

Balanced Scorecards in an Association: Revising the Workbook

By Alex Makarski



Balanced Scorecards? In An Association?

Balanced Scorecards were offered in early 1990's by Robert Kaplan and David Norton as a powerful yet simple way for organizations to communicate and manage their strategy. Strategy in this case is defined as how the mission is going to be accomplished (and mission itself being the what is going to be accomplished).

In the past, an organization's performance was assessed largely by looking at its financial statements. This approach worked in the industrial economy but is no longer adequate: there is simply no room on the Balance Sheet for "intangibles" like employee morale or efficiency of internal processes. Even worse, this approach created a very narrow short-term outlook and motivated managers to cut costs to the "bone", sometimes jeopardizing the future success of the organization.

The next time you watch R.O.B.-TV, note how professional stock traders talk about the products a company's R&D is working on, what key personnel the company has been able to attract, in addition to any financial indicators. Although these "soft" indicators are more difficult to measure, they say more about the future of an organization than the "hard" indicators coming from the bean counters.

Here's probably the biggest "a-ha" of this concept: Some indicators are lagging and tell you how things are now, and some indicators are leading, suggesting how things are going to be in the future. Financial indicators are lagging - a look in the rear view mirror. While it's important to check the rear view mirror, you need to focus on the road ahead to know where you're going.

Balanced Scorecards provided a revolutionary approach to strategy management. The basic premise is that you need a well-rounded (hence "balanced") collection of both lagging and leading indicators. Even the early adopters of Balanced Scorecards realized tremendous success and saw their businesses skyrocket. Balanced Scorecards have proven to be extremely successful in the private sector.

Can they be transferred and adopted to a not-for-profit organization? Will they work in an association? And if yes, how well will they work?

Before giving an answer to these questions, let's revisit the classic concept of Balanced Scorecards, which was built with a typical "for-profit" business in mind.

The Classic Balanced Scorecard...

The classic concept of Balanced Scorecards suggests – usually – four perspectives:

Financial, Customer, Internal Processes, and Learning & Growth. The Financial perspective is placed at the top: After all, the purpose of a business is to generate a profit.

Hence, we need to come up with a set of indicators showing how fast we are moving in the direction of accomplishing the company's mission. For the example's sake, let's include Revenue as one of the indicators. Now we need to think of cause-and-effect relationships that exist between various indicators. Here's but a simple example to give you a general idea:

- One of the indicators that affect Revenue is New Customers from the Customer perspective.
- New Customers in turn depends on how good our sales reps are. We'll use the Average Closing Ratio Per Sales Rep in the Internal Processes to measure that.
- Now this one is connected – among other things – to these sales reps' competencies or the training they have received (e.g., Average Number Of Training Hours in the Learning & Grows perspective.)

Strategy is a hypothesis about how things are inter-connected. What a balanced scorecard does is provide the means of documenting and communicating these relationships to all the people within the organization.

You can introduce more perspectives to better fit a specific organization. Some cause-and-effect relationships can span only a few of the perspectives, bypassing the others.

A litmus test for a Balanced Scorecard: If you want to know how good it is, just see if you can figure out the strategy by simply looking at the scorecard.

... And Where It Breaks

In a classic balanced scorecard, the financial perspective is placed at the top of the hierarchy. This reflects the mission of a "for-profit" organization, which has an ultimate objective of building shareholder value.

Associations are different in at least three ways:

1. In an association, financial objectives are still important but secondary to delivering its mission.
2. Members are both "customers" and "shareholders" at the same time.
3. Members oftentimes are also the "employees" because they actively participate in running the association. Also, associations rely on volunteers a lot more than other businesses.

The standard balanced scorecard framework is going to require significant modifications when adapted to an association:

The Financial perspective can no longer be the "holy grail" of the Balanced Scorecard. Which perspective is going to move to the top?

- Is the Membership perspective going to be under or above the Financial perspective?
- Which indicators should become more prominent in the Internal Processes and the Learning & Growth perspectives?

The Solution

The good news is, when it comes to Balanced Scorecards, nothing is really carved in stone. If there is anything "dogmatic" about this entire concept, it's the fact that you should always start your thinking with the mission of an organization.

Let's do an example. Here's the mission of CSAE, taken directly from www.csae.com:

- Promote excellence and professionalism amongst its members
- Support association executives in their work
- Provide a bridge for associations to access quality services and products
- Increase the effectiveness, image, and impact of associations to better serve their members and society

This mission has four distinct components or unique strategic themes. Each strategic theme may be supported by a separate scorecard.

Let's review each of the strategic themes in this mission. None of them emphasize financial performance. Certain financial targets still need to be met so the association will be able to achieve its strategic objectives but their role is secondary.

As expected, all of these strategic themes focus on membership, just on different aspects such as providing support and services, maintaining professional standards among the members, and promoting their profile in the community.

One modification should be obvious by now: The Membership perspective (that used to be Customer) is going to move to the top.

The order of other perspectives will depend on the cause-and-effect relationships between the indicators you come up with. You may find it appropriate to move the Financial perspective further down.

What if you can't decide which one of two perspectives is subordinate to the other? There is no 11th commandment saying that two perspectives can't be at the same level. It's all about how your organization works and which questions you're trying to answer.

How the balanced scorecard ends up looking on paper is not as important as your adherence to the fundamental principles. Anything is fair game as long as it works for your mission and strategy.

Implementation: Balanced Scorecard Myth Busters

In a small article, we can't cover all aspects of implementation. But I will attempt to debunk some myths that surround balanced scorecards.

Myth 1: Balanced Scorecards Require Complex Computer, Database, and Business Intelligence Systems

Balanced scorecards are not about software packages or complex database systems, although there could be a place for both. It's not where you start. Don't make it an exercise in technological excellence. Your first scorecard can (and probably should) be done on a sheet of paper or in a spreadsheet. Seriously!

Myth 2: Balanced Scorecards Consulting Services Are Always Expensive

Not always. But sometimes they do get expensive. And here's how this typically happens and how to avoid it.

Some associations don't have a mission! (No, that 75-page long document on your desk with a list of projects and initiatives can't be that.) Hiring a consultant could be premature: Balanced scorecards are about strategy. Why would you delegate strategy to anyone?

Use consultants to coach you on how balanced scorecards work, do your homework then use them down the road to help you with implementation. Otherwise you may be in for a long and expensive ride.

Myth 3: We're a Small Organization And Can't Afford Balanced Scorecards

Balanced scorecards are about documenting, communicating and managing the strategy to achieve your organization's mission. Just think about it, can you afford not to do that? Besides, if you're a small organization, shouldn't your scorecard be also small and simple?

Conclusion

The fundamental principles behind Balanced Scorecards apply to all sectors, including associations. The classic architecture of balanced scorecards can't be applied out of the box. Instead, an association needs to go back to the fundamental principles of this concept and modify the architecture to fit its unique mission and strategy.

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