Healthy Futures
GROUP

The Balanced Scorecard & Nonprofit Boards
An Overview by Peter O'Donnell
### *President, Healthy Futures Group*

Introduction

One of the most recent additions to the balanced scorecard toolkit is a standard board strategy map, developed by Harvard's Kaplan and Norton, the originators of the balanced scorecard concept in the early-90's.

I have revised their private sector-oriented version to make it more appropriate to the nonprofit and public sectors. We have had quite a bit of early success in using this with several boards of very different organizations. Board members appreciate how it spells out the work of an 'engaged' board.

What is a Strategy Map?

The purpose of a strategy map is to indicate the most important categories of results for which a board is responsible, and to show the linkages between their work at different levels. A strategy map ensures that the board focuses its attention and efforts on those activities and indicators that they believe will make the biggest difference to the future of the organization. At a summary level, the strategy map typically uses a simple visual format, as shown below…
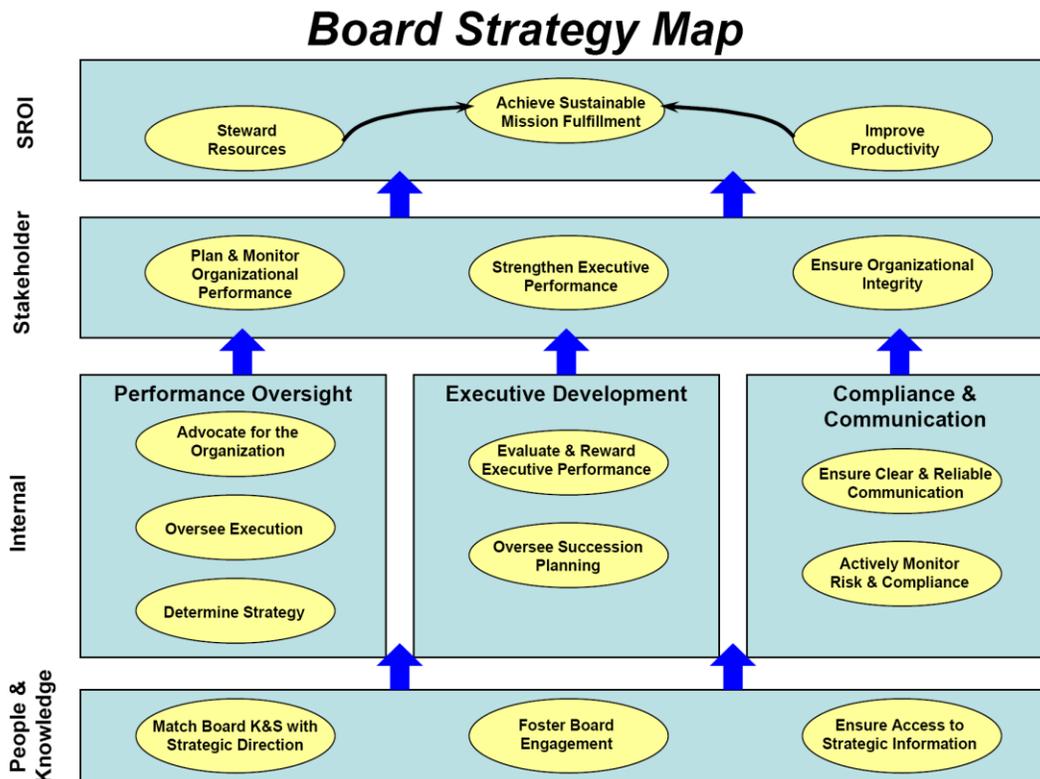
As you can see, the Strategy Map defines the work of the board at four levels, and shows how each contributes the level above. More importantly, it defines clearly how the Board adds value to the organization through its unique areas of responsibility.

Next, we'll explore the main categories and key indicators at each level…

Social Return on Investment (SROI)

The top level of the scorecard defines overall success – Achieving Sustainable Mission Fulfillment. The board does this by working with management to Steward Resources and Improve Productivity.

The objectives in this area are a combination of the strategic priorities set forth in the current Strategic Plan, and specific Strategic Initiatives approved from time to time to support these longer-term priorities. The Board should identify key result measures and targets for these priorities and initiatives to ensure that long-term results are in line with expectations.

