

Full Length Research Paper

The establishment and comparison of the balanced scorecard for profit and non-profit organizations

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The balanced scorecard (BSC) enables business to transform its overall organizational strategy into effective management. The balanced scorecard is a performance measurement system, a strategic management system and a communication tool. It has already been widely used in manufacturing, service, and in non-profit and government organizations etc. with excellent effects. Previous literature also pointed out that balanced scorecard of profit and non-profit organizations has a different framework. They can be adjusted or decreased according to individual case studies or industry culture characteristics. Therefore, the study establishes balanced scorecard framework for profit and non-profit organizations to evaluate the organizations operation performance. The balanced scorecard introduced in this study emphasizes on mission and vision first, followed by the financial and customer perspectives, and lastly, the internal process perspective, which is a combination of the innovation and learning perspectives. Non-profit organizations should learn from profit organizations to under-emphasize missions and visions and pay more attention to operation costs and benefits. This will help them implement performance management that can increase product/service quality and create organizational competitiveness advantages.

Key words: Balanced scorecard (BSC), profit organization, non-profit organization, performance measure.

INTRODUCTION

During the 1980s and 1990s, criticism was mounted against the use of performance measures based on traditional financial management (Kaplan and Norton, 1996). Such performance measures express past actions. They are not integrated into a strategy, are not flexible, and overlook customer requirements. Traditional systems that measure the business performance are usually based on short-term financial goals. Such systems are no longer appropriate to master the challenges that confront companies nowadays. Besides taking into consideration the objectives of relevant stakeholders, companies have to ensure that their strategy is translated into corresponding actions (Ahn, 2001). Kaplan and Norton (1992) developed the balanced scorecard (BSC) as a model aimed at translating the vision and strategy of organizations into objectives, measures, and targets and further into four perspectives: financial, customer, internal process, and learning/growth. The balanced scorecard is a model that integrates financial and non-financial strategic measures. It is distinct from other strategic measurement systems in that it contains outcome

measures and the performance drivers of outcomes linked together in cause-and-effect relationships (Kaplan and Norton, 1996a b) making the performance measurement system a feed-forward control system (de Haas and Kleingeld, 1999). Furthermore, the balanced scorecard should be able to align departmental and personal goals with overall strategy (Kaplan and Norton, 1996a). This high-profile model has attracted much attention from both practitioners and academicians. Therefore, it is worth questioning the validity of the model in terms of obtaining the results promised.

Kaplan and Norton (1992; 1993; 1996c) have presented and applied the balanced scorecard model with improved businesses operation performance. They have argued that traditional financial accounting measures (like the ROI and EPS) offer a narrow and incomplete picture of business performance and relying on such data hinders the creation of future business value. They therefore, suggest that financial measures be supplemented with additional measures that reflect customer satisfaction, internal business processes, and the ability

