Non-Financial Performance Measures

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Agenda

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(1) Balanced Scorecard (BSC) and its 4 perspective

(2) Key Performance Indicators (KPIs)

(3) Social Impact Perspective

(4) Benefits and Implementation Pitfalls of BSC

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Balanced Scorecard (BSC)
and its 4 perspectives

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What is a BSC ?

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- BSC is a <u>performance measurement system</u> that gives managers a fast but comprehensive view of their organizations.

BSC <u>translates</u> an organization's <u>mission and strategy into a set of performance measures</u> that provides the framework for implementing its strategy.

STRATEGY ST
IMPLEMENTATION AVE

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Where is the balance?

- BSC balances the use of <u>financial and nonfinancial</u> performance measures to evaluate performance.

- BSC balances <u>quantitative and qualitative</u> performance measures

- BSC balances <u>objective and subjective</u> measures

- BSC balances <u>discrete and scalar</u> measures

- BSC balances <u>external and internal</u> measures

- BSC balances <u>outcome and process</u> measures
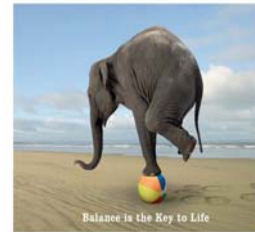
Where is the balance ?

- BSC balances performance evaluation on <u>4 perspectives</u>:

  Financial Resources Perspective

  Customer (Stakeholders) Perspective

  Internal Process Perspective

  Learning and Growth Perspective

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The Cause-and-Effect Relationships in BSC

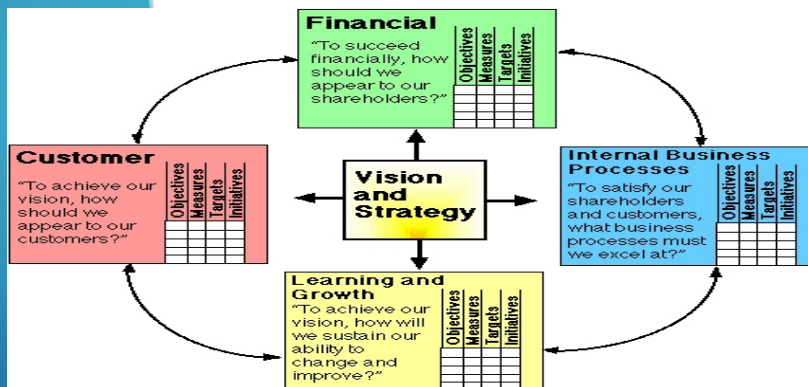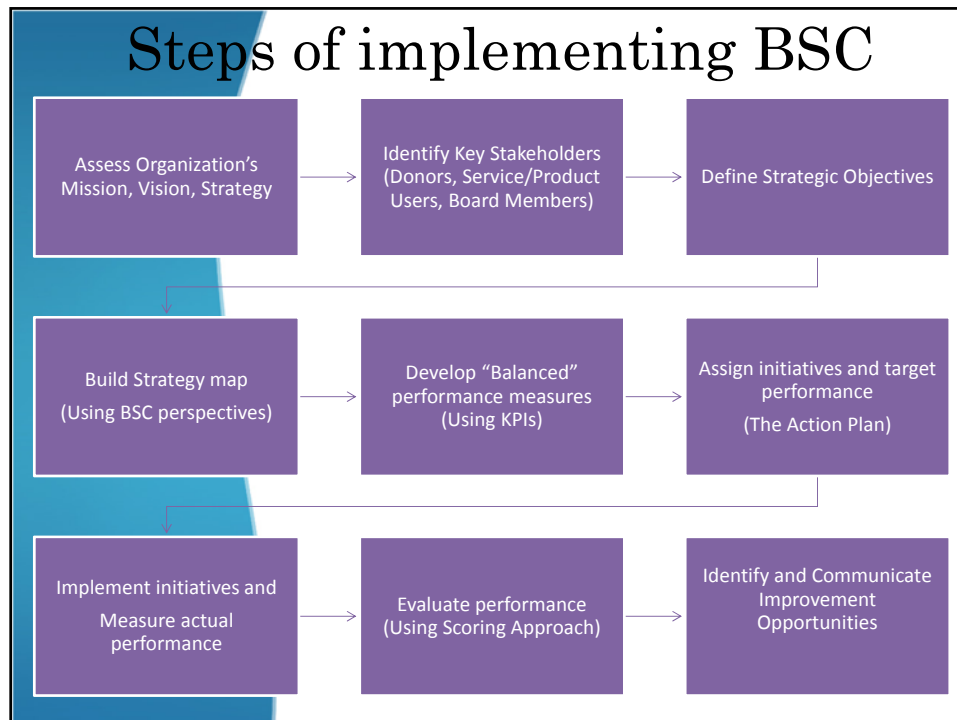**BSC's Cause-and-Effect Relationships**

