeting the expectations of the funders? In general, the balanced scorecard forces holistic thinking.

In some ways, the balanced scorecard approach is easier for smaller organizations because they can get consensus easier and more quickly. But that leads to a caution: too many measures can be burdensome. In small organizations, too, it may be possible for the CEO just to track the data personally; larger organizations will need more elaborate tools: spreadsheets and databases.

Q: In corporations, the use of scorecards is often tied to compensation. If that is not done in nonprofits, then what ties the scorecard to management goals?

SS: It is still too early in the Y's process. It would not be fair at this point to tie the checklist to compensation. For nonprofit employees, the variations in compensation are usually too small to be a motivating factor. Further, there is no clear link between the success of individual programs and the financial success of nonprofits; we have multiple nonfinancial bottom lines. The Y's employees tend to be goal oriented; we haven't seen a need to tie compensation to our checklist; they want success for the sake of success, and are grateful to have definite measures that identify successes when they occur.

SB: In corporations, managers do not usually establish links between performance management systems and compensation until the kinks have been worked out.

Participant: At the Seattle Audubon Society, there are systems in place to link both individual performance and term performance to compensation.

Q: How do these systems work in setting where the mission is not easily measurable? In the arts, for example?

VM: Move beyond attendance. Economic impact on the community from arts programs and collaborations. Surveys of visitors' reactions related to organization's goals. Maybe even hold focus groups or other conversations with intended audiences.

Q: What is the relationship between performance management and sustainability?

SB: First, good financial management is key to the sustainability of any organization. Second, an organization needs to know when change is necessary. And because good systems track connections to the community, the risks of isolation are reduced and the organization stays vital for the community.

Concluding observations

Vic Murray: The role of the board and other leadership is critical. For this to work, the organization needs to secure commitment at all levels and especially at the top of the chart. It can be more damaging than helpful if the approach is haphazard, unsupported.

Steve Brown: It is very important to go outside the organization itself, to include surveys, focus groups, and similar activities. This is a common theme in all successful performance evaluation systems, so designers need to be sure to provide for it up front.

Sue Sherbrooke: Everyone agrees on the importance of evaluation. It is the implementation that can be difficult. Think of it as a way to tell your story. What are the points you want to make that can be strengthened through evaluation? You need to be sure the evaluation system you use incorporates that aspect in its design.