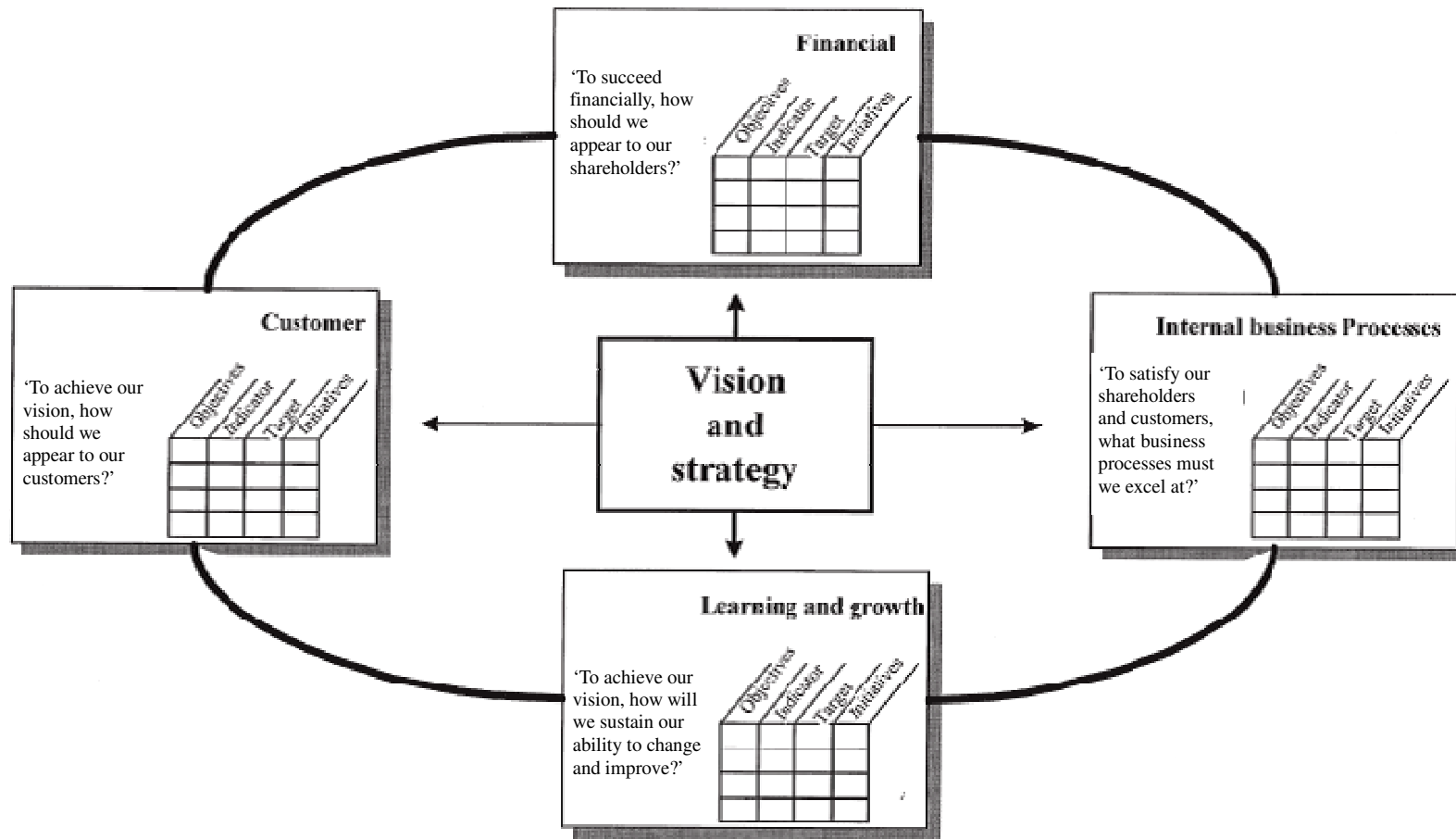


Figure 1. The framework of balanced scorecard. Source: Kaplan and Norton (1996a).

the ability to learn and grow. Their concept reflects the intent to keep score of a set of items that maintain a balance “between short and long-term objectives, financial and non-financial measures, lagging and leading indicators, and internal and external performance perspectives” (Kaplan and Norton, 1996c).

The BSC enables businesses to transform their overall organizational strategy into effective management. It is a performance measurement system, strategic management system, and communication tool (Kaplan and Norton, 1992; 1996a; 2001a; Niven, 2002; Chen et al., 2006). Apart from financial measurement, which is the essence

of the balanced scorecard, it also emphasizes: (1) the role of the customer, (2) internal processes, and (3) learning and growth. Thus, it provides a complete range of performance measure indicators to measure the achievement of strategic targets. The balanced scorecard has four measurement perspectives (Figure 1). These can

be summarized as follows (Kaplan and Norton, 1996b; 2001a):

Financial perspective (How do we look to shareholders?)
This is a strategy for growth, profitability, and risk from the perspective of the shareholder.

Customer perspective (How do customers see us?)
This is a strategy for creating value and differentiation from the perspective of the customer.

Internal process perspective (At what must we excel?)
The strategic priorities for various business processes create customer and shareholder satisfaction.

Learning and growth perspective (How can we continue to adapt and improve?)

The priority from this perspective is to create a climate that supports organizational change, innovation and growth.

The framework to implement the balanced scorecard differs because of distinct organizational characteristics. Kaplan and Norton pointed out that this framework will differ for profit and non-profit organizations. Moreover, owing to international and intercultural differences, the balanced scorecard will need to be adjusted as per organizational needs. In Taiwan, non-profit organizations are particularly concerned about profit performance. Some non-profit organizations also show poor operational performance as they encounter difficulties in operation. This study presents a literature review of profit and non-profit organizations in Taiwan and determines the framework difference between their implementation of the balanced scorecard.

