

# Strategic management for the third sector: the balanced scorecard

Lisbon, 29 May 2008

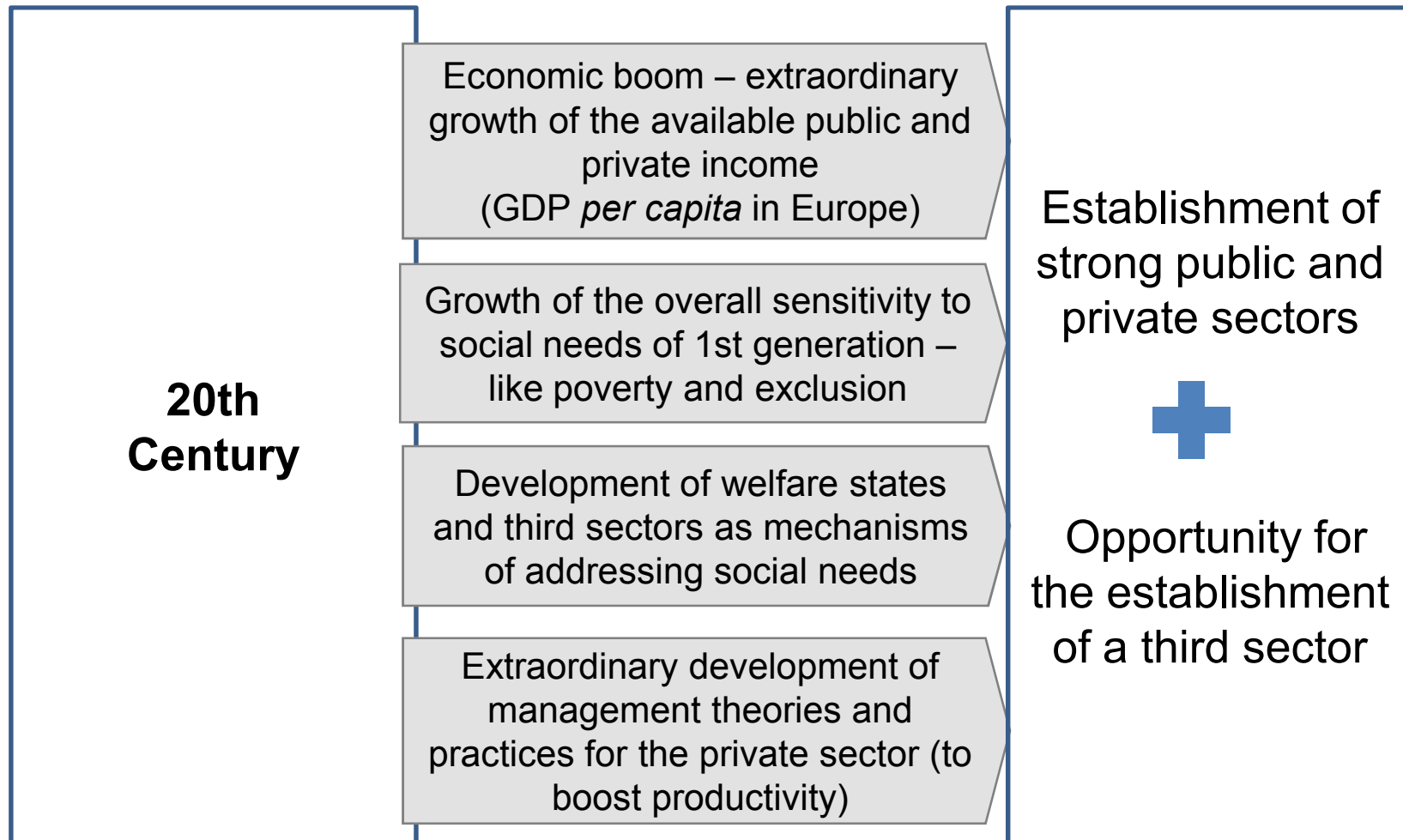
## Summary:

- 1 The century of the third sector (in Europe)
- 2 The strategic management principles, tools and methods
- 3 The balanced scorecard
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- 5 Case-study: Teach for America

