

THE IMPACT OF STRATEGIC PLANNING FOR NON GOVERNMENT ORGANIZATIONS IN SRI LANKA: AN EVALUATION USING THE BALANCED SCORECARD – DEVELOPMENT OF A CONCEPTUAL FRAMEWORK

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Abstract

The relationship between strategic planning and organizational performance has rarely been examined in the public and nonprofit sectors. Moreover, most of the existing research has been confined to examining the nonprofit sector in the western society and very little has been conducted about strategic planning in nonprofits in developing countries like Sri Lanka. This conceptual paper aims at proposing a conceptual model for empirical examination the effect of strategic planning on Sri Lankan non government organization's performance effectiveness and assessment of the performance effectiveness was made using the multiple perspectives of the balanced scorecard (Robert S. Kaplan & David P. Norton, 1992 a). A fifth dimension was added to the balanced scorecard, developed originally by Niven (2008), which is volunteers' development. This research study makes a vital contribution to the existing body of knowledge with the proposed conceptual framework with the intention that it can be used as a foundation for the prospect research in this context.

Key Words: Balanced Scorecard, Non Government Organization's, Strategic Planning, Performance Effectiveness.

Introduction

The non government organizations (NGO'S) are becoming gratified to respond to the highly challenging dynamic environmental forces that could threaten their survival. It would be useful to know if these forces are hindering movement towards strategic planning. These forces include: donors' budget control, lack of staff, size of the organization and range of operations, changing customers' expectations, government policy changes, comparability, stronger competition with other existing as well as emerging non governments, competition for international donors', accountability imposed by multiple stakeholders groups including public administrators, legislators, and citizens, staff and volunteers, and continuous government failure to satisfy public needs which increase the public demand for the services offered by these organizations (Eisenberg.P. 2004). Eisenberg argued that in response to these pressures, strategic management was recently introduced to the public and non government sector, especially by the end of the 1980s and the beginning of the 1990s, in order to address the basic values of accountability and social responsibility embedded in this sector.

Traditionally, non government organizations in Sri Lanka tried only to generate sufficient revenues to cover their expenses and be able to serve public needs but they did not seek to make operating profits, unlike for profit making organizations. Recently, however accountability from various stakeholders groups on the efficient use of scarce resources are becoming increasingly intense and although it is still not all about profits, yet efficiency considerations are among the important criteria for assessing NGOs' performance in Sri Lanka.

Thus, in response to these demands many non government/nonprofits are becoming obliged to apply formal strategic planning processes and utilize a balanced scorecard approach to measuring performance effectiveness as guided by their mission and vision statements. The balanced scorecard can be used effectively to assess performance. Stakeholders are demanding increased accountability and indicators of overall organizational performance; therefore, a systematic balanced means of promoting improved organizational performance and assessing performance are becoming increasingly important. The current study attempts to fill in this gap by studying how strategic planning can be used as means for improving organizations performance effectiveness in non governments operating in Sri Lanka using the balanced scorecard.

Non Government Organization in Sri Lanka

The Non Government Organizations (NGOs) play an important role in the socioeconomic process of the countries in which they operate. This is true not only in developing countries, but also in developed countries. NGOs in Sri Lanka are no exception. These organizations are important players in both the social and political spheres. The first activities in Sri Lanka, similar to those of an NGO emerged during the British colonial period in the late 19th century. About 100 years later, with the macro changes in the country, a substantial expansion of NGO presence in Sri Lanka took place. A considerable sum of funds, received from both national and international sources is handled by these NGOs. This situation has been further enhanced by the Tsunami of 26th December 2004, which resulted in an unprecedented inflow of financial and other resources in to the country and the formation or representation in Sri Lanka of many more such organizations. The non government sector in Sri Lanka is mostly highly fragmented and ignores the formal aspects of strategic planning practices. This might be due to their belief that they do not possess enough resources to enable them to engage in formal strategic planning processes.