Stakeholder
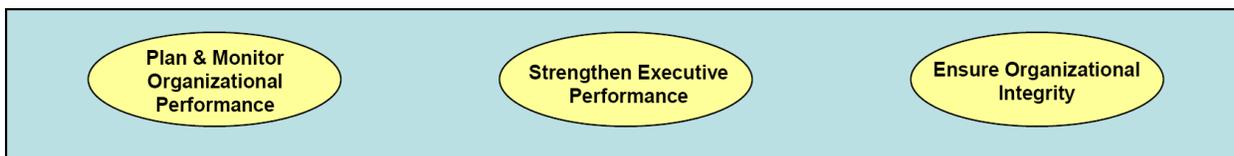
As the trustees of the organization, the Board acts on behalf of all of the organization's stakeholders to ensure that their interests are addressed. It does this by exercising oversight in three main areas – Planning & Monitoring Organizational Performance; Strengthening Executive Performance; and Ensuring Organizational Integrity. The board should identify key result measures and targets for each of these areas. Again, the focus here is on results – when the Board evaluates its own performance, these are important 'outcome' measures of its work. The 'processes' for achieving these outcomes are addressed at the next level.

An important consideration at the SROI and Stakeholder levels is that the identified outcomes appropriately reflect the expectations of the various stakeholders. This makes it essential that the board have regular communication with its key stakeholders for the purpose of aligning its long-term results with their expectations.

Internal Processes

| Performance Oversight	Executive Development	Compliance & Communication
Advocate for the Organization	Evaluate & Reward Executive Performance	Ensure Clear & Reliable Communication
Oversee Execution	Oversee Succession Planning	Actively Monitor Risk & Compliance
Determine Strategy		

These three categories provide the framework for achieving the results at the top two levels. This is the level that defines most of the actual 'work' a board does, and that takes the most time to flesh out. It is also the best level at which to begin the process, since the categories readily suggest practical, concrete activities and indicators, and give a sense of momentum to the process of developing the board's scorecard. These are the areas where the board needs to have robust, reliable processes to guide its work and to monitor ongoing performance.

At this level, the board has seven key areas of responsibility (working from bottom to top in each list:

1. Determine Strategy: while the board usually depends on its CEO and leadership team to formulate strategy, it must understand and approve plans for both long-term strategy and shorter-term operations. This requires that the board implement approval processes that ensure that all members know the key 'drivers' of the organization's success, understand the rational for proposed strategies and plans, understand the significance of proposed performance measures, and identify the key indicators of success that the board will monitor.

2. Oversee Execution: it is not enough, however, for the board simply to approve plans and then assume effective execution. It must put in place appropriate means for obtaining meaningful, timely feedback on the success of these plans. This can be as simple as defining reporting requirements for the CEO. In certain critical areas, however, the board may choose to exercise more direct oversight through means such as internal or external evaluation or even direct observation.

3. Advocate for the Organization: in any nonprofit or public sector organization, board members have several important advocacy roles. These include representing the organization positively in the community, lobbying for political and funding support with various levels of government, and participating actively in fund-raising and other resource development efforts. The board needs to develop clear measures and targets in each of these areas, along with concrete action plans at the board, committee and individual board member level.

4. Oversee Succession Planning: not only must a board hire the CEO, but it must also take steps to ensure that succession plans are in place to meet future senior leadership needs primarily through the development of high-potential internal leadership candidates. The board needs to direct the CEO to put such a plan in place, and identify practical means of monitoring action in this area on a regular basis.

5. Evaluate & Reward Executive Performance: the board must, on an annual basis, evaluate CEO performance, based on the performance targets in his or her annual scorecard, along with any other feedback measures agreed to from time to time. The board must also have a process for reviewing and adjusting CEO compensation on a regular basis.

6. Actively Monitor Risk & Compliance: in the current climate, most boards hardly need to be reminded of their responsibilities in this area. A board must identify specific areas of external compliance (government regulations, for example), but also put in place an appropriate risk management process. The former will typically be defined externally, both in terms of the specific requirements and the monitoring processes. The latter should focus an appropriate level of attention on areas of perceived risk, and provide an efficient means for the board to monitor what is happening in those areas.