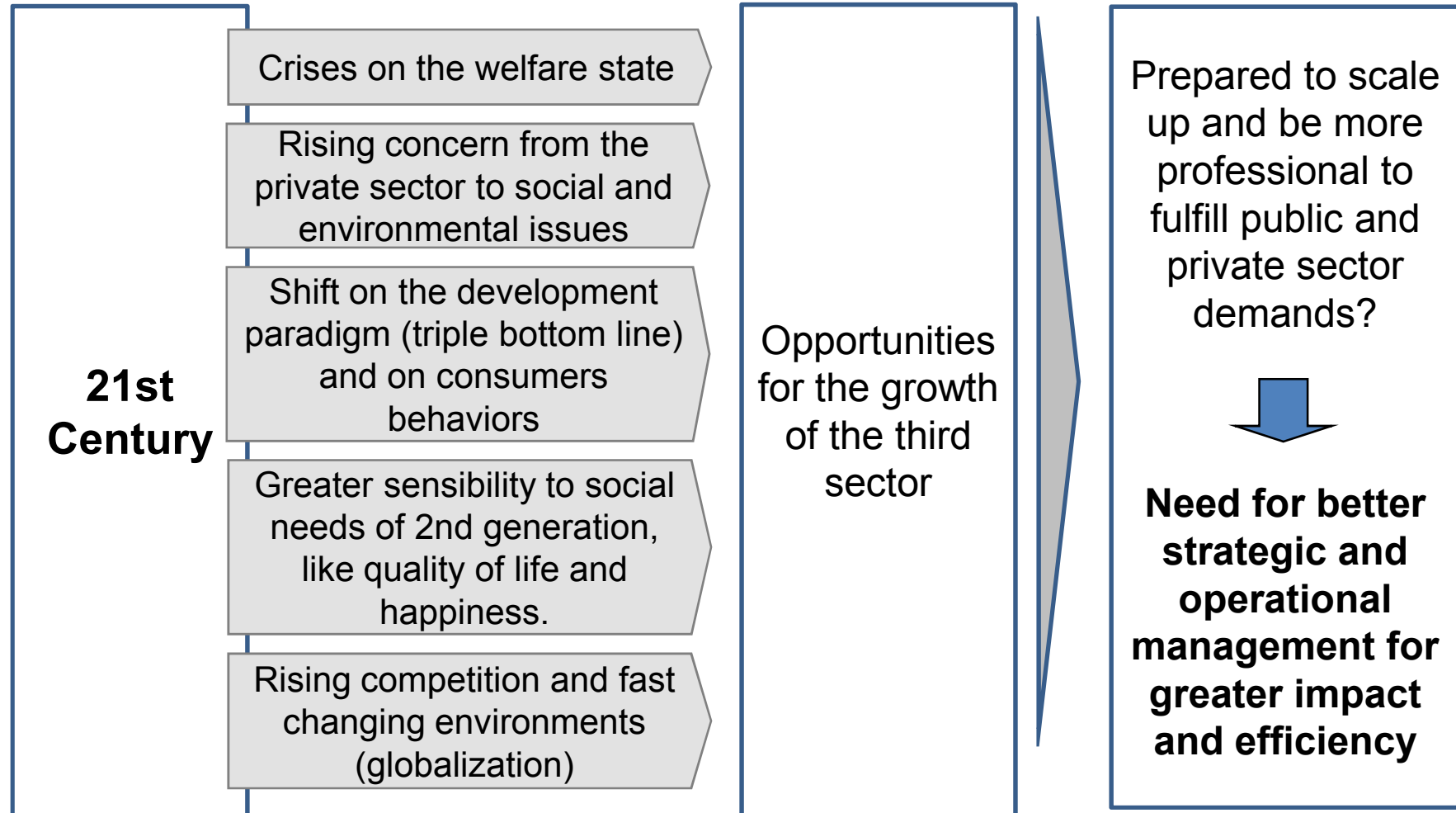


# The century of the third sector (in Europe)

**The 20th century was the century of the public and private sectors, of raising wealth and social policies – both have created the conditions for the establishment of an emergent third sector...**




**The 21st century will be the century of the third sector – to help the public sector implementing more effective social policies and the private sector developing business and social responsibility.**



«The 21st Century will be the century of the social sector organization. The more economy, money and information become global, the more community will matter. And only the social sector nonprofit organization performs in the community, exploits its opportunities, mobilizes its local resources, solves its problems. The leadership, competence, and management of the social sector nonprofit organization will thus largely determine the values, vision, the cohesion and performance of 21st Century society»

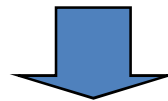
*Peter Drucker, 1999*



**If the 20<sup>th</sup> century was a century of enterprises and governments, the 21<sup>st</sup> century will be the century of the third sector nonprofit organizations.**



**Are the third sector organizations prepared to scale up  
and be more professional to fulfill public and private  
sector demands and needs?**



**Need for better strategic and operational  
management for greater impact and efficiency**

# 2

## The strategic management principles, tools and methods

## Strategic Management is applicable and needed to the third sector organizations, as long as it is properly adapted

What is Strategic management?

- A **process** through which an organization continuously adjusts its resources and capabilities to the external environment to better achieve its mission and goals.
- Differs from the operational management because **it's focused on the long run.**
- its main goal is to **assure an enduring competitiveness** – which demands a proactive attitude dealing with the fast changing external and internal environments.
- In the private sector it is useful to improve the economic performance in the long run, in the third sector it is useful to achieve the **greatest impact** in the fulfillment of the organization's mission.

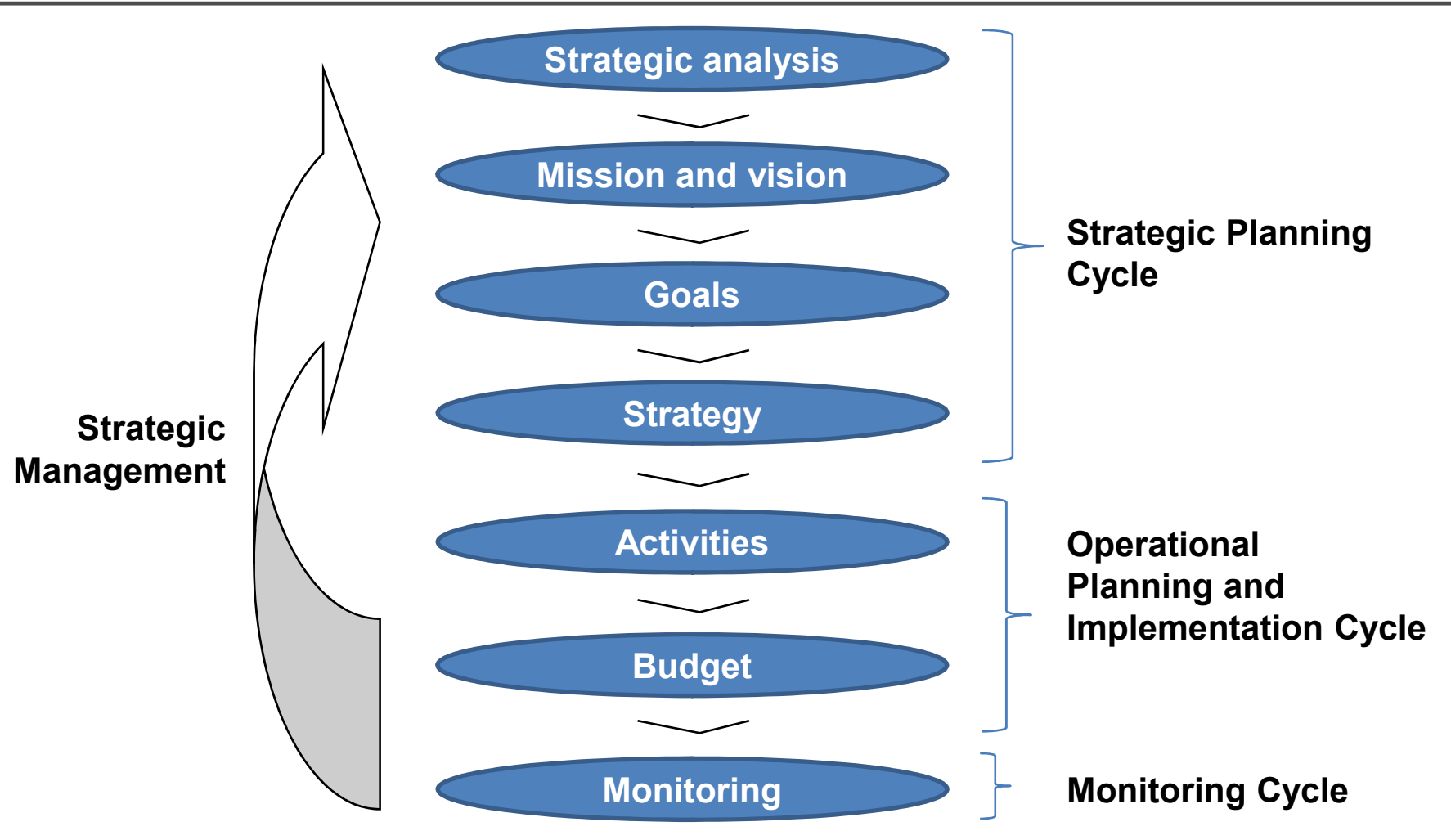
Are strategic management principles and tools **valuable** to the **third sector** organizations?