The magnitude of the funds channeled through these organizations creates considerable responsibility in terms of follow up, monitoring and accountability. Transparency thus becomes an important issue in Sri Lanka. It is claimed that the statutory regulatory environment is vague in Sri Lanka. Clear procedures need to be provided to these organizations on how to conduct their affairs, including accounting and reporting activities. It is also acknowledged however, that extensive regulation is not necessarily fruitful, and that “too high” regulation might turn out to be equally as bad as “too low”, considering the important role that these organizations play vital role within society at large. “The Sri Lanka Statement of Recommended Practice for Non Government Organizations (2009)” has been designed within this broader framework.

Literature Review

Ghoneim.N.A. (2012) stated that the most strategic planning non government focus their strategic planning activities on developing objectives and performance measures in addition to developing mission statements, strategies, vision and value statements, and performance indicators which are critical strategic planning activities. An adequate percentage of them perform environmental assessment and a very few percentage use the help of outside consultants due to financial constraints. On the other hand, majority of non-strategic planner non government suffered lack of both resources and time to support their inclination to apply formal strategic planning protocols.

Franklin.P.W.(2011) asserted that strategic planning is a critical part of the strategic management process which helps non government organizations formulate and realize strategies aimed at greater performance effectiveness, improved accountability measures, and sustainable competitive advantage (Jansen et al., 2006). Therefore, they need to adopt formal strategic planning aspects into their operations. Strategic planning is an integral part of organizational process (Kriemadis and Theakou, 2007). They argue that strategy has been used in the very early history and can be traced back to the military. The notion has been widely spread to the for profit sector. Bryson (1995) mentioned that this thought has been also transferred to the non government sector to enable organizations to adapt effectively to the highly competitive environment which is full with comparators rather than competitors as is the situation in the for profit sector.

The strategic planning in NGO’s working in countries applying the framework modified by Rhodes and Keogan (2005), this connects accomplishment of strategy to HRM and institutional arrangements are interconnected. This framework provides a widespread base to estimate strategic planning practices in NGO’s (Blackmon, 2008). It is considered all-inclusive because it spans the conventional aspects of strategic planning processes to cover the implementation stage, which is generally the concern of the broader strategic management ground. The model also enables organizations which are using it to assess their performance with the multiple perspectives of the BSC which are mostly enclosed by the model. Finally it has been empirically examined before in the study efforts of Blackmon (2008) and Franklin (2011) which gives it more reliability to be duplicated in different research contexts. The conceptual framework is illustrated in the following figure 1.1.

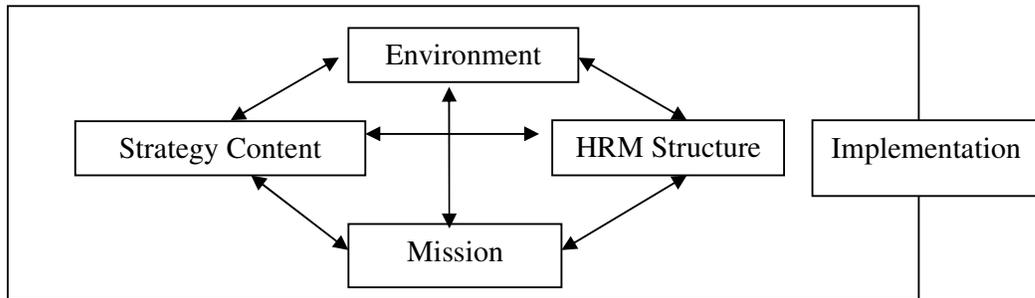


Figure (1-1): Model of Strategy Dimensions in Non Government Organizations

The following sections represent what the literature has revealed about each of the components of the selected strategic formulating framework developed above.