Balanced scorecard (BSC) implementation in non-profit organizations

The balanced scorecard has already been successfully used in various organizations: manufacturing, service, non-profit, and government organizations to name a few (Kaplan and Norton, 2001b). Kaplan and Norton (2001a) have pointed out that financial measurement does not reflect the mission of government and non-profit organizations if it has reached a suitable indicator. However, the mission of governments and non-profit organizations should be placed at the top of the balanced scorecard to measure its success. This will also help the organizations achieve their long-term goals and missions. Hence, the greatest difference between non-profit organizations and businesses is "recognizing organizational mission achievement." To achieve its mission, organizations must consider the financial and customer points of view in order to enhance internal process, and learning and growth perspectives. Kaplan and Norton (2001a b) also point out that financial performance is not the main target of most government and non-profit organizations. However, the sequence of

original balanced scorecard visions can be rearranged such that the customer or stakeholder perspective gets top priority (Figure 2). Moreover, the four major perspectives of the balanced scorecard are not fixed. They can be adjusted or decreased according to individual case studies or industry culture characteristics (Chen et al., 2006). An organization focuses on key strategy to set up another perspective. For example, some government organizations increase the social responsibility or cultural succession perspective and some education sectors increase the student satisfaction perspective.

Kaplan and Norton (2001a b) proposed a non-profit organization structure to establish the four major balanced scorecard perspectives. The organizational mission is at the top followed by the customer, internal process, learning and growth, and financial perspectives. According to Kaplan and Norton (2001a), the United Way of Southeastern New England (UWSENE) was the first non-profit organization to introduce the balanced scorecard. The UWSENE balanced scorecard and business balanced scorecard focus more on the financial perspective and regard donors as their target customers. Through the balanced scorecard, each individual will find his or her orientation and connection within the organization and will determine how to satisfy customer requirements, improve organizational financial performance, and contribute to staff growth. Kaplan and Norton (2004) point out that the Fulton County School System (FCSS) controls a total of 77 national schools with a total of seven million students. The FCSS balanced scorecard has structured five perspectives: student performance, stakeholder, teaching and administration process, learning and growth, and financial performance. The financial perspective is placed at the bottom of their strategy map and proper financial management is set as a target.

Lawrence and Sharma (2002) pointed out that the balanced scorecard of DXL University, a corporate university, has been constructed on the basis of a business balanced scorecard, in which mission and strategic targets are given top priority. The next priority is the financial perspective, which is followed by the other perspectives. According to Wilson, Hagarty, and Gauthier (2003), the balanced scorecard established by the Canada National Department of British Columbia Buildings Corporation (BCBC) had changed from the financial to the shareholder perspective; the customer perspective remained at the same level. Wilson et al. (2003) proposed that the balanced scorecard or strategy map were the same as business balanced scorecard, which set the financial perspective at top priority. Chen et al. (2006) proposed the balanced scorecard framework to establish a strategy map for higher education sectors (Figure 3). The framework's top priorities are mission and vision, followed by the financial, customer, internal process, and learning and growth perspectives.

FUNARBE is a 300-employee strong organization located on the edge of the Federal University of Viçosa