**YES**, as long as they are **ADAPTED** to their different type of missions and value creation mechanisms (the economic performance is not THE bottom-line).

# How does Strategic Management happens?

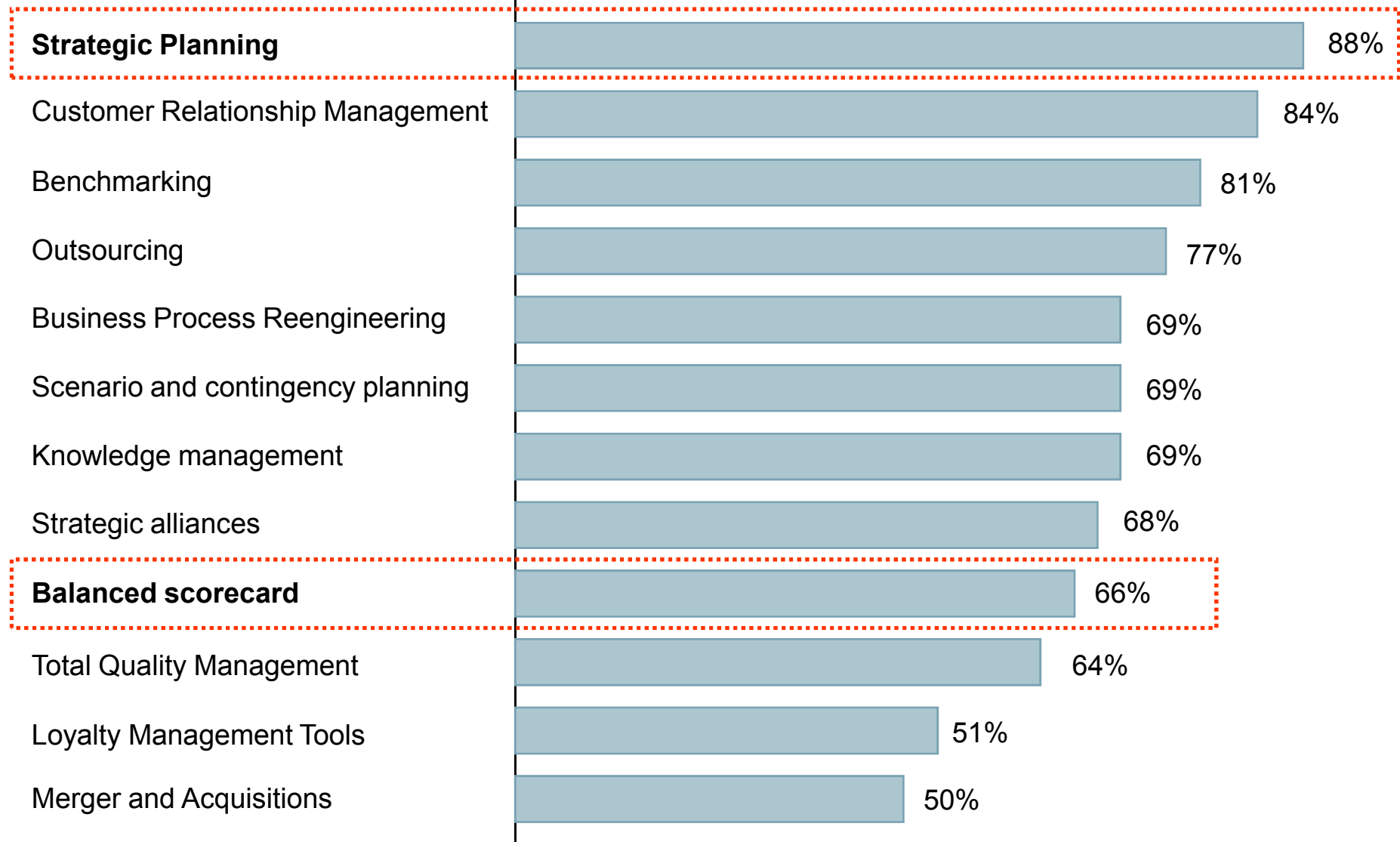
→ The strategic management is a continuous and participative process involving the **strategic planning cycle, the operational planning cycle, and the monitoring cycle.**



**Tools and frameworks** have been developed to boost success managing these cycles.

# What type of strategic management tools were developed for the private sector?<sup>1</sup>

- Management tools usage survey by 1,221 global executives -



Note (1): Based on "Management Tools and Trends Survey 2007" by Darrell Rigby and Barbara Bilodeau (Bain & Company)

# There are already some strategic management tools developed specifically to the third sector<sup>1</sup>...

Examples of methods and tools	Main purpose
① <b>Balanced Scorecard</b>	• <b>Monitor performance and align activities, strategy and mission.</b>
② W. K. Kellogg Foundation Logic Model	• Bring together planning, evaluation and action
③ Theories of Change	• Help align organizational goals with processes and management with staff
④ Acumen fund scorecard	• Assessment of the social return on investment
⑤ Social Return Assessment scorecard	• Assessment of the social return on investment
⑥ AtKinsson Compass Assessment	• Assessment of the sustainability of communities
⑦ Ongoing Assessment of Social Impacts	• Assessment of the social outputs and outcomes
⑧ Social Return on Investments (SROI)	• Assessment of the social return on investment
⑨ Benefit-Cost Analysis	• Compare the social impact with the investment

