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Proposal of a Performance Measurement System for professional Non-profit Service Organizations

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Abstract. The paper aims at presenting a Performance Measurement System (PMS) developed in an Italian project, performed by the authors within a Nonprofit Service Organization (NSO). Like profit organizations, nonprofit ones must measure their performances, in order to define possible improvements. The paper proposes a PMS, derived from the well known Balanced Scorecard approach, specifically dedicated to NSOs. In particular, a case study has been conducted within an Italian NSO, active in the construction sector, located in the Northern Italy, in the county of Bergamo.

Keywords: Keywords Performance Measurement, Non-profit Organization, Balanced Scorecard.

1 Introduction

The term non-profit organization generally refers to public welfare organization; however, such organizations are also referred to as non-governmental organizations, the non-statutory sector, the third sector foundation, the independent sector, the voluntary sector, the tax-free sector and the philanthropic sector, etc. The primary characteristic of a non-profit organization is that it is without commercial purpose: revenue can be used only to pay expenses incurred in its mission. Italian Non-Profit health and safety Service Organizations (NSOs) have a trade-union origin and they are constituted and governed by collective agreements with management of equality between the workers representatives and employers [1]. NSOs are designed to meet clearly shared interests. Their general purpose is to provide collective resources to their members, resources deemed important by the parties to encourage the consolidation and safety of labor and enterprise [2]. Like profit organizations, non-profit organizations must measure their performances, in order to define possible improvements in their activities. Within NSOs, service providers are even stressed in this issue, since they are in contact with a plethora of service users. Within such a context, the present paper proposes a Performance Measurement System (PMS), derived from the well known Balanced Scorecard approach, specifically dedicated to non-profit organizations. In particular, a case study has been conducted within an Italian NSOs active in the construction sector, located in the Northern Italy, in the county of Bergamo, where the proposed PMS has been tested.

2 Performance Measurement in Non-Profit Organizations

Performance Measurement is a wide topic in the scientific and business literature and many Performance Measurement Systems have been developed in the last 20 years. Among the most relevant contributions, the following systems and models might be quoted:

- *Performance Measurement Matrix* [3]. A two-by-two matrix combines cost and non-cost perspectives with external and internal perspectives. It is a balanced model, and it is cited in the literature for its simplicity and flexibility.
- *Performance Pyramid System* [4]. This model is a pyramid built on four levels, showing the links between corporate strategy, strategic business units and operations.
- *Performance Measurement System for Service Industries* [5], also called the *Results and Determinants Framework*. It focuses on six dimensions divided into results (*Competitiveness, Financial performance*) and determinants of these results (*Quality of service, Flexibility, Resource utilization and innovation*).
- *Balanced Scorecard* (BSC, [6], [7], [8]). It aims to provide management with balanced measures based on four perspectives (*Financial, Customer, Internal processes and Innovation and learning*).
- *Integrated Performance Measurement System* [9]. The model underlines two main facets of the performance measurement system: integrity and deployment. It is based on four levels (*Corporate, Business units, Business processes and Activities*) and at each of these levels five key factors are considered (*Stakeholders, Control criteria, External measures, Improvement objectives and Internal measures*).
- *Performance Prism* [10]. A prism graphically represents the architecture of the model, and each face of the prism corresponds to a specific area of analysis: *Stakeholder satisfaction, Strategies, Processes, Capabilities and Stakeholder contribution*.
- *Organizational Performance Measurement* (OPM, [11]). This model was developed specifically for SMEs and is based on three principles: alignment, process thinking and practicability. The framework is based on two key management constructs, namely *Zone of management* and *Open systems theory*.
- *Integrated Performance Measurement for Small Firms* [12]. The model was specifically designed to be used in SMEs. It is based on seven main dimensions of measures, classified as two external dimensions (*Financial performance and Competitiveness*) and five internal dimensions (*Costs, Production factors, Activities, Products and Revenues*) connected by a causal chain.