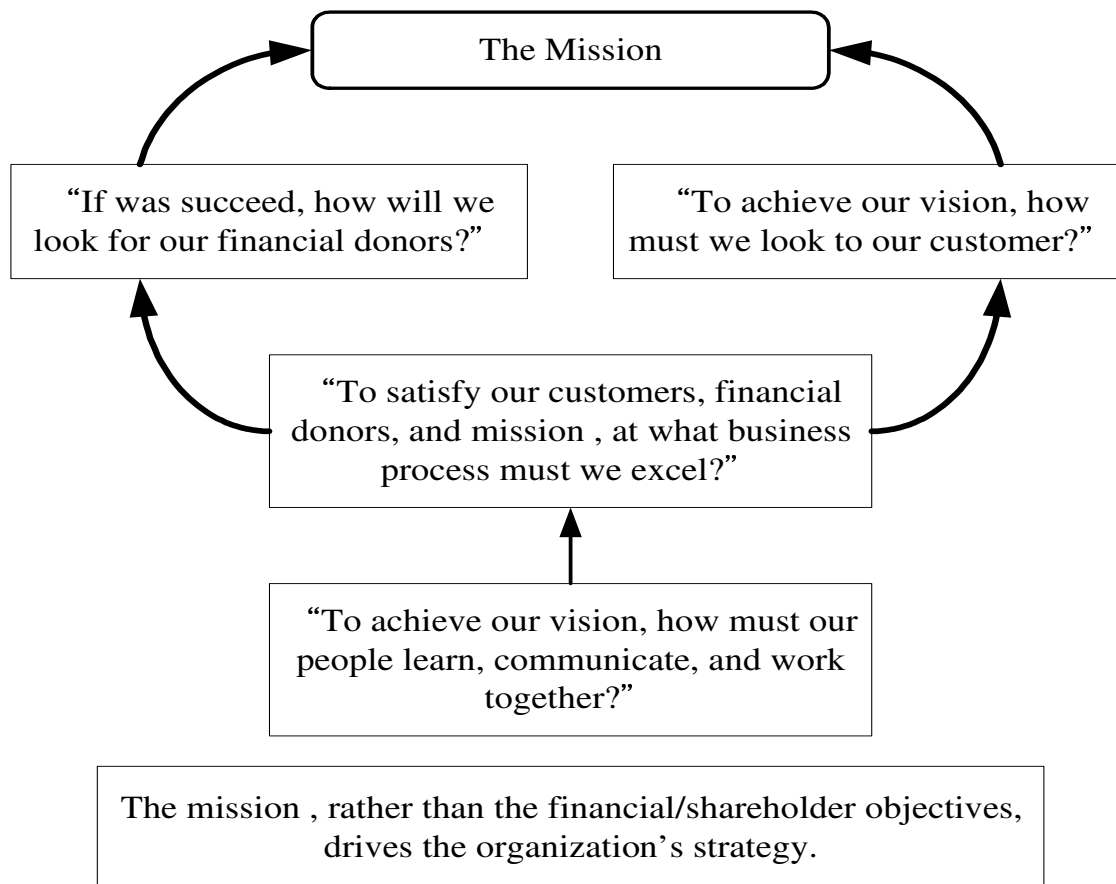


Figure 2. Balanced scorecard framework of non-profit organizations Source: Kaplan and Norton, 2001a

Campus. Gomes and Liddle (2009) have applied the balanced scorecard as a performance management tool for FUNARBE. As FUNARBE is a strong stakeholder in the university, its demands need to be met and it needs to be assured that the financial resources obtained from public and private funding agencies are being managed in a wise and safe way. Thus, it will be possible to secure the foundation's financial health in the long run. The strategy map of FUNARBE is illustrated in Figure 4. At the top of the framework is the financial perspective, followed by the customer, internal business process, and learning and growth perspectives.

From the literature on balanced scorecard, it can be seen that the four major perspectives can be adjusted. Some national units with special conditions and some non-profit organizations have the same balanced scorecard structure as the business balanced scorecard. The literature also suggests that profit and non-profit organizations could have the same balanced scorecard framework. Non-profit organizations must emphasize the financial costs and benefits of performance management, whereas profit organizations must emphasize on achieving the organizational mission and vision. The culture characteristics of non-profit organizations must pay close

attention to their mission and vision. However, the main objective of profit organizations is to create profits and maintain sustainable business operations. Hence, businesses must pay attention to their financial performance. Therefore, balanced scorecard framework of profit or non-profit organizations can adjust according to individual case study or industry culture characteristics.

The establishment of the balanced scorecard framework

The main purpose of business is to create profit and maintain sustainable business operations. Hence, businesses must pay attention to their financial performance. Firstly, the non-profit organizations must pay close attention to their mission and vision. However, does this mean that profit businesses need not pay attention to their mission and vision? Secondly, are non-profit organizations not required to pay attention to their operational performance? Both profit and non-profit organizations need to achieve their organizational mission and vision. In addition, they need to focus on profitability and customer satisfaction in order to maintain