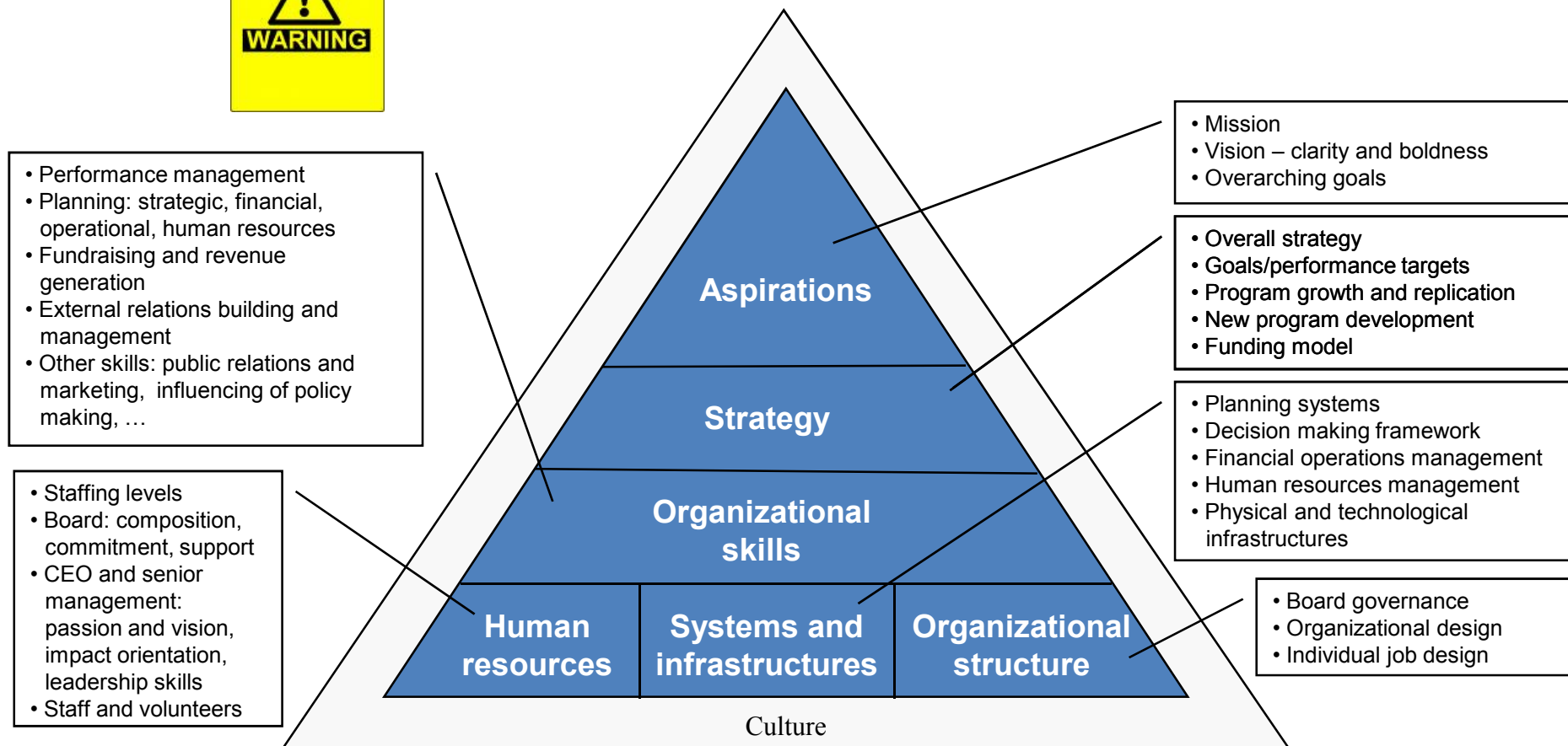
Note (1): Based on the “Double Bottom Line Project Report” by Columbia Business School, Haas School of Business, Abt Associates and SVT Consulting

## ...but they all have in common the need for organizational capacity...

To successfully implement strategic management tools, the organization needs to make sure it has the capacity needed regarding **people**, **processes**, **infrastructures** and **competences** – McKinsey developed a capacity assessment grid.