Mission, Vision and Strategy

Financial Resources Perspective:
Grow Revenues and Funding

Customer (Stakeholders) Perspective:
Build Donor and Community Support

Internal Process Perspective:
↑**Efficiency, Create Services/Products**

Learning & Growth Perspective:
Enhance Staff Training and Development

Team Action Plans/Personal Objectives

Leads to…

How do I…

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4 Basic Perspectives of BSC:

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BSC measures an organization's performance from 4 perspectives:

1. **Financial Resources Perspective**
2. **Customer (Stakeholders) Perspective**
3. **Internal Process Perspective**
4. **Learning and Growth Perspective**

Financial
"To succeed financially, how should we appear to our shareholders?"
Objectives | Measures | Targets | Initiatives

Customer
"To achieve our vision, how should we appear to our customers?"
Objectives | Measures | Targets | Initiatives

Vision and Strategy

Internal Business Processes
"To satisfy our shareholders and customers, what business processes must we excel at?"
Objectives | Measures | Targets | Initiatives

Learning and Growth
"To achieve our vision, how will we sustain our ability to change and improve?"
Objectives | Measures | Targets | Initiatives

Steps of implementing BSC

Assess Organization's Mission, Vision, Strategy	Identify Key Stakeholders (Donors, Service/Product Users, Board Members)	Define Strategic Objectives
Build Strategy map (Using BSC perspectives)	Develop "Balanced" performance measures (Using KPIs)	Assign initiatives and target performance (The Action Plan)
Implement initiatives and Measure actual performance	Evaluate performance (Using Scoring Approach)	Identify and Communicate Improvement Opportunities

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Example: A Non-Profit Cantonese Opera House

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- Mission, Vision, and Strategies:

To ensure long-term future of Cantonese Opera in Hong Kong by:

(S1) producing the highest quality professional productions,

(S2) developing the next generation of opera talents, and

(S3) educating the community about Cantonese opera.

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S1: Producing High Quality Professional Productions

	Strategy Map	Objective	Measures (KPI)	Initiatives (Actions)	Target
Financial	Revenue Growth	- Grow ticket revenue	- Annual ticket revenue growth	- Online ticket sales - Mailing service	+25%
Customer	High quality professional shows	-Improve audience satisfaction	- Customer retention - Media rating	- New Public Relations program - Marketing	80% 4/5 *
Internal	World-class production process	- Improve quality and productivity	- Time to customer - Injury rate - Use of technology	- Production time reengineering - Install safety measures - Invest in technology	9 mths >5% In every play
Learning	Stable & Capable production talents	- Hire - Train - Retain	-retention rate -skill specialization	-new compensation package - In-house training	95% 100%

Key Performance Indicators (KPIs)

Common KPIs:

OBJECTIVES:
Managing
Human Resources,
Organization Culture,
Information System.

- Staff training cost per head
- Volunteer training cost per head
- No. of staff/volunteers attending training
- Staff retention rate or turnover
- Staff vacancy
- Staff certification level
- % of annual reviews reflecting skill development
- % of directors involving in fundraising activities
- % of staff reaching (or exceeding) own performance target
- % of staff, board members, and volunteers realizing the strategic goals
- Availability of manpower & $ on R&D projects
- Staff satisfaction ratings
- Outstanding staff awards
- No. of cross-project sharing and communication
- No. of technological upgrades in a year
- Accessibility of IT system

Learning and Growth

Financial Resources

Strategy

Internal process

Customer/ Stakeholders

Common KPIs:

- No. of "Client" complaints on the quality of the service
- No. of (or value of) administrative errors
- Time required to settle a complaint
- Ratings on quality on site by internal, external, professional parties
- % of compliance to international/local/professional standards
- No. of quality control, review, report during the process
- % of programs rerun in a year
- Client database established (Confidentiality issue resolved)
- No. of Clients attending
- No. of new services/products delivered
- Time required to develop a new service/product
- Amount of cost and manpower spent on R&D of new services/products
- No. of internal audits performed
- No. of reports submitted to Board
- No. of board meeting in a year
- No. of board members attending board meetings
- Feedback from external auditors

Financial Resources

Learning and Growth

Strategy

Internal process

Customer/ Stakeholders

OBJECTIVES:
Managing
Clients,
Operation
process,
Innovations,
Governance.