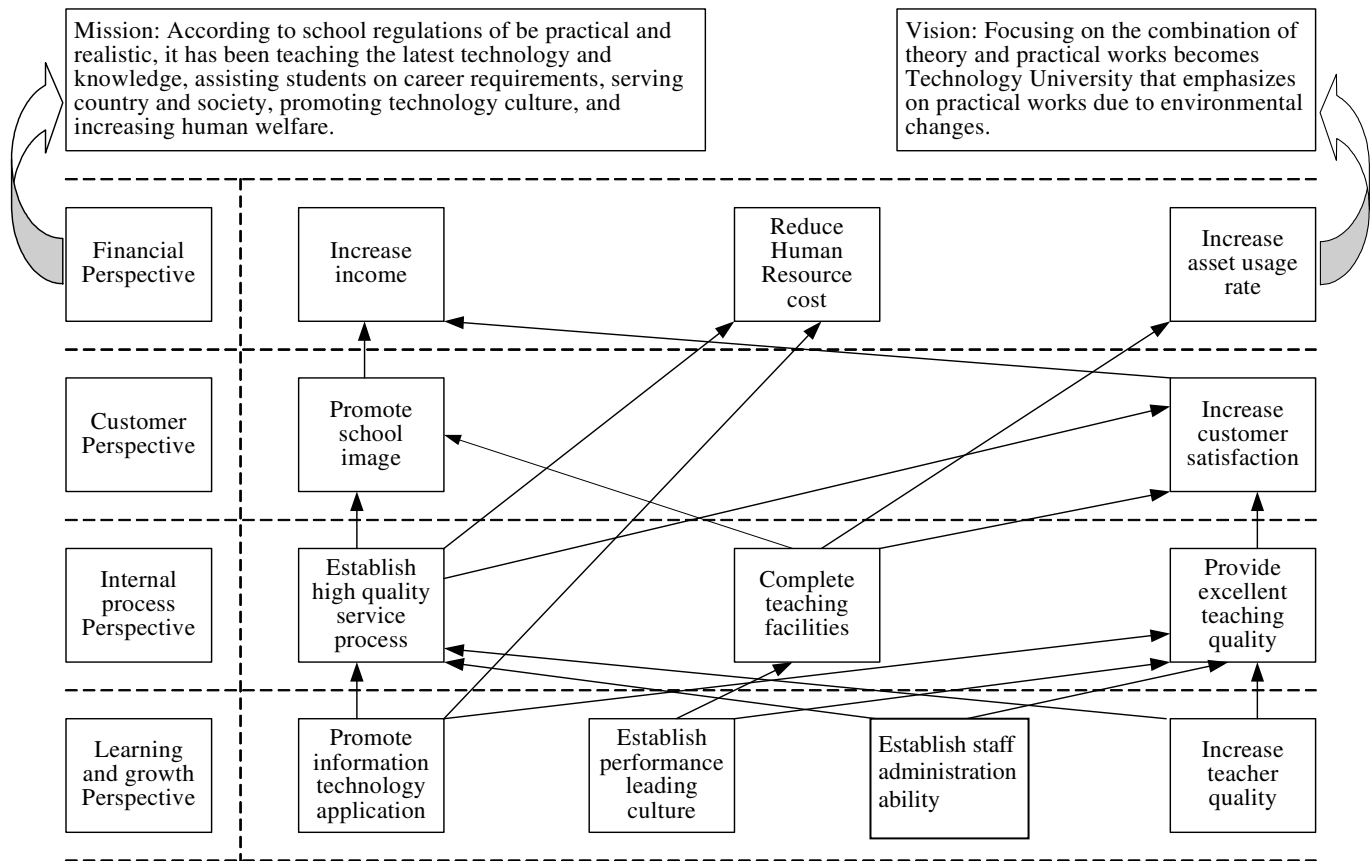


Figure 3. Strategy map of education sectors Source: Chen et al. (2006).

sustainable business operations. Both profit and non-profit organizations require sustainable management. In introducing the balanced scorecard, Kaplan and Norton (1992) proposed that the model would assist in solving problems associated with measuring business performance. In the past, businesses relied on financial indicators to develop appropriate strategic plans. However, financial indicators are lag indicators, and an emphasis on recent and present financial performance can cause businesses to focus on short-term performance leading to the relative neglect of long-term objectives in terms of forward investment and value creation (Kaplan and Norton, 2001b; Porter, 1992). In view of the fact that organizations are now facing severe competition and ought to reform their operations, they need to develop strategic management tools if they are to convert strategy into action. Adopting the key performance indicators of instruments such as the balanced scorecard would allow organizations to develop and allocate resources in a strategically coherent manner. In turn, this can translate into the effective reorganization of operational matters such as daily employee tasks (Kaplan and Norton, 2001a). Therefore, the present study aims to investigate the use of the balanced scorecard in the promotion of quality and

improved operational performance in profit and non-profit organizations.