- The McKinsey Capacity Assessment Grid -





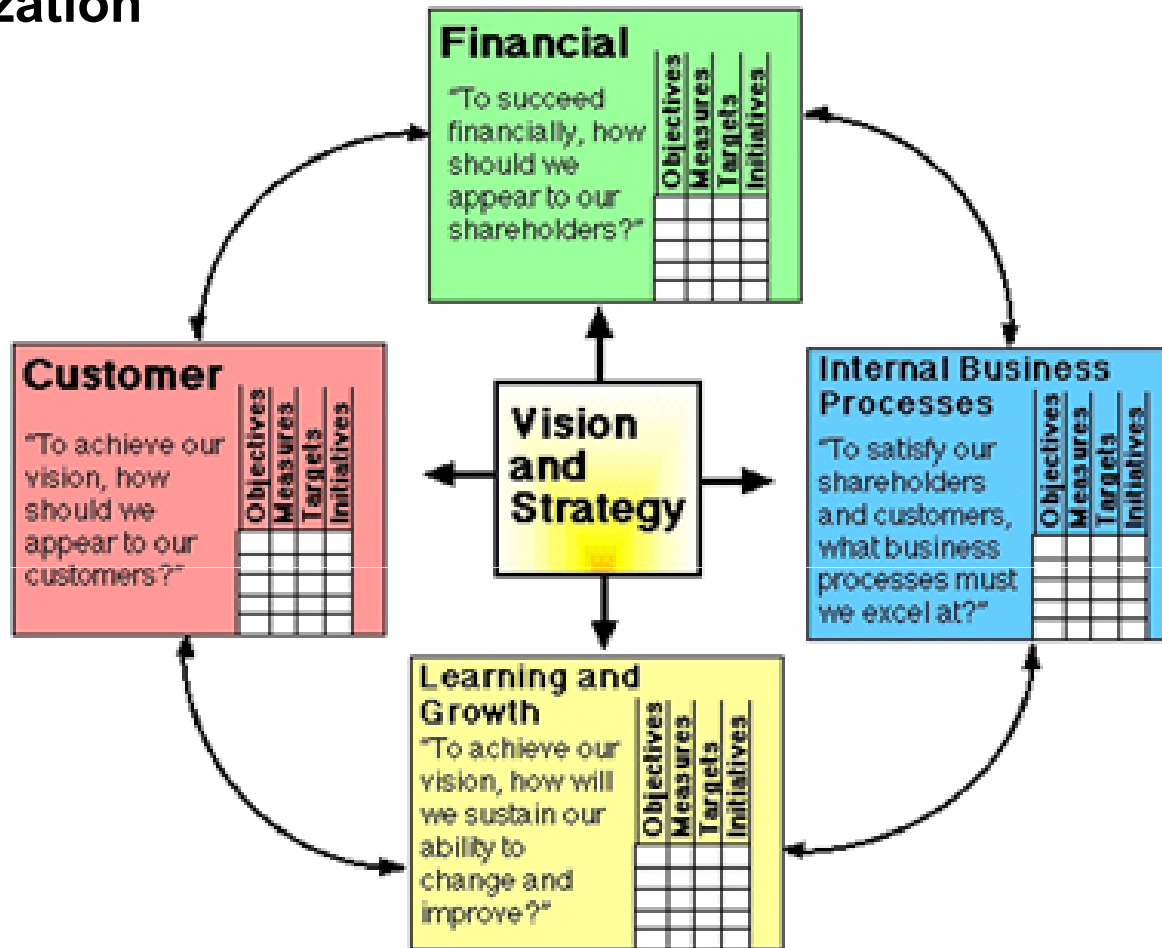
# The balanced scorecard

# The balanced scorecard: history and concept

- 1 The balanced scorecard was introduced, in the early 1990s, by Robert Kaplan and David Norton of the Harvard Business School, as a performance management framework – but it rapidly evolved to a strategic management system.
- 2 In the early 1990s, with intensifying changing environments, due to globalization, and the advent of marketing, due to intensifying competition, the demands to keep a competition advantage changed dramatically – this led to a much higher importance of information about the performance and the environment.
- 3 Kaplan and Norton understood that companies didn't have the informational systems needed to compete in a new “knowledge economy”. The management control systems based on accounting indicators were becoming obsolete because they concentrate in the past perspective – in the financial and economic dimensions.
- 4 Companies needed an integrated tool of strategic management and monitoring, with multiple type of indicators, able to help them in the effort for an enduring competitive advantage and value creation in the future.
- 5 The name [balanced scorecard] reflects the equilibrium between financial and non financial measures and the short and long run perspectives.

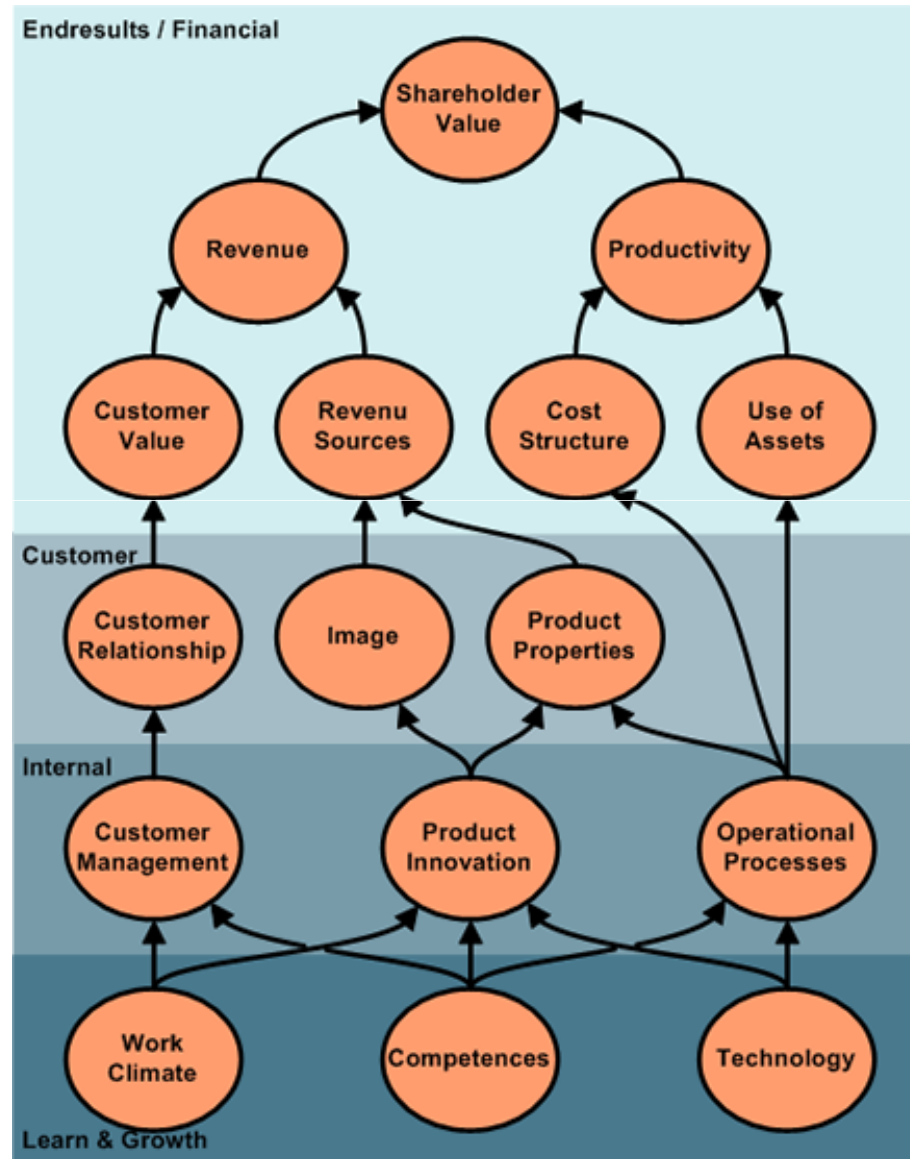
- 6 The balanced scorecard is a strategic management tool because it starts by the mission, goals and strategy of the organization and translates them, through four perspectives – the learning and growth perspective, the business process perspective, the customer perspective and the financial perspective –, into goals, targets and initiatives, helping companies to convert intangible assets into tangible outcomes.
- 7 The balanced scorecard retains traditional financial measures – important to tell the story of past events but inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation.
- 8 Kaplan and Norton found that companies are using balanced scorecards to:
  - Drive strategy execution
  - Identify and align strategic initiatives;
  - Clarify strategy and make strategy operational (align the organization with strategy);
  - Link operational activities and budget with strategy;
  - Conduct periodic evaluations to learn about and improve performance and strategy
  - Report important information to the stakeholders
- 9 In its 75th anniversary issue, in 1997, the Harvard Business Review cited the balanced scorecard as being one of the 15 most important management concepts ever and, in 2002, it was being used by 50% of the Fortune 500 companies.

