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Performance Measurement for Non-Profit Organizations

A BALANCED APPROACH

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What is the issue?

Even with a well articulated mission statement, many non profit organizations struggle with performance measurement.

Why is it important?

Non profit organizations that fail to link performance to strategy will have difficulties maximizing the effectiveness of their operations.

What can be done?

Following a balanced scorecard approach to performance measurement that is designed for non profit organizations will turn strategy into action and enable the attainment of strategic outcomes.

MANAGEMENT ACCOUNTING GUIDELINE

OVERVIEW

Introduction to the Concept

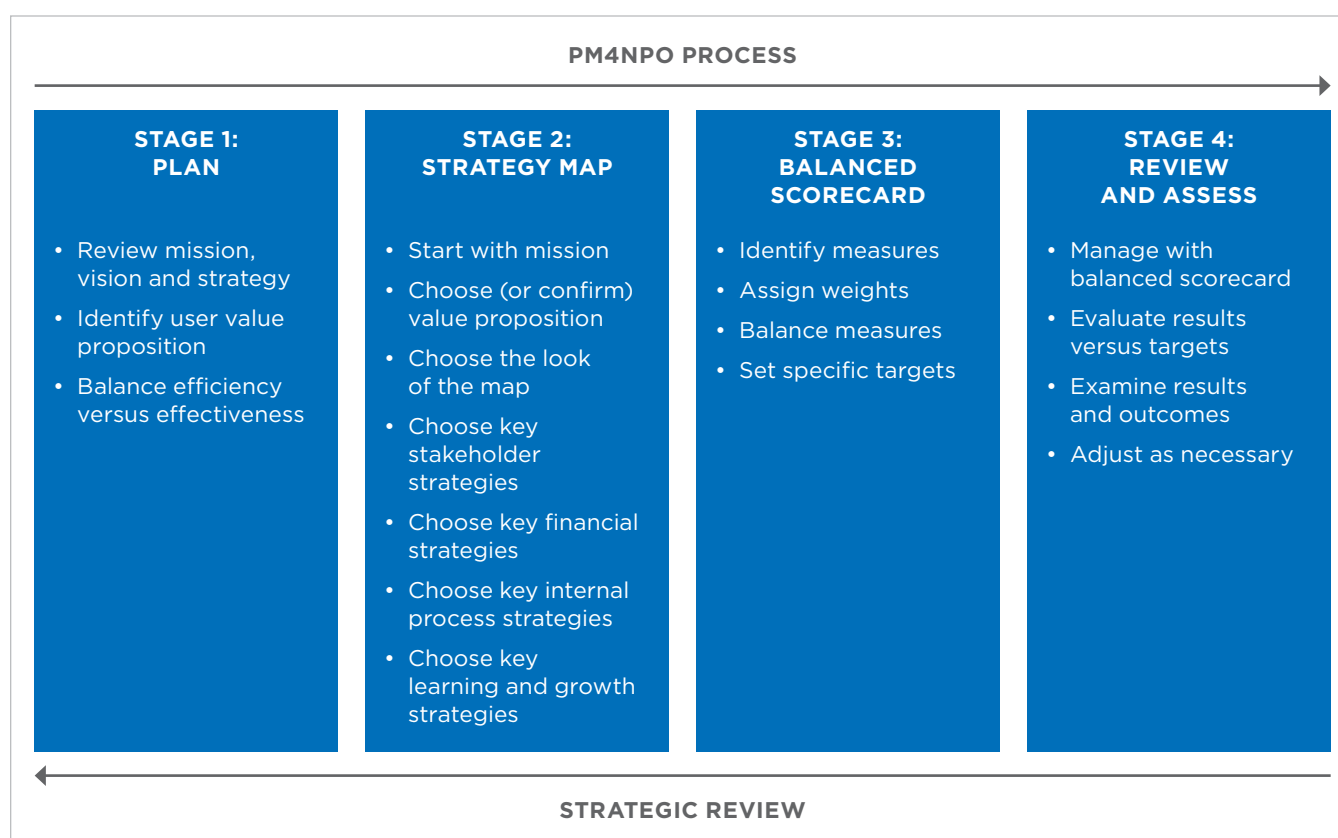
You are a volunteer board member for a non-profit organization (NPO) and you are reviewing the organization's planning retreat report. The report indicates that while the future looks promising, the organization continues to struggle with performance measurement.