An organization's mission statement declares why it exists (Kaplan and Norton, 2001a; Niven, 2002). A simple mission statement is to the point and can be passed on to all related participants such that the organization's impressions, achievement directions, and reasons for existence can be clearly understood. Having a vision is akin to providing a blueprint that point to the desired future of an organization (Kaplan and Norton, 2001a; Niven, 2002). It is mainly an expectation of faith in the future so as to establish a concept of teamwork and gain more resources and support. At the top of this study, balanced scorecard has placed mission and vision of an organization promoting target and organization existence value. Research has pointed out that 49% of organizations believe that financial measure indicators are the most important (Niven, 2002). In this study, although, it agreed with Kaplan and Norton (2001a b) that non-profit organization should prioritize mission and vision, the cultural characteristics of Taiwanese non-profit organizations emphasize financial operational performance. The literature on balanced scorecard has also pointed out that it should be implemented in non-profit organizations and that customer perspective is not

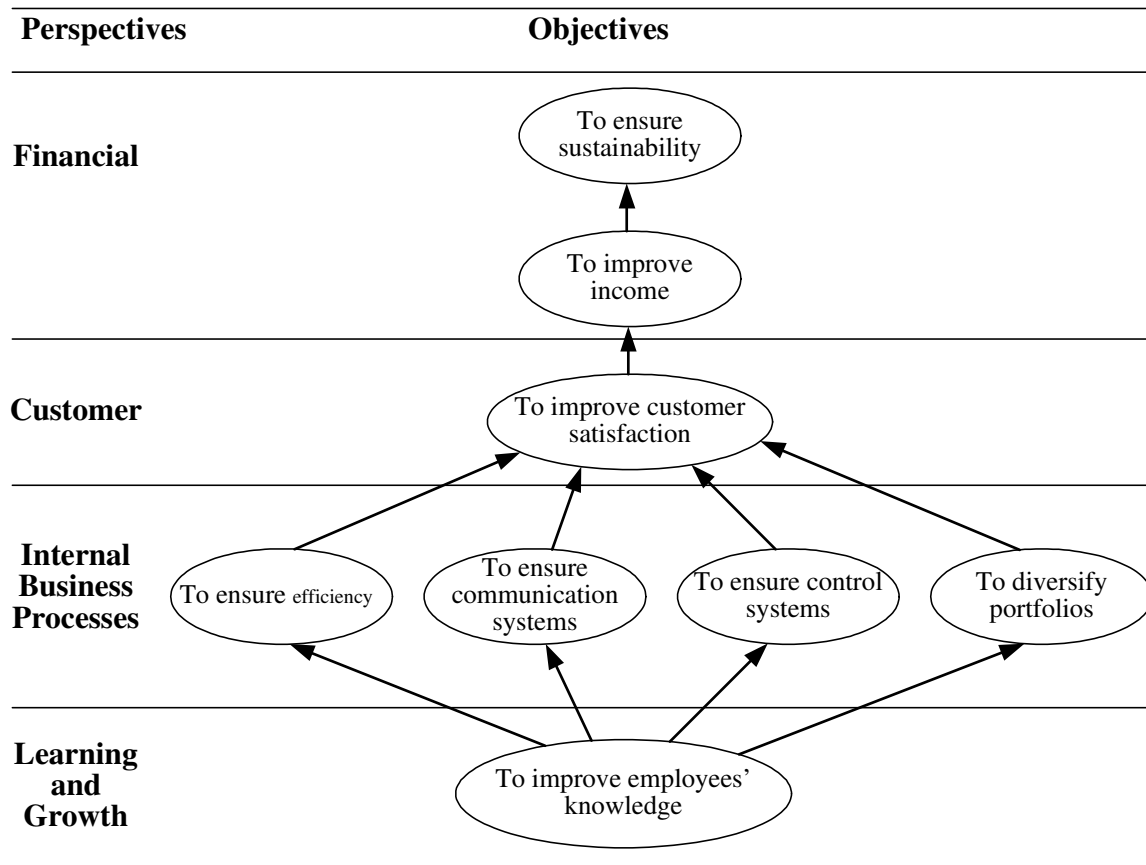


Figure 4. Strategic map of FUNARBE Source: Gomes and Liddle (2009).

necessarily top priority, especially since special cases could adjust the order of perspectives (Lawrence and Sharma, 2002; Wilson et al., 2003; Chen et al., 2006). The present study believes that mission and vision should be at the top of the balanced scorecard, followed by (1) the financial and customer perspectives, (2) the internal process perspective, and (3) the learning and growth perspective (Figure 5).