# The balanced scorecard is structured through four perspectives of the organization

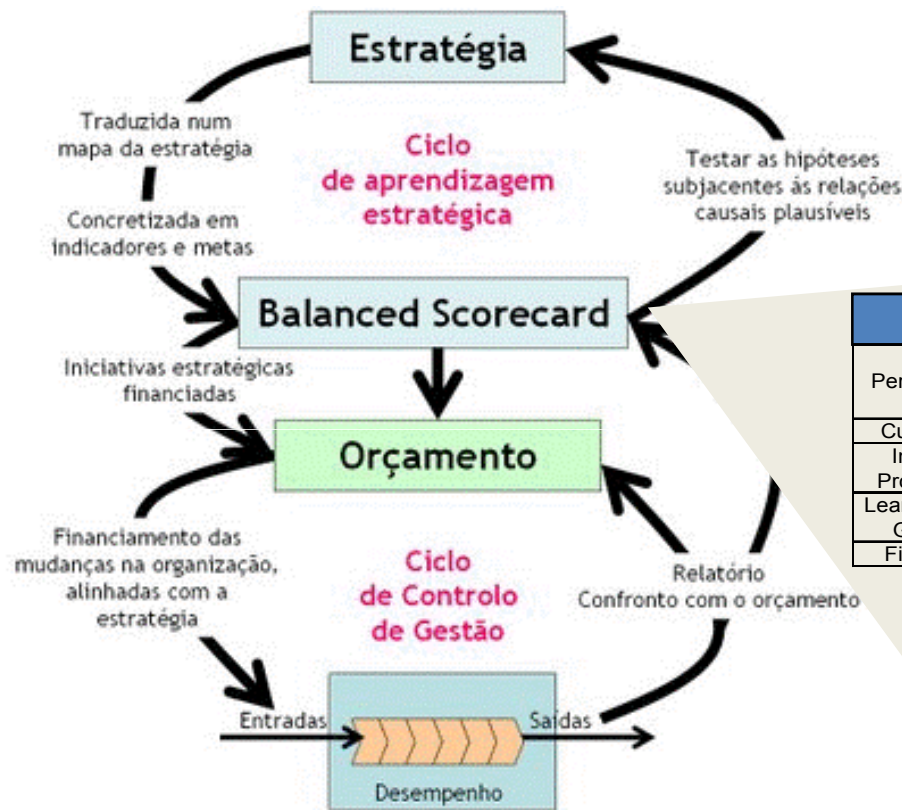


An **objective** is a concise description of what must be achieved by the organization through its strategy. A **measure** (indicador) is a standard used to evaluate and communicate performance. A **target** (metas) is a desired outcome. **Initiatives** are actions, activities that the organization must develop to achieve the established targets.

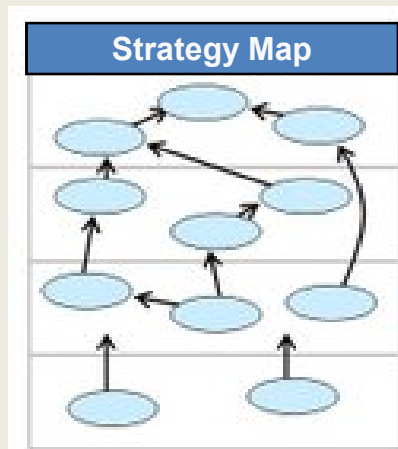
**Building a strategy map allows the organization to visualize the cause-effect relations between the different objectives established in the four perspectives**



The process of implementing a balanced scorecard involves all the stages of the strategic management process (continuously!)



Balanced scorecard								
Perspectiva	Objectives	Measures	Target		Initiatives	Budget	Resp.	
			Actual situation	2009				2010
Customer								
Internal Processes								
Learning and Growth								
Financial								





**To successfully implement a balanced scorecard, the organizations must adopt a culture focused on strategy. This type of organizations, focused on strategy, are called by Kaplan and Norton “Strategy-Focused Organizations”.**

**In a strategy-focused organization, the strategy is a daily concern of everyone and everyone knows the link of its daily operational routines and the strategy of the organization and everyone has a willing to monitor and improve performance – the balanced scorecard is one of the best tools to achieve both.**

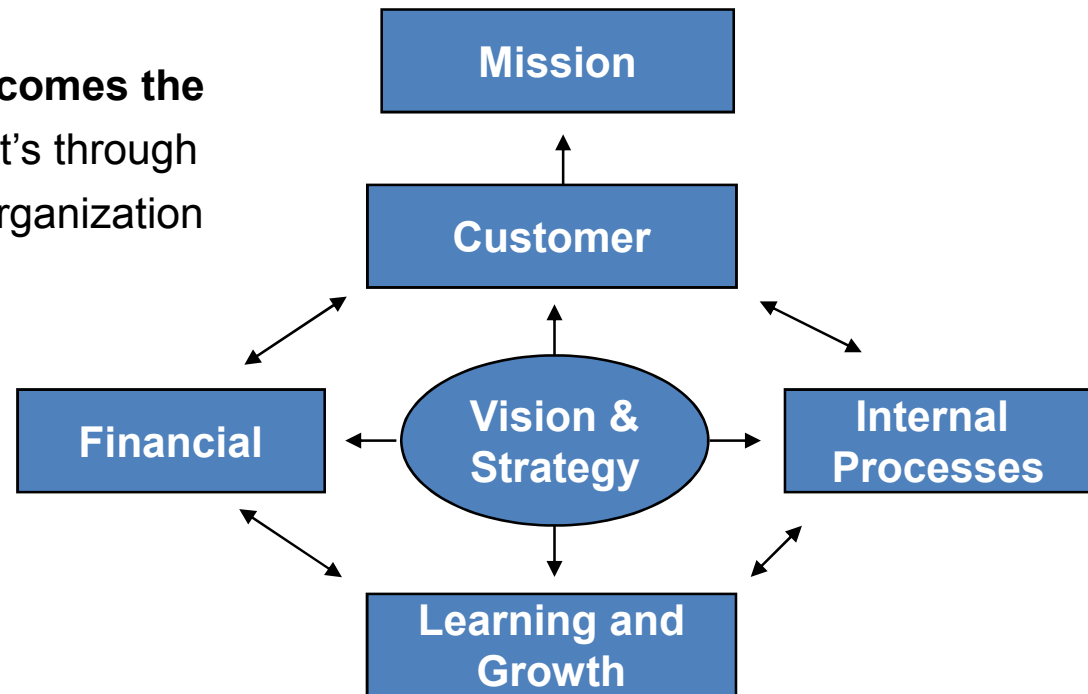
# 4

## The balanced scorecard for the third sector

# Two main differences between the balanced scorecard developed to the private sector and the one developed to the third sector