Strategy content in Strategic Planning Model (SPM)

The first section of Rhodes and Keogan (2005) SPM is strategy content. They described strategy content in terms of “*actions and decisions taken to achieve organization’s mission*”. This is quite important for non government organizations strategic planning efforts because it allows them to focus their actions on achieving their mission. Strategies developed for non governments can either be cooperative leading to improved financial resources or competitive leading to goal displacement. The selection of any strategy content depends mainly on non governments funding needs (Stone, Bigelow, and Crittenden, 1999).

Rhodes and Keogan (2005) discussed two approaches to developing strategy content in organizations. There are; the planned approach which is a top-down formal strategy development process and the emergent approach which is an informal learning based process to strategy development. According to the selected approach, organizations can take strategic actions and decisions of either “changing their environments, changing current relationships with these environments, or changing the organization itself” (Andrews et al., 2006). The strategic action selected will have a strong impact on organization’s performance. Therefore, formulating strategy content is dependent upon an assessment and examination of the various factors that exist in organization’s environments.

Andrews (2006) defines strategy as the development of the distinctive courses of action that will lead the organization to an envisioned state; therefore, it is the more difficult aspect of strategic planning. Accordingly, strategies can focus on research and development, employee empowerment, or other means deemed fit to achieve the envisioned state of being. Goals and objectives are developed based upon the strategies identified during the strategic planning process. On the other hand, Campbell and Alexander (1997) maintain that strategy is rooted in providing clarity as to purpose, followed by developing mechanisms that create value for the organization. Conversely, Mintzberg (1974) emphasizes the dynamic nature of strategy in terms of three typologies: deliberate (planned and realized), unrealized (planned unrealized) or emergent (unplanned realized). More recent developments link the top-down formalized process to the deliberate school of thought whereas the informal (discovery based and learning based) process is linked to the emergent school of thought (Rhodes and Keogan, 2005). Still others advocate for a continuum bridging the two opposing paradigms. This continuum includes planned ideological, entrepreneurial, umbrella, process methodologies. The debate is somewhat negated by Munive-Hernandez et al. (2004) who maintain that in reality, strategies that are actually implemented are based upon both the deliberate and emergent paradigms. Finally, Steward (2004) declares that in public organizations, external

environmental forces such as policies, politics, and alliances have greater impacts on organizational strategic planning development and definition. This discussion highlights the controversy that accompanies strategy content and definition; likewise, controversy exists as to the theoretical underpinning of strategic planning.

Environment(s) in Strategic Planning Model

The strategic planning model is environment. They divided non government organizations' environments into internal and external in their model of strategy dimensions for non government organizations. They mentioned that internal environment analysis examines strengths, weaknesses, resources, structure, processes, and culture. Whereas, external environment analysis examines opportunities, threats, competition, economic, technological, social, and stakeholders' aspects. The external analysis involves techniques such as "*PEST, Porter five competitive forces model, scenario planning, and stakeholders' mapping*" or SWOT analysis. Thus, the adopted strategic planning model is more comprehensive since it considers the wider aspects of environmental analysis.

Non Government organizations respond to changes in the external environment in a number of ways. For example, Barman (2002) expounded upon differentiation as a strategic management tool for non government organizations. On the contrary, Brown and Iverson (2004) describe responses that are rooted in aligning Miles and Snow's conceptualization of business issues to non governments. As such entrepreneurial issues center on attitudes toward community responsibility and target populations, engineering focuses on operational decisions such as "service delivery" and administrative dilemmas concentrate on organizational infrastructures (p. 379). They also used Miles and Snow's strategic business classification in the non government arena. Accordingly, defenders tend to adopt a niche strategy; prospectors often adopt a first mover's strategy while analyzers generally tend to be early adopters; finally reactors, simply react. Research also found that prospectors and defenders differ in their emphasis on efficiency, defenders tend to emphasize efficiency and niche concentration where as prospectors emphasize innovation and increased board participation (Brown and Iverson, 2004).