Most of the models/systems above show a set of key features that allow to an organization to identify a set of personalized measures to evaluate own performance. These models emphasize that the measures used by an organization must provide a business balanced frame. The measures should include both financial and non-financial measures, both internal and external measures and both efficiency and effectiveness measures. Among these models, Balanced Scorecard (BSC) plays a relevant role in literature, where it is a very well known framework, adopted around

the world. It has been widely used in many profit-based sectors, from industrial to service companies (e.g. [13], [14], [15], [16], [17]), thank to its easily adaptability and modularity. BSC, through the appropriate adaptations, can be extremely useful also to the management of non-profit companies, in order to identify the elements and the phenomena that affect positively and negatively their operation. Indeed, the prospects for improving management offered by BSC approach within the non-profit organizations are in some ways even more significant than in the area for profit [7].

Based on these considerations – and also considering it is one of the most popular models in literature and in practice – BSC appears the model more suitable for an application in the non-profit sector, also because of its simplicity compared to other models. Performance measurement in non-profit organizations must take into account the particular characteristics of these organizations. In fact, it is not always possible a simple transposition of the BSC model canonical form, but it requires specific adaptations, because the different purposes of the two typologies of organizations (profit and non-profit) do not allow that the classic BSC tools and criteria can be transferred tout-court from an area to another. The main changes to the original model concern the architecture of the framework, the type of analysis perspectives to be considered and their relative importance [18]:

- Mission moves to the top of the BSC, because non-profit organizations exist to serve a higher purpose and they generate value directly through the pursuit of their mission.
- Customer perspective is elevated: flowing from the mission is a view of the organization's customers, not financial stakeholders. Achieving a mission does not equate to fiscal responsibility and stewardship, instead the organization must determine whom it aims to serve and how their requirements can best be met.
- Parallel reduction of the importance attached to economic and financial perspective.
- Substantial persistence of the perspectives related to internal processes, learning and innovation.

3 Proposal of the Performance Measurement System

The proposed model is composed by key five areas. For each macro-area it is possible to identify categories that may also relate to different objectives. In turn, for each category there are several important dimensions, which would identify specific measures of performance. The generic user that applies this framework to generic non-profit organization can customize his own set of measures to be obtained, in order to effectively measure his own company. For each measure are quantified: (i) the measured value, (ii) the value on the previous survey, (iii) the average value among all values (benchmark), (iv) the best value obtained until the time of detection (best-to-date), (v) the worst value (worst-case) and (vi) the values target, i.e. the limit values, both in terms of minimum, both in terms of maximum, entered by the user. The five areas are the followings:

- *Mission area*. This is a perspective not provided as part of applications in profit businesses. The purpose of a profit organization is to make money, however non-

profit organizations also need money in the form of donations to support their operations. But the organization does not prioritize money when developing its strategy or proposal, its mission should be its top priority. The mission defines this core purpose and articulates the reasons for the organization existence. The problem is, first, in defining the mission, since in the non-profit organizations is widespread the tendency to regard their mission as implicit and implied, with the effect of treating as a priority the implementation of improvement activities only with regard to efficiency.

- *Users area*. It is modulated on the basis of the customer perspective of BSC, but renamed in “users area”. In this way it takes on a connotation more in line with the institutional role and highlights the feature that distinguishes non-profit companies from the profit one.
- *Internal processes area*. It is the most specific of the sector. The need to monitor internal processes is linked to the need to understand which are the activities for creating value within the organization.
- *Learning and innovation area*. It is specific for the service provided. Also for non-profit organization basic condition to achieve the desired outcomes is to develop appropriate procedures for maintaining, consolidating and developing the knowledge and skills of human resources, maintaining a good level of organizational climate and adequate information systems.
- *Suppliers area*. Only if there are particularly close relationships with suppliers, such as to fall in the strategy leading to a decisive improvement of performance in respect of users, suppliers area must be included.
- *Financial area*. In general, it is not a prospect to be eliminated completely, because even non-profit companies should be subject to the principle of cost to sustain: therefore this area becomes marginal.