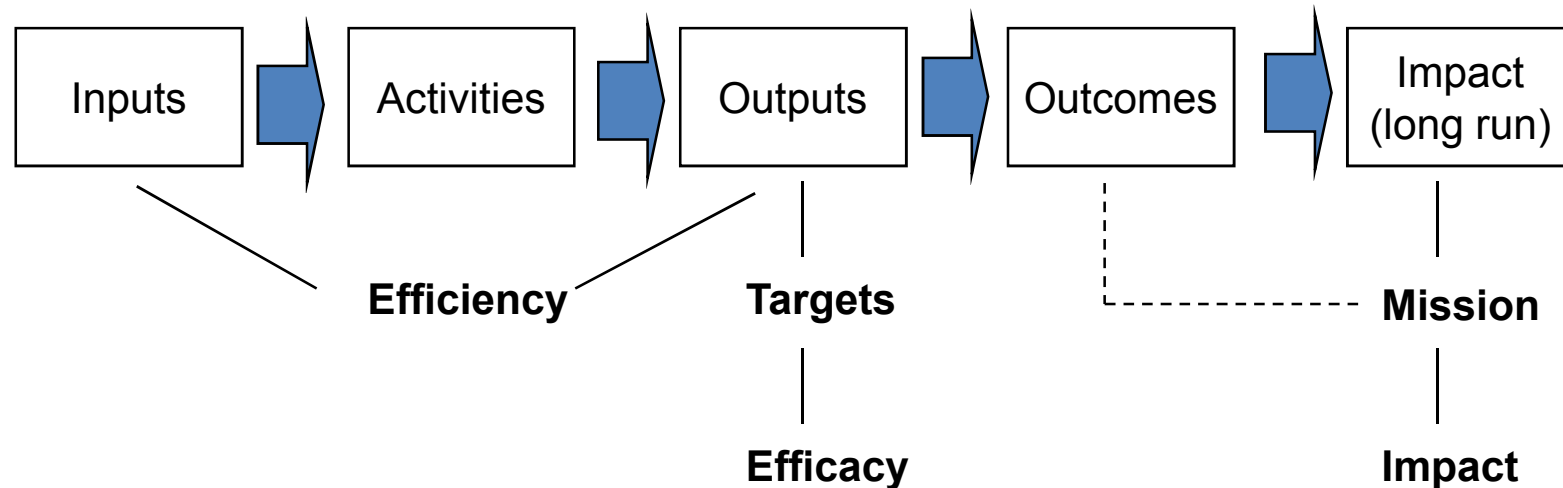
The balanced scorecard developed to the third sector:

- 1 **The mission heads the scorecard:** in a nonprofit organization the most important thing is its mission (even in the short term).
- 2 **The customer perspective becomes the most important perspective.** It's through serving its customers that the organization achieves its mission.



**The balanced scorecard as a strategic monitoring framework enables the third sector organizations to continuously assess their performance on the short and long run, through three families of measures.**

- The typical third sector organization conceptual flow -



**Input** ex.: # of trainers

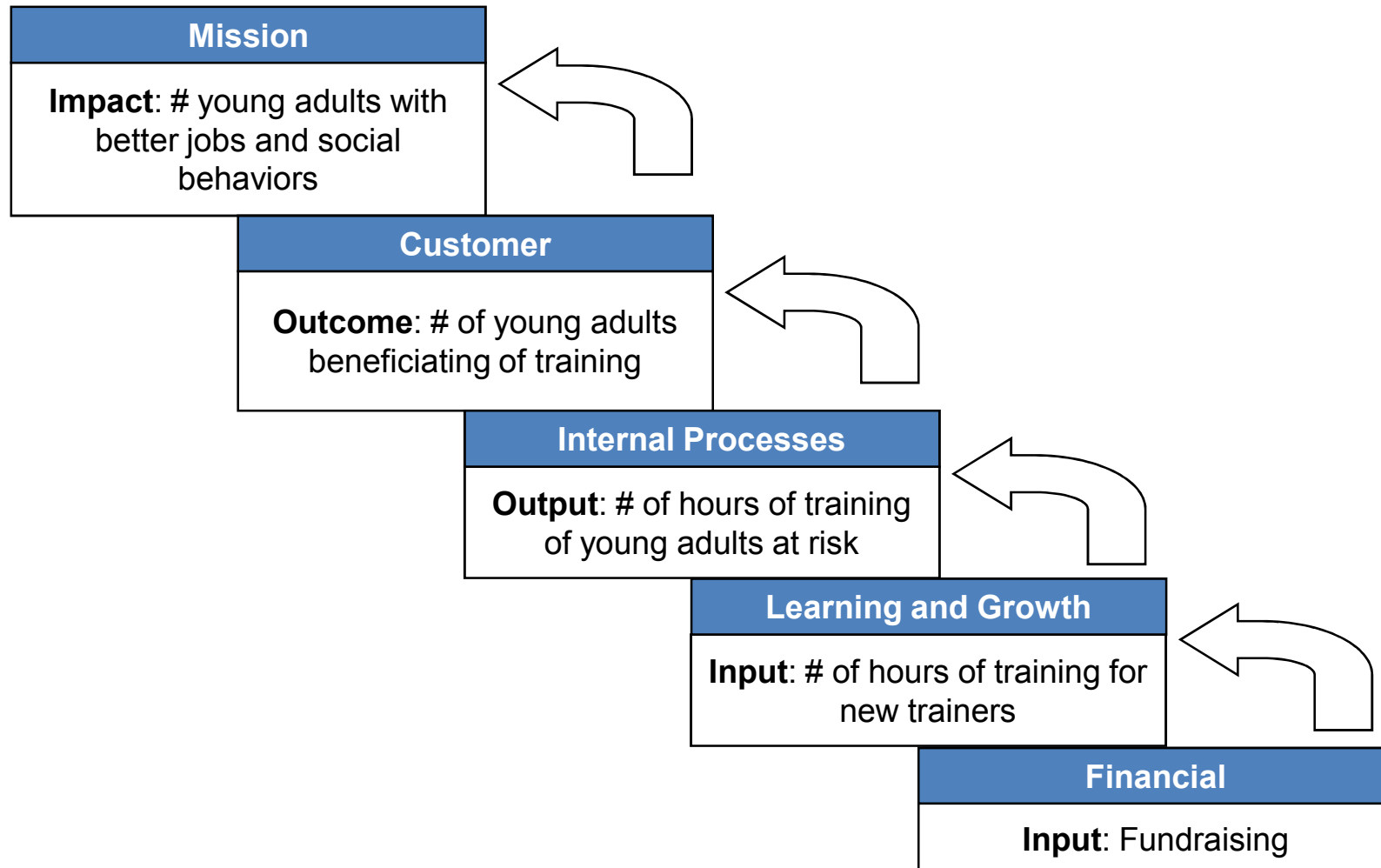
**Output** ex.: # of hours of training

**Outcome** ex.: improvement of competences, self-esteem or social behaviors and attitudes

**Impact** ex.: employment and/or social inclusion

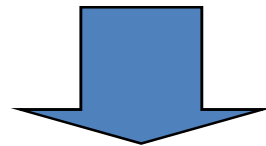
# Measures and targets should be defined for the four perspectives of the balanced scorecard, accordingly to the mission and strategy

- The balanced scorecard and the three families of monitoring measures -





**Implementing a balanced scorecard initiates a process of change in the organization that will lead to new routines, roles, targets and control mechanisms within the organization.**