Non-profit organizations must emphasize the financial costs and benefits of performance management. Without awareness of the complete financial structure, including resources and budgets, it is impossible to achieve a vision or mission. Many non-profit organizations have admirable mission and vision statements but lack adequate financial support, which results in poor performance. With the poor economic environment in Taiwan in recent years, some non-profit organizations (such as funding foundations) have been unable to pay salaries and therefore, forced to downsize. Many senior high schools and colleges have faced closure due to poor operational management, and two senior high schools have had to close because they were unable to enroll new students. These unfortunate developments demonstrate that an organization simply cannot realize its vision and mission if it does not have an adequate financial

structure.

Fletcher and Smith (2004) suggested that the learning and growth perspective was the leading indicator of internal business process, which, in turn, was the leading indicator of customer satisfaction. A degree of improvement in internal business process and the level of customer satisfaction will also affect the financial perspective. The balanced scorecard takes a balanced look at the firm because it focuses on the leading and lagging indicators of performance measurement, financial management, and quantitative and qualitative measures of performance.

The present study believes that in constructing a balanced scorecard, profit and non-profit organizations must first ensure that they have an appropriate mission and vision to promote their reputation. The financial and customer perspectives are equally important. Then, under favorable financial conditions, the organization can provide the latest facilities and excellent human resources in a smooth operational process that satisfies its customers. Moreover, in the strategies deployment and connection, the budget and resource distribution form the vertical kind models (from the top down) (Figure 5 real line arrow). Employees should be encouraged to participate in quality improvement programs because such training enhances

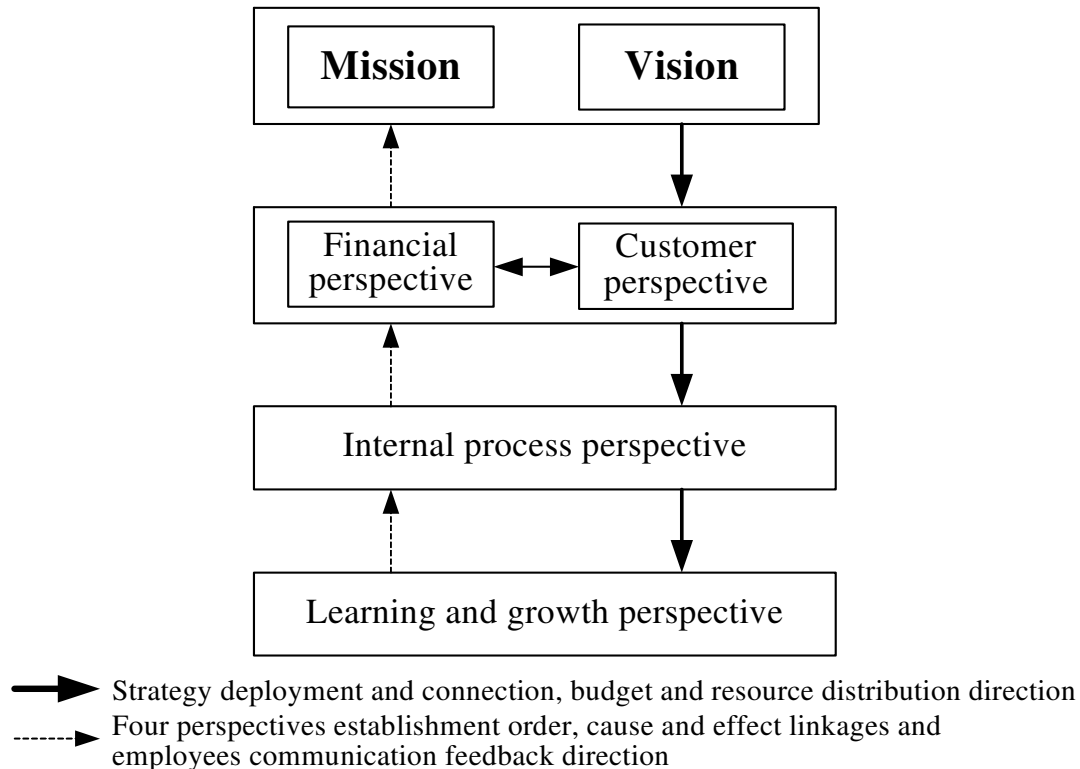


Figure 5. Balanced scorecard framework of profit and non-profit organizations.

such training enhances organizational management and improves product quality. This can be the basis of a balanced scorecard growth and learning perspective. An organization whose members have core abilities in quality awareness can improve its internal processes to increase administrative efficiency. If an organization's services and education are of good quality and has adequate operational facilities, customer requirements will be satisfied. When an organization's internal and external customers are satisfied with its performance, its profit growth will steady within the financial perspective. Hence, an adequate financial structure helps an organization achieve its mission and vision. Furthermore, the four perspectives establish orders as well as the employee suggestions and communication feedback from the vertical kind models (from the bottom up) (Figure 5 dashed line arrow).