Unlike the canonical BSC that does not take into account all the stakeholders of the organization or rather it prefers some over others, this model puts the different areas on the same level. For example, the classical BSC raises the learning and growth perspective of secondary importance compared to the other, while for a non-profit organization its staff is the first primary resource, essential to the sustainability and the success. In fact, users have their first contact with the company through its personnel and on the basis of that contact they express their opinions on the quality of service provided (this applies to the generic service company). Therefore, promoting the development of the employees is an essential activity. By defining the PMS, the satisfaction degree measures appear as very significant indicators of performance, as they represent an opportunity for verification about the non-profit organization ability to pursue its mission. The satisfaction degree depends on the gap between user expectations and his perceptions of benefits received. The proposed model is an adaptation of the scheme developed by Parasuraman and colleagues in 1985 [19]. A set of gaps exists regarding executive perceptions of service quality and the tasks associated with service delivery to consumers. These gaps can be major hurdles in attempting to deliver a service which consumers would perceive as being of high quality. The gaps are [19]:

- GAP 1 (*user expectation – management perception gap*): the gap between user expectations and management perceptions of those expectations will have an impact on the user's evaluation of service quality.
- GAP 2 (*management perception – service quality specification gap*): the gap between management perceptions of user expectations and the firm's service quality specifications will affect service quality from the user's viewpoint.
- GAP 3 (*service quality specifications – service delivery gap*): the gap between service quality specifications and actual service delivery will affect service quality from the user's standpoint.
- GAP 4 (*service delivery – external communications gap*): the gap between actual service delivery and external communications about the service will affect service quality from a user's standpoint.
- GAP 5 (*expected service – perceived service gap*): the quality that a user perceives in a service is a function of the magnitude and direction of the gap between expected service and perceived service.

Further three gaps (Figure 1) should be added to the five above:

- GAP 1b: differences between family expectations and management perceptions. It may be that managers are not fully aware of what characteristics of the structures and processes are able to meet the family members wishes.
- GAP 5b: deviation which is connected to the level of family members satisfaction.
- GAP 6: differences between the expectations expressed by users and family members. This difference is typically manifested in the different weight given to the various service dimensions (health, welfare, social, etc.).

3.1 Case study

The paper concerns a case study (EA) about an Italian NSO of the construction sector in the Northern Italy. It delivers services designed to support the construction sector on issues such as safety and prevention in the workplace, providing coverage to all workers in that industry, regulating and maintaining their expectations. EA delivers services such as building professional seniority, economic integration (in case of illness, accidents and occupational diseases), integrating pension, Christmas bonus and holiday, assistance (health, insurance, support, recreational), insurance for extra-professional accidents to employees and owners, mountain and marine colonies for dependent children, training and careers guidance, notarized statement for regular contributions, promotion of initiatives for the health and safety in the workplace, prevention clothing and equipment supply, organization of courses aimed at training and information regarding the prevention legislation, medical visits and inspections.

In the territory there are two organizations of the same type in the construction industry, but they turn to two different types of building companies: the craft (EA) and the industrial enterprises. The other organization is addressed exclusively to industrial companies, while EA focuses mainly on the craft clients. The five BSC key areas have been defined as follows in detail.