Many organizations, particularly NPOs, struggle with performance measurement. NPO managers can use a four-stage process called **Performance Measurement for Non-Profit Organizations (PM4NPO)** to help the organization link performance to strategy.

What is PM4NPO?

PM4NPO is a structured process for deconstructing the NPO's critical mission, vision, and strategy and subsequently creating specific goals ([Figure 1](#)). PM4NPO guides the NPO's senior management team through the critical elements of strategy. Following this process puts the NPO in an excellent position to measure actual results and plan for future value creation.

FIGURE 1: THE FOUR-STAGE NPO PERFORMANCE MEASUREMENT PROCESS



Why is PM4NPO Relevant?

NPO stakeholders all seek improved performance from the NPO as it relates to the execution of its strategic plan. To be effective, an NPO must have a platform to critically and systematically assess performance in a timely manner. The ability to effectively evaluate performance in the NPO sector is a significant undertaking and often more challenging than current literature suggests. An NPO's inability to demonstrate sound results can cause staff and volunteer frustration and impede fundraising, especially as competition for fundraising dollars' increases.

NPOs adopting PM4NPO will overcome many of the performance measurement barriers that exist in the NPO sector. First, PM4NPO provides a way for the NPO to formulate and describe its strategy in a meaningful way. This results in a strategy map for the NPO. Second, the strategy map and the Balanced Scorecard (BSC) provide a platform for comparing actual results to expectations. Finally, PM4NPO enables the NPO to focus on the critical strategy elements that require the most attention and improvement.

How does Performance Measurement Ensure an Enterprise is Sustainable (RAISE)?

As the marketplace continues to evolve at a rapid pace, organizations are faced with the dilemma on how to be resilient, adapt and innovate in their quest not only to sustain a competitive advantage and meet customer/client needs but also to remain as a viable ongoing concern. A useful ideology for ensuring successful adoption of the performance measurement in NPOs is the use of CPA Canada's RAISE philosophy (whereby Resilient + Adaptive + Innovative = Sustainable Enterprises).

Properly structured and implemented performance measurement processes in NPOs have consistently been shown to provide ongoing value and relevance. They not only change the way organizations effectively operate; they also provide a repeatable and sustainable method for deriving ongoing value from an organizations' customer/client base while the organization reaps ongoing value in return.

At its core, the RAISE philosophy can help guide an organization (or enterprise) towards a unique customer-centric and competitive strategy that provides an ongoing sustainable edge. Performance measurement activities leverages these philosophy drivers by developing resiliency in the face of challenges within competitive customer environments, adapting to sudden market changes, and innovating in response to the ever-evolving market needs. When these drivers of success are combined and leveraged, the outcome is a highly sustainable enterprise. This concept is explored further in this [guideline](#).

How do Professional Accountants in Business Add Value?

Professional accountants (CPAs) with a sound knowledge of the performance measurement process play a critical role in promoting the RAISE philosophy by assisting the NPO to realize the benefits described in this management accounting guideline series. Professional accountants are increasingly being tasked with strategy and operational/tactical execution.

A successfully implemented performance measurement and management process draws on and sharpens the skills and expertise of its professional accountants in business in several ways, in the following forms to ensure sustained value:

Creating Value

- **Formulation of strategies, goals, and objectives:** The professional accountant works as a facilitator with senior NPO staff to create the strategy map and the BSC to define a sustainable path for the NPO and measure its progress.

Enabling Value

- **Ongoing assessment:** The professional accountant plays a major role in the measurement, interpretation, and evaluation of the goals that are articulated in the strategy map and the BSC.
- **Operation participation:** Professional accountants are major contributors to the operational aspects of linking the NPO's strategy map and BSC to the management of its day-to-day operations.

Reporting Value

- **Stakeholder reporting:** As more external stakeholders require proof of positive results, professional accountants can consider the BSC as a formal reporting mechanism. The trend of using the BSC to communicate results, both internally and externally, has already started and should gain momentum.



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This publication is one in a series on *Performance Measurement for Non Profit Organizations*. The entire series of [overview](#), [guideline](#) and [case study](#) are available on our [website](#). For additional information or for general inquiries, please contact us at mags@cpacanada.ca.

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