Mission in Strategic Planning Model

The mission is the 3rd part of Rhodes and Keogan's (2005) strategic planning model. Developing mission in NGO's is a vital element of their strategic planning efforts and must be considered as the hub of the BSC evaluation procedure (Blackmon, 2008). The mission has to be associated with the organizations' targets and objectives to assist the accomplishment of strategic plans. It can either impose limitations or propose opportunities for the organization depending on its selected strategic way (Brown and Iverson, 2004). On the other hand, in every case, missions have a continuing effect on NGO's strategic planning practices (Rhodes and Keogan, 2005).

The significance of mission in strategic management, and implementation appears clear although definitions are unclear. For example, Rhodes and Keogan (2005) advocate for a definition based upon the Ashridge structure of mission developed by Campbell missing the strategy segment; therefore, the framework includes of purpose, values, and behaviors. At the same time as Brown and Iverson (2004) create differences in mission utility in NGO's based upon Miles and Snow's strategic classifications, they originate that the mission statement might be interpreted as placing limits on the institute or as given that opportunities for the institute based upon the strategic direction of the organization. While, definitions and usages differ the vision and mission are until now key fundamentals of strategic management and an essential part of the NGO's environment and strategy content.

Human Resources Management in Strategic Planning Model

The next section in Rhodes and Keogan (2005) strategic planning model is human resources management (HRM) and structure. Numerous authors highlighted the strategic examination of HRM and that it has to be included into NGO's generally strategic planning efforts with the intention that it can further be utilized as a strategic rather than conventional support function to encourage for better competitive advantage (Cakar, Bititci, and MacBryde, 2003).

Cakar, Bititci, and MacBryde (2003) stress the tendency to attention on human capital and internal business processes as a means of strategically achieving competitive advantage as evidenced by TQM. Thus, goals, objectives, activities, and accomplishment plans should be developed in the human resources department. Also, Macpherson (2001) helps the tactical examination of HRM highlighting to strategic objective be able to variety from forecasting potential human capital necessities to incorporating human resources into the whole strategic management structure throughout knowledge management.

Implementation in Strategic Planning Model

The last element in Rhodes and Keogan (2005) strategic planning framework is implementation. Successful strategic planning is not an agreement to successful strategic management efforts in either for profit or NGO's. The implementation step carries the greater influence in creation strategic management efforts successful. Implementation is interconnected with the other components of the strategic planning model developed by Rhodes and Keogan (2005). These comprise HRM, organization's arrangement, operational plans, and monitoring. Therefore, implementation is a vital part of organization's strategic planning framework as a tool to spread for better strategic management practices in NGO's.

Establishment is explained from numerous overviews in the literature that comprise institutional arrangement and culture, plans, monitoring, and HRM (Rhodes and Keogan, 2005). This model incorporates completion with HRM and organizational arrangement due to their interrelatedness and the segregation of execution techniques. While adequate tools and strategies exist to support organizational leaders through the developmental stages of strategic management such techniques and strategies are lacking for the accomplishment levels. Thus, Okumus and others (Alexander, 1991) imply that strategic management efforts may not succeed due to implementation drawbacks somewhat than formulating and development. Hence, Okumus develops an implementation procedure that incorporates different strategies keen on the developmental levels of strategic management. Lastly, Kaplan (2001) advocates for the BSC as a means of aligning strategic objectives with the organization's mission as well as evaluate achievement further than monetary measures in NGO's.