An organization's balanced scorecard can be established according to its mission, vision, and strategy. The balanced scorecard includes a series of targets and measurements and instructs members about the cause-and-effect relationship in the organization's strategy. The process develops linkages within the balanced scorecard and on the strategic resource distribution platform. The balanced scorecard guided budget has numerous benefits such as scarce resource allocation, budget and organization linkages, identification of primary strategy strengths, renewed budgeting process, transfer of the

organization's target from a department to the whole organization, and development of cooperative relationships within the organization. Once sufficient background information has been collected, the findings can be synthesized and confirmed through a one-on-one interview process with each executive team member. This activity will provide feedback on organizational competence advantage, critical success factors (CSF), core competency, and key performance indicators (KPI). Figure 6 presents the indicators and their relationship with strategic control.

Conclusions

The balanced scorecard is a formal management system that provides a realistic framework that links performance measures with strategy deployment. Further, it is an integrated results-oriented set of performance measure indicators, including financial and non-financial measures, which comprises current performance and drivers of future performance. The balanced scorecard should be a component of a strategic management system that links an organization's mission, core values, and vision with strategies, targets, and initiatives that are explicitly designed to inform and motivate continuous efforts toward improvement. The identification, communication, and evaluation of these performance measure indicators

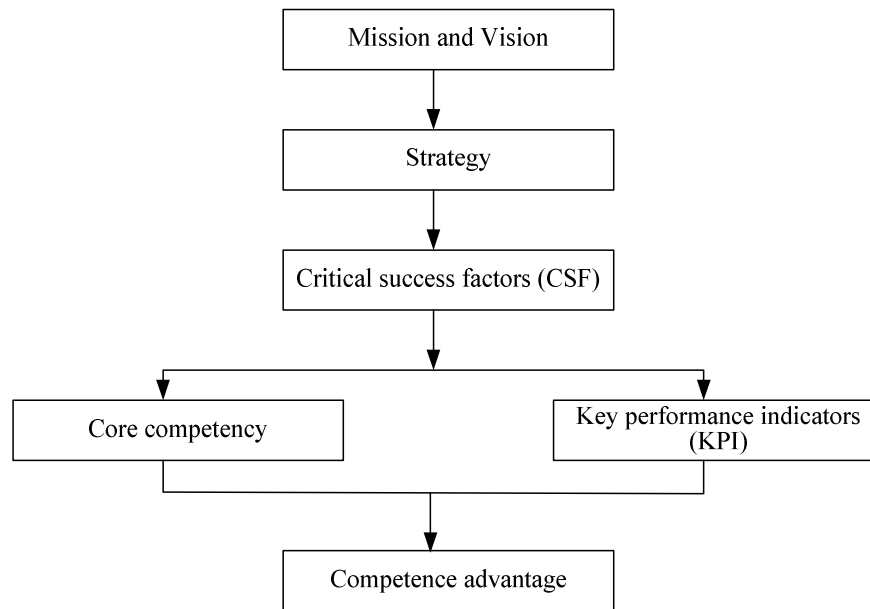


Figure 6. The indicators their relationship of strategic control.

play an important role in strategic planning, translating strategy into action, and evaluating performance.

The balanced scorecard introduced in this study emphasizes on mission and vision first, followed by the financial and customer perspectives, and lastly, the internal process perspective, which is a combination of the innovation and learning perspectives. The balanced scorecard must have clear measure indicators and authority units so that it can have complete performance measure indicators to measure the whole system; thus, an organization's internal units or individuals will clearly understand the organization's key positions. Organizational existence and desired target achievement, employee self-enrichment, the coherence of organizational core forces, and targets and performances help an organization achieve its missions and visions. Although, the balanced scorecard framework in the study differs from that of other scholar models, the final targets are the same; mission and vision achievement and sustainable management. Non-profit organizations should learn from profit organizations to under-emphasize missions and visions and pay more attention to operation costs and benefits. This will help them implement performance management that can increase product/service quality and create organizational competitiveness advantages.

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