The Balanced Scorecard: the Nonprofit Organization Perspective

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ABSTRACT

The balanced Scorecard (BSC), first introduced by Kaplan and Norton in 1992, is described as a comprehensive performance measurement system as well as a strategic management tool. Measuring organizational success and implementing effective strategies for future success represent continuous challenges for managers. In recent years, financial measures are blamed for that they are one-dimensional and they are backward-looking in the record. Financial measures can’t forecast the performance of future. The Balanced Scorecard model requires corporations to evaluate their organizational performance form four different perspectives - financial, customers, internal businesses, and learning and growth. The aim of the BSC is to formulate operational objectives and financial and non-financial performance. It enables firms to achieve a rapid reactive change to fit with the change in the competitive environment. The BSC can help organizations develop better strategic goals and objectives and migrate across the private-public boundary to form a key part of attempts to improve performance management, efficiency and accountability in many nonprofit sectors. Nonprofit organizations also face demands to be accountable to their stakeholders. Although the concept of the BSC has been widely adopted and used in the business sector, the education sector apparently has not embraced the BSC concept widely. The complex nature and activities of university present particular challenges for performance management. Nonprofit organization engages in highly differentiated, non-routine activities, the outcomes of which are difficult to measure. The purpose of this research is to review the balanced scorecard literature relating to strategic implementation and evaluate the BSC techniques have been applied in the nonprofit sectors.

Keywords: Balanced Scorecard, Performance Excellence, Nonprofit Organization

1. Introduction

In the increased competition and high unpredictable business environment, organizations have to seek new ways to evaluate performance. It is necessary to develop managerial navigation and measurement tools that guide and assess organizational performance. The environment has experienced a dramatic change from industrial to a knowledge-based ascendancy which is complex, rapid, unstable, being networked, and ambiguity. With the increasing pressure to achieve performance improvement, the need to implement highly effective efficient and integrated management systems is continuously increasing. There has been an emphasis on understanding how performance is created within the firm. To understand what drives performance, managers must have in place performance measurement systems designed to capture information on all aspects of the business.

The company’s success for tomorrow depends on its ability today of intangible assets such as customer relation, internal business process and employee learning. Financial measures describe only a small part of the firm performance. Traditional financial measures, like ROI and EPS, can give misleading signals. As a result, managers want a balanced presentation of both financial and new operational measures. One performance measurement tool – the balanced scorecard (BSC) has broad appeal. The concept of balanced scorecard (BSC) was described as a performance measurement system capable of providing senior management with fast but comprehensive view of business. The BSC helps determine what is important for existence and sustainability by addressing multiple layers of the firm. The BSC appraises organizational effectiveness, not only the perspective of shareholder value, but also on the organization’s ability to learn and adopt dynamic internal change. Approximately 50% of Fortune 1,000 companies in North American use a version of the BSC, according to a recent survey by Bain & Co. (Missroon, 1999).