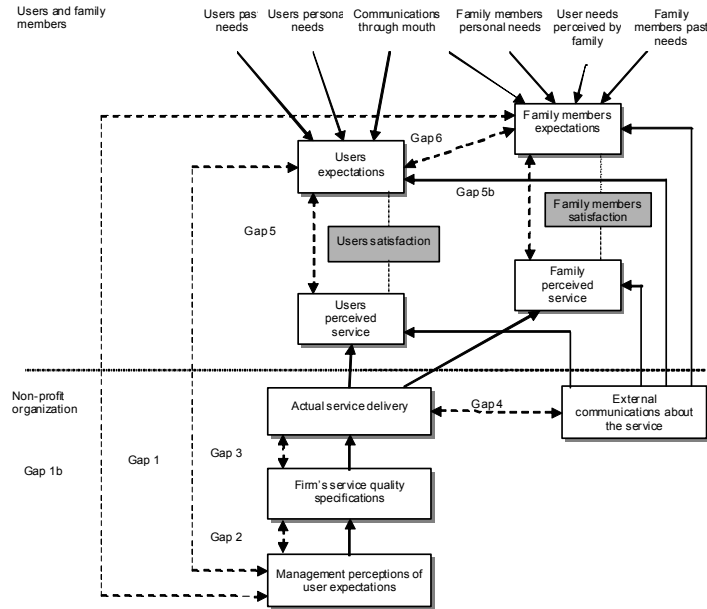


Fig. 1. Users and family members satisfaction

Within the *Mission area*, the proposed BSC can assist the NSO to transform its mission into clear goals that link all members in the organization. The mission is divided into the results to be achieved: for example, the culture of prevention. To take into account the external environment, thus overcoming one of the limits of BSC, it is possible to consider some exogenous measures, such as number of accidents at work, number of fatalities and number of registered occupational diseases. In this way, it is possible to evaluate the effectiveness of own initiatives for the health and safety in the workplace.

Within the *Users area*, there are some dimensions that are also found in the canonical BSC customer perspective (*Market share, Loyalty, Customer acquisition, Customer loss, Customer satisfaction, Image and reputation*). For example, addressing to two different types of construction companies (the industrial and the craft), EA is not prohibited by contracts to turn to the industrial ones, so the capture of industrial market shares is an indication of preference for these companies ($(\text{Number of industrial companies registered} / \text{Number of total industrial companies})\%$). Other measures may be obtained through survey. The category *User as partner* evaluate the collaboration which is created between the organization and its users to grow together, such as proposals for the improvement of services received by users themselves, or the number of projects undertaken in collaboration between institution and business.

Within the *Internal processes area*, the *Operations* category focuses on existing products and services delivery to existing users and it must be efficient, regular and timely. The existing operations tend to be repetitive, so it is possible to promptly apply scientific management techniques to control and improve the service delivery

process. The *Defects and complaints management* category identifies an important aspect in assessing the internal processes quality and, especially, in the primary objective of users satisfaction. This way it is possible to assess the need for initiatives and programs to improve quality. Especially service businesses have more difficulty to assess the quality of delivered service (due to the four characteristics of intangibility, heterogeneity, inseparability and perishability identified in the service literature [19]).

In the *Learning and innovation area*, the *Human resources* category emphasizes the importance of human capital in NSOs and, in general, in business services: the staff is the true wealth of these companies. In fact, if an organization wants to grow it is not enough that it adheres to standard operating procedures set by top management. It is necessary that the ideas for improving processes and performance to the users benefit come from front line employees, who are in direct contact with internal processes and with users. The *Competitiveness* category addresses all the elements that add value compared with other companies. They may relate to innovations in Information Technology (IT): having an excellent IT system is an indispensable requirement so that employees can improve the processes. Or the elements that add value may refer to improvements in organization and management.

The *Suppliers area* depends by the external structure of the organization. For its purposes the EA has qualified staff and works with local specialized organizations skilled in prevention, hygiene and safety in the workplace. The primary services depend on outside professional and it is therefore essential to evaluate them, because the main contact with the users takes place through them: the medical visits through doctors, training with teachers and tutors, clothing with a company specialized in providing clothing and equipment work. The perceived quality depends on the manner in which these contacts take place. The dimensions are similar to those considered for the *Operations* category in the *Internal processes area*, referred to only part of process in outsourcing. The only variation is the *Price* dimension, because it is important to consider the increases or decreases in prices, so it is possible consider other suppliers if necessary.

The last area is the *Financial* one. As the economic side has never been discussed during the case study in a direct way, but only indirectly through considerations in relation to the time and cost reduction, this view is not considered. However, it might be noticed that, in general, it is not a prospect to be eliminated completely, because even NSOs should be subject to the principle of cost to sustain: it becomes a marginal area.

4 Conclusions

The model has been developed for an Italian NSO in the construction sector. It has been tested and it is currently under deployment in the company itself. In order to validate it, more adaptations are needed in other NSOs, also in other NSO contexts. Thank to its generic approach – derived by the BSC approach – it constitutes a valuable starting point for measuring performances in NSOs. In particular, the satisfaction measures are important both within and outside the company. As for the internal feedback, information from users is a trace that the management can use to

reflect the strengths and weaknesses of the company and, consequently, to identify what changes should be made. As for the exterior, the voice on the user satisfaction degree is one of the major business determinants. Information systematically collected and collated in special reports can be used to document to a third the level of service provided.

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