Common KPIs:

OBJECTIVES:
Managing
Service Users,
Community
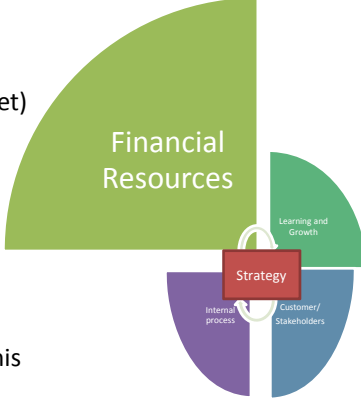**network,**
Donors, Funders,
Board Members,
Government, etc.

- Customer satisfaction ratings
- No. of new service users
- Donor satisfaction ratings
- No. of press reference acknowledgement
- % of subscription
- No. of collaborations/partnerships
- No. of name recognition in community survey
- No. of community activities involved in
- No. of trainings for users, community, board members
- No. of reports to donors & funders & government
- Review of compliance to governmental regulations.
- % of board members participating in fundraising activities
-

Common KPIs:

- Amount of Revenue (or Funding)
- No. of new Revenue Sources (or Funding Sources)
- % of growth in Revenue (or Funding or donations)
- Growth in multiple-year or secured funding
- Donor retention %
- % or amount of costs to each service user
- Reduced unused capacity and its related costs
- Reduced budget variance (or a balanced budget)
- Amount of Deficit or Surplus
- Achieve Breakeven
- % of growth in reserve
- ROI
- Finance Staff capability on budgeting, financial reporting, and investing
- Compliance with funder requirement
- All other financial ratios in earlier session of this afternoon

OBJECTIVES:
Financing,
Budgeting,
Reserve,
Compliance.

Financial
Resources

Social Impact Perspective

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S2: Developing the next generation of opera talents

Strategy Map	Objectives	Measures (KPIs)	Initiatives (Actions)	Target
Social Impact: Growing group of young opera talents	Increase no. of opera talents in next generation	- No. of new students	- Publicize recruitment in secondary schools	+ 100 /year
Financial: Revenue & Funding/Donation Growth	Increase tuition earned and Funding/donation	- % of growth in tuition earned, funding, donation	- Reasonable Tuition fees - Task force to obtain $ from donors and parents	+20%
Customer: Public Performance	Increase public performance opportunity	- Student satisfaction - On-stage performance	- Consultation for students - Organize production by students	> 8/10 >= 1 / year
Internal: World-class training process	Increase training effectiveness	-teaching/student ratio -international recognition	- Small-class design - Up to international standards	< 1:10 Accreditated
Learning : Established team of professional trainers	- Hire - Train - Retain	-teacher development cost - teacher vacancy - retention rate	- New TD schedule - New compensation scheme	$5,000/head < 10% > 90%

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Examples of KPIs
on Social Impact Perspective:

Objective:	Examples of Social Impact Measure:
Provide shelter to homeless	No. of man-day provided Change in % of homeless death in a region / shelter cost
Provide training to jobless	No. of users served Income difference after training/ training cost
Provide private tutoring to children in poor families	No. of children served Grade difference after tutoring / tutoring cost
Provide financing to micro-business owners to escape from poverty	No. of owners served Family income difference / financing cost

Social Return in Investment (SROI):
SROI is a comparison between the social value generated from
an investment in a SE or a program and the required investment.

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Benefits and Implementation Pitfalls of BSC

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Benefits of using BSC

- Strategy is translated into <u>measurable</u> action plan

- Provides a clear performance goal for each staff (=> Enhancing <u>communication</u>)

- Employees see the link between their jobs and the mission and strategy of the organization (=> Enhancing <u>alignment</u> of individual goal and organization goal)

- <u>Balance</u> of short term performance focus (lag indicators) and long term performance focus (lead indicators)

- Provides <u>feedback</u> of implementation results to improve strategic planning process.

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Implementation Pitfalls of BSC

- Use too many or too complicated measures
- Use too high/low target performance
- Seek improvement on all measures at the same time
- Use only objective measures
- Assume the cause-and-effect linkage is precise
- Overlook costs of initiatives while focusing on benefits of initiatives
- Lack of common definitions of terms
- Poorly defined strategy
- Inconsistent, weak buy-in, and lack understanding
- No feedback
- No staff involvement

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