7. Ensure Clear & Reliable Communication: finally, the board must take the initiative to ensure that certain key 'messages' are reliably and consistently communicated. These include any legally-required 'disclosures' of information, either to specific external recipients or to the public. Often, though, the more important messages from a strategic standpoint are those to do with the organization's public stance on key issues, or its plans for the future. The board's responsibilities here are to ensure that such messages are properly crafted and vetted, and to review and approve any communication issued by the board.

People and Knowledge
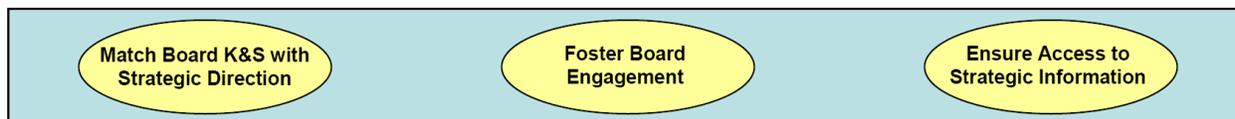
This fourth level of the strategy map is a bit different in that it focuses on building the board's *capacity* to do its work effectively. It involves three key areas - Matching Board Member Knowledge & Skill with the organization's strategic direction, Fostering Board Engagement, and Ensuring (board) Access to Strategic Information. These are critical to being able to do the work at the Internal Processes level.

The first category addresses the critical area of board 'profile', which needs to change over time to address the need for different knowledge and skills required to oversee the organization's work. The board needs a mechanism to identify these changing requirements, and then to recruit individuals who can bring those capacities to the board.

The second category focuses on the actions the board takes to promote the full and effective participation of all members. This includes how it manages its agenda, conducts its meetings, and how it manages its work through delegation to committees, task forces or individuals. It also includes any means of ongoing communication among members or between members and other key contacts. And, it also includes board evaluation, both ongoing and annual.

The final category addresses the board's need for appropriate access to information deemed necessary to carry out the activities described above. It includes what information is required, in what form, through what medium, and at what time. The board should establish clear expectations in this area to ensure that all members can, given a realistic commitment of time, be adequately prepared to fulfill their responsibilities.

Board Engagement Assessment
Developed by Peter O'Donnell, Healthy Futures Group

Using the following simple scale, indicate what 'engagement' priority you believe your board should give to each of the strategic issues listed in the four categories below:

        5 – Critical – very high engagement/immediate significant discussion

        4 – Very important – high engagement/regular significant discussion

        3 – Average importance – ongoing monitoring/regular brief discussion

        2 – Less important – periodic monitoring and scheduled discussion

        1 – Low importance – occasional scheduled discussion, as needed

Planning & Monitoring Organizational Performance

1. __ Determining and refining the organization's long-term strategy
2. __ Monitoring the organization's ongoing execution of its strategy
3. __ Exploring strategic issues in depth
4. __ Monitoring emerging trends that will affect stakeholders
5. __ Advocating on behalf of the organization with various stakeholders
6. __ Supporting the organization's fund-raising initiatives
7. __ Monitoring the organization's finances and resource development efforts
8. __ Ensuring that the organization has an appropriate fundraising strategy

Supporting & Strengthening Executive Performance

1. __ Monitoring ongoing executive performance
2. __ Overseeing succession planning for key leadership positions
3. __ Evaluating and rewarding executive performance annually
4. __ Providing advice and support to executive staff
5. __ Developing and monitoring internal HR policies and practices
6. __ Monitoring internal staff performance
7. __ Promoting and supporting internal leadership development

Ensuring Organizational Integrity

1. __ Monitoring organizational risk, ethics and compliance
2. __ Ensuring clear and reliable internal and external communication
3. __ Publicly addressing issues of importance to the organization's stakeholders
4. __ Promoting specific responses to such issues

Board Performance

1. __ Matching board membership capabilities to organizational strategic needs
2. __ Developing board member knowledge and skills
3. __ Evaluating and improving overall board performance
4. __ Evaluating and improving individual board member performance
5. __ Fostering increased board member engagement with the organization
6. __ Fostering increased stakeholder engagement with the board
7. __ Improving board member access to strategic information
8. __ Improving stakeholder access to strategic information
9. __ Improving board decision-making processes
10. __ Improving board planning processes