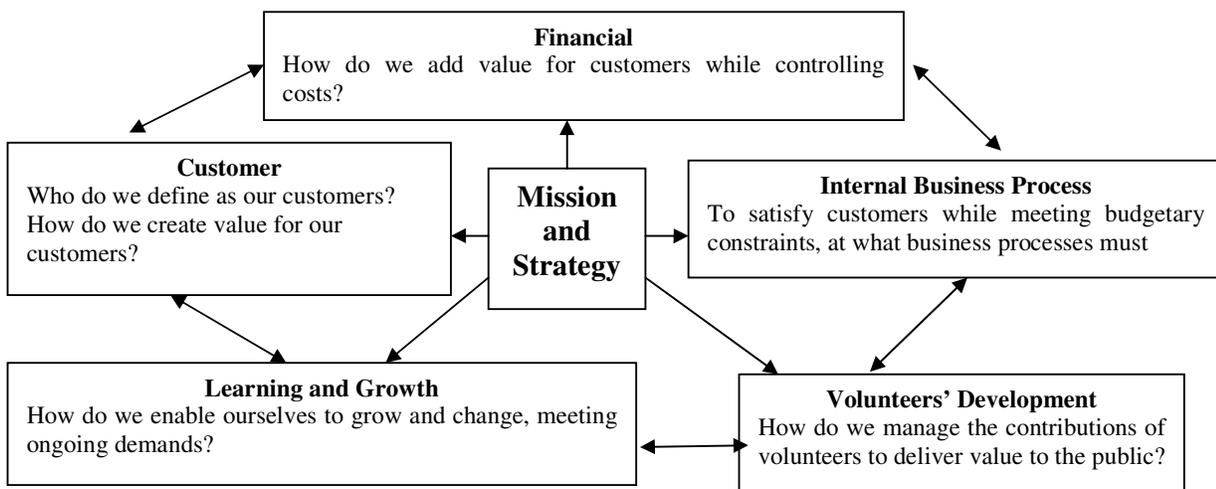
The model of performance evaluation Balanced Scorecard (BSC)

In the 1980s the use of performance measurement systems mainly stressed on economy and efficiency because cost saving and operational control purposes was not capable to bear organizational objectives and this infirmity was the key reason of BSC appearance. The BSC was introduced by Robert Kaplan and David Norton subsequent to a widespread study project in 1990 and their initial refereed manuscript published in 1992 (Kaplan and Norton, 1992). Kaplan and Norton's (1992) Balanced Scorecard (BSC) has develop keen on a broadly used structure for performance measurement, although the authors in the beginning proposed the framework to be used as a instrument for communicating strategy (Meyer, 2005). In general, at least three different explanations of the stages of the development of BSC exist in the literatures which are called as generations of BSC.

Kaplan and Norton (2000) as well as Niven (2003) suggest that the mission should be the focal point for the BSC in non government organizations, analogous to the profit motive in for-profit organizations. The literature supports the role of the non government organization's mission as the driving force in strategy and ultimately organizational performance. Rhodes and Keogan (2005) found that over time, organizations sought to maintain the underlying vigor suggested in the original mission statement and therefore the mission provides organizational direction. Some link mission and strategy directly to organizational performance (Andrews et al, 2006). Yet others maintain that the proper alignment between the mission statement and organizational goals facilitates the implementation process. Despite the role of mission in organizational performance in accordance to the tenets of the BSC, reviewing customer data is important in the assessment of non government organizational performance as well.

Prior studies have proven that the balanced scorecard can be applied appropriately for the non government sector (Kaplan, 2001). The following figure (1-2) illustrates how the balanced scorecard tool was adapted for use in the public and non government sector.

Figure (1-2): The Balanced Scorecard for Public and Non Governments Organizations



Source: This figure was adopted and modified from Franklin (2011, 38).

The balanced scorecard measures non government organization's performance by collecting data from the *five* perspectives which it presents. This measurement process portrays causal relationships between the impacts of strategic planning on organization's performance in a more accountable fashion (Kaplan and Norton, 2000).

Mission and Strategy

The balanced scorecard was adapted for application to nonprofit organizations whereby the mission becomes the focal point as it provides a clear direction to the organization (Niven, 2003). Niven (2008) argued that the balanced scorecard in non government organizations centers on strategy (i.e., strategic plans) as its core with the intention to achieve mission as the ultimate goal. He asserted that the balanced scorecard

is important for non government organizations due to its ability to provide feedback regarding organizational progress towards achieving its mission as guided by the concrete strategy(s) on hand.