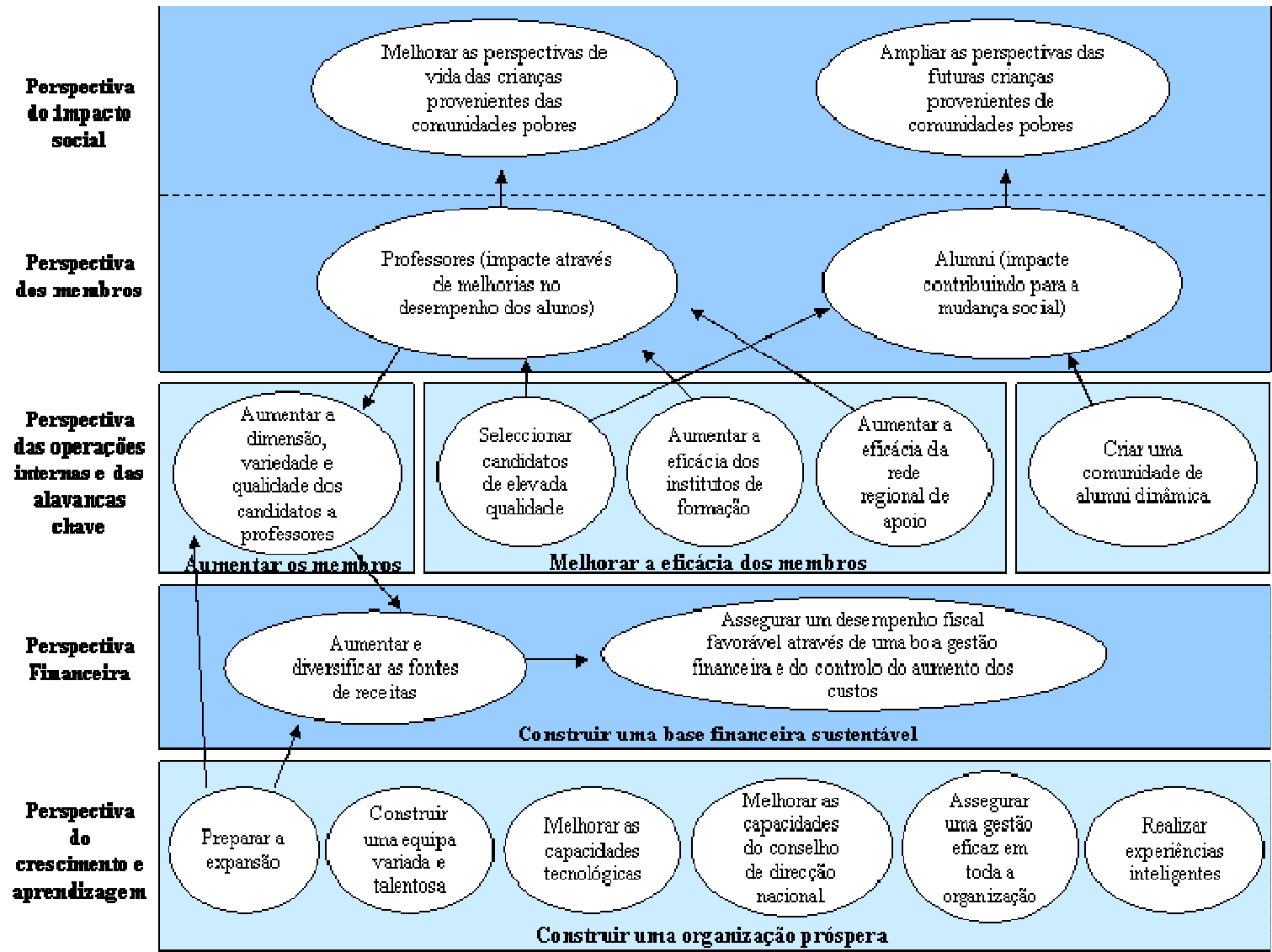
**If there's no openness for change, there's no reason to adopt a balanced scorecard.**

# 5

## Case-study: Teach for America (Ryan Wise)

# O Mapa de Estratégia da “Teach for America” (Kaplan *et al.*, 2006)

**TRADUZIR**



O *balanced scorecard* do “Teach for America”  
(Fonte: Adaptado de Clark *et al*, 2004)

**TRADUZIR**

Perspectiva	Objectivos	Medidas	Metas
Impacte Social	Melhorar as perspectivas de vida das crianças provenientes das comunidades pobres	n.º de novos professores	2000
		% de professores cujas crianças registam uma evolução positiva do seu desempenho escolar	30%
	Ampliar as perspectivas das futuras crianças provenientes de comunidades pobres	% de membros que chegam ao fim do seu compromisso	90%
		% de alumni em posições profissionais de elevado	-
Membros	Professores (impacte através de melhorias no desempenho dos alunos)	% de membros altamente satisfeitos com o TFA	75%
		% de membros que consideram o TFA valoriza os seus esforços	70%
	Alumni (impacte contribuindo para a mudança social)	% de alumni satisfeitos com o desempenho do TFA	75%
Operações internas	Aumentar a dimensão, variedade e qualidade dos candidatos a professores	% de candidatos de elevada qualidade	75%
		diversidade dos candidatos (%)	-
	Seleccionar candidatos de elevada qualidade	sucesso da primeira selecção (%)	75%
	Aumentar a eficácia dos institutos de formação	% de nodos membros satisfeitos com a formação	80%
	Aumentar a eficácia da rede regional de apoio	% de membros satisfeitos com a rede regional de apoio	75%
		% de alumni nos eventos TFA	20%
	Criar uma comunidade de alumni dinâmica	% de alumni que usam as plataformas electrónicas de encontro	40%
		taxas de participação de alumni em eventos por etnia	-
montante de receitas anuais		-	
Financeira	Aumentar e diversificar as fontes de receitas	montante de fundos angariados excluindo expansão	\$36 milhões
		n.º de indivíduos doadores de mais de \$5000	200
	Assegurar um desempenho fiscal favorável através de uma boa gestão financeira e do controlo do aumento dos custos	montante acima/abaixo do orçamento	-
		dimensão do fundo de reserva	-
Aprendizagem e crescimento	Construir uma equipa variada e talentosa	n.º de candidatos	5000
		n.º de candidatos de elevado potencial que começam a formação para membros	3000
		diversidade dos membros (%)	-
		% de membros satisfeitos com a experiência TFA	75%
	Melhorar as capacidades tecnológicas	% de membros satisfeitos com a tecnologia disponível	70%
		% de projectos novos implementados dentro do prazo	75%
	Melhorar as capacidades do conselho de direcção nacional	montante anual de fundos angariados pelo conselho de direcção	-
	Assegurar uma gestão eficaz em toda a organização	% de objectivos chave anuais atingidos	80%