Customer Perspective

In public and non government organizations, the customer perspective gains a greater weigh because their satisfaction justifies mission achievement (Niven, 2008). He argued that non government organizations have a diverse customer base including donors who provide organizations with funds, beneficiaries who receive services without normally paying for them and the general public (Kaplan and Norton, 2001). Thus, the customer perspective of the balanced scorecard has to incorporate performance effectiveness as perceived by various customer segments. Based on assessment information gained from the customer perspective, the organization can easily identify critical performance measures in the other four perspectives (internal business processes, employees' learning and growth, financial processes, and volunteers' development).

Financial Perspective

The financial perspective of the balanced scorecard is imperative for non government organizations because it captures information about how efficiently they are using scarce resources and public/donor funds to offer quality services. Information obtained from this perspective improves organizational accountability towards the public and enhances its fund raising potential. Consequently, makes mission achievement much imminent (Niven, 2008). Managing the financial perspective in the balanced scorecard is important. This is because nonprofits need to select the most cost efficient manner to provide quality services (while working under significant budget constraints that require maximum use of available resources to achieve goals.) Thus, the financial perspective is concerned with adding customers' value while working with tight budgets (Kaplan and Norton, 2004).

Internal Business Process Perspective

The internal business process perspective captures measures regarding organizational operations and processes necessary to meet customers' expectations and increase their satisfaction (Kaplan and Norton, 2000; Niven, 2008). In other words, internal business processes are more about value chain management. Revising and improving internal business processes is dependent upon performance measures identified by the customer processes perspective of the balanced scorecard. Thus, this perspective can pursue diverse objectives which all aim at improving customers' value perception (Niven, 2008).

Employees Learning and Growth

The success of non government organizations depends on the depository of skills and competencies implicitly held by its staff which represents its human capital. Therefore, there is an obligation on non government organizations to continuously improve employees' learning and growth potential, manage information sharing, and provide an adequate organizational climate conducive to improving overall organization's performance as represented by mission achievement (Niven, 2008).

Employees' learning and growth captures information about human capital and information technology needed to achieve competitive advantage (Kaplan and Norton, 2000). This dimension is mainly concerned with evaluating the skills, knowledge, and competencies held by organizational human capital and finding out ways to continuously improve them.

Volunteers' Development

Due to increased professionalism pressures in human resources management in non government organizations, they are called upon to apply extensive internal controls and sophisticated volunteers' training and development techniques (Stirling, Kilpatrick, and Orpin, 2011). Therefore, a new dimension is introduced to the balanced scorecard which is Volunteers' Development.

Chang and Gang (2010) considered volunteers as "*the most unique human resources in non government organizations*". They defined them as individuals who do not care about material rewards in providing public services to the society. They admitted that non government organizations have to attract volunteers, retain them for the common good of the entire society which will allow them to achieve their own sense of self-worth.

Volunteers are unlike paid staff in that they focus more on *relational* and communicative than *transactional* matters. The former are highly linked to their socio-emotional aspects (Stirling, Kilpatrick, and Orpin, 2011).

Research has indicated serious problems with volunteers' management and development in non government organizations. These problems include; insufficient volunteerism, inefficient volunteers' management, invalid encouragement, and flaws in offering adequate training (Chang and Gang, 2010). Chen, Chen, and Chen (2010) declared that dissatisfied volunteers could negatively influence non government organization's performance.

Chang and Gang (2010) recommended non government organizations to take serious steps to improve volunteers' management and development. These include; improving volunteers' management efficiency, systematically training volunteers, provide effective incentives and motivations for volunteers. All these procedures are critical to facilitate non government's social responsibility by properly building upon volunteers' management and development. Lysakowski (2005) asserted that volunteers need to feel highly involved in the non government organizations in which they supply their labor. High volunteers' involvement allows their passion to be attached to organization's mission achievement.

Relationship between Strategic Planning and Non Government Organizations' Effectiveness

Despite the different methodologies used in conducting prior research on the correlation among strategic planning and non government organizations' performance, most findings reported a significantly positive relationship between the two constructs (Ghoneim, 2012). Different methodologies have been employed in their prior research efforts to find out the connection between strategic planning process and performance effectiveness in non government organization. This study conducted by both Al-Shammari and Hussein (2007) for instance utilized a quantitative research design using the questionnaire as a tool to measure the link between strategic planning and organizational performance. The studies conducted by Blackmon (2008) and Franklin (2011) employed a retrospective cross sectional research design using the questionnaire as a tool for data collection to examine the same relationship. Giffords and Dina (2004), on the other hand, used a case study research design to investigate the same relationship. The study conducted by Neuman (2006) on the impact of strategic planning on hospitals' performance has also revealed a *positive* association between both constructs. He suggested that future research should examine this relationship while considering other measures of performance that are beyond the financial indicators. Although they differ in their respective methodological approaches, their findings were very similar.

Cothran and Clouser (2006) and Stone and Bush (1996) found a strong relationship between strategic planning activity and performance effectiveness as measured by more resource acquisition and improved legitimacy. Cothran and Clouser (2006) considered high performing organizations as those which strategically plan for their activities on a regular basis.

The results of the previous research done in this area have also shown a significant correlation between strategic planning and one or more of the dimensions of performance effectiveness. For instance, most results reported a significant statistical correlation between strategic planning and financial performance (French, Kelly, and Harrison, 2004; Hodges and Kent, 2007; Kaissi, Begun, and Nelson, 2008; Stone and Bush, 1996). However, few studies have examined the correlation between strategic planning and multiple indicators of organizational performance as those provided by the balanced scorecard. Only the studies performed by Blackmon (2008) and Franklin (2011) did consider the examination of this broader correlation among constructs.

In conclusion, there is a perceived *lack* in studying strategic management in non government organizations and there is a specific *gap* in the study of the relationship between strategic planning practices and non government organizations' performance, in general and in the Asia in specific. Also, most of the research done about the non government sector in Sri Lanka has neither tackled the issue of strategic planning in non governments and its linkage to organizational performance nor examined this relationship using multiple indicators of performance effectiveness assessment such as the balanced scorecard. Thus, there is a strong impetus to examine this relationship in non governments within the Sri Lankan context using the balanced scorecard as the assessment tool and future research intends to do.

Research Objectives

The purpose of this research paper is to recommend a conceptual framework with the intention that a prospect study can explore the impact of strategic planning for non government organization in Sri Lanka and evaluation using the balanced scorecard framework.

Methodology

This research study mainly focuses to development of conceptual framework for a strategic planning for non government organizations in Sri Lanka and evaluation of the performance effectiveness using the balanced scorecard model. Therefore, it reviews the existing different literature relating to the identifying concepts and relationships relating to the phenomenon. Initially studied the 300 articles including abstracts, full papers and the content articles which were published by the different authors and the institutions. Finally, 150 articles were selected and reviewed for identifying the concepts and relationships involved.

Development of the Conceptual Study Model

The researcher relied on the empirical model proposed by Blackmon (2008) to measure the relationship between strategic planning and performance effectiveness in Sri Lankan non government/nonprofit organizations using the balanced scorecard approach. A retrospective survey method, based on the efforts of Blackmon (2008), was adopted and modified to measure the proposed relationships among research constructs. Modifications were applied to the dimensions of performance assessment offered by the balanced scorecard. A fifth dimension which is volunteers' development was added to the four dimensions of the balanced scorecard (customer processes, internal business processes, employee learning and growth,

financial processes). This was due to researcher's belief that volunteers have an important role in the work of nonprofits in Sri Lanka. Hence, the researcher has developed a scale, composed of six items, to measure volunteers' development and it was incorporated into the original BSC performance effectiveness scale. Therefore, the current research model is considered as an extension to the model developed earlier by Blackmon (2008) that has been modified to fit application into the different context within which non governments operate in Sri Lanka. The research model is shown in the following figure.

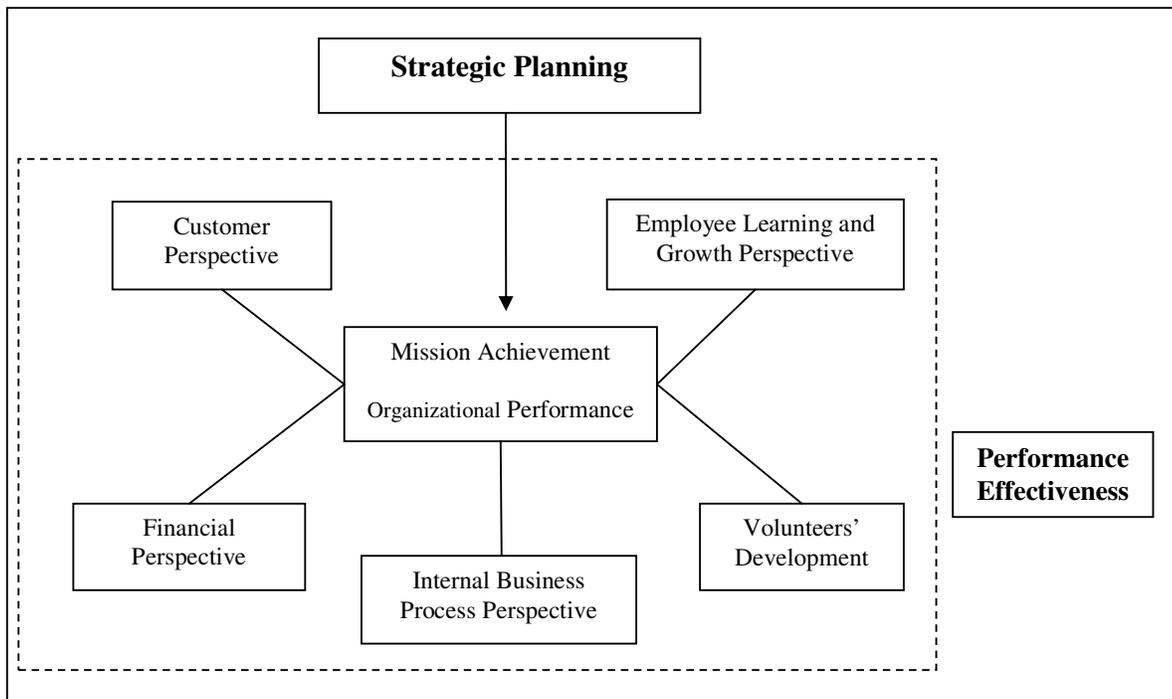


Figure 1.1 – Research Model

Based on the figure, the research model is divided into two parts; the first part represents the dimensions of the strategic planning process which focuses on strategy content, environmental assessment, human resource management and organization's structure, and mission achievement as developed by Rhodes and Keogan (2005); the second part represents performance effectiveness as measured by the five perspectives of the balanced scorecard which include customer processes, internal business processes, employee learning and growth, financial processes and volunteers development.

Conclusion

This paper proposes a theoretical framework for exploring the impact of strategic planning for non government organizations in Sri Lanka and evaluation using the balanced scorecard tools. An evaluation of organizational performance effectiveness was made using the numerous perspectives of the balanced scorecard and included volunteers' development as a new perspective. Therefore, proposed theoretical framework of this paper will set a new direction for future research to understand the modified balanced scorecard tool will apply to the non government organizations in Sri Lanka and it help to evaluates strategic direction to meet performance effectiveness.

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