The balanced scorecard as a framework for performance management in the Non profit sector.

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Abstract

This paper examines the appropriateness of the Kaplan and Norton’s (1992) balanced scorecard (BSC) framework for performance management of Australian Non Profit Organisations (NPOs). To this end, we critically review Whittington’s (2003) strategic management framework considering the BSC as a basis for measuring NPOs performance. A literature review and subsequent analysis of the available information reveal that the BSC presents an integrated and comprehensive model. NPOs can use this framework to manage performance while monitoring competition and contractual obligations. These findings have implications for the selection of the right model for NPO performance management from both strategic management and marketing perspectives, as highlighted in the discussion. This paper identifies the limitations of the research and suggests potential for future research.

Keywords: Balanced Scorecard, Performance, Non Profit Organisations, Public Sector.
The balanced scorecard as a framework for performance management in the Non profit sector.

Introduction

Non-profit organisations (NPOs) have attracted considerable attention of researchers, policy makers, government and the public in recent times. NPOs have been the subject of prolonged neglect and a lack of appropriate performance management frameworks. This has prompted a number of studies in the area focussing on the various managerial and social issues in the Australian context. In a global economy marred by unprecedented financial turndown, Australian NPOs have experienced significant financial and operational ramifications. Due to the high financial dependency on continued funding and support from government and funding agencies, the current financial situation poses a threat to the existence and survival of less established NPOs (Shergold: 2009).

The issue of operating in an era of complexity, competition and contractual obligation, means that many NPOs are at risk of becoming usurped, merged, amalgamated or even defunct, distressed or redundant (Kanter and Summers: 1987). Lyons (2001), stated that documenting performance which does not correctly demonstrate outcomes, may become a reality for many NPOs. Nicholls (2005), acknowledged the BSC’s potential value as a reliable performance management framework. However, the author pointed out that many NPOs were uncertain as to what and how to measure performance. We propose that the strategic multi-dimensional perspective of the BSC framework empowers and enables NPO performance management capacity.

Literature Review and Theoretical Framework

Performance Management Issues Facing Australian NPOs

Since the mid 1990s, NPOs have been expected to comply with business models which followed the principle of maximising shareholder value in competitive markets as purported by evolutionary strategic theorists (Cyert and March: 1963; Williamson: 1985; Hannan and Freeman: 1988; Ansari and Bell; Brown and Eisenhardt: 1998). However, finance driven performance management deliberately excludes the human element in reporting compliance requirements (Waide: 2002; Poderis: 2003). Waide (2002) and Poderis (2003) suggested that NPOs should evaluate their own performance to gain understanding of their organisational business practices. Others argued that survival within an increasingly competitive environment of diminishing funding resources, makes it difficult for NPOs manage performance without detracting from service delivery (Flynn and Hodgkinson: 2002; Trussel: 2004). In an increasingly competitive market, NPOs cannot deliver the services without sustained revenue. Therefore, business (but specifically NPO business), cannot be defined by financial indicators alone (Dixon, Nanni, Vollman: 1990; Kaplan and Norton: 2001).

Strategic Management

On a continuum spectrum of profit maximisation, Whittington (2003) outlined a strategic management framework, as captured in figure 1 below. The classical, the process, evolutionary and system management theories provide an insight into the complexity of
strategic performance management frameworks. Evolutionists have supported the value-
adding maxim of short-term profit (Cyert and March: 1963; Williamson: 1981; Hannan and
theorists purported that multiple input and output planning and control provides a solution
theorists, business re-engineering processes and administrative systems management could
contribute towards resolving performance management dilemmas (Weick: 1979; Pettigrew:
1973; Mintzberg: 1983). Systemic theorists suggested a complex integration of systems,
processes and structures, combining classical, process and systems approach (Ouchi: 1980;

**Figure 1: Whittington’s Strategic Management Matrix**

<table>
<thead>
<tr>
<th>OUTCOME FOCUSED</th>
<th>SYSTEMIC – 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shareholders</strong></td>
<td><strong>Emergent</strong></td>
</tr>
<tr>
<td><strong>CLASSICAL MANAGEMENT</strong></td>
<td></td>
</tr>
<tr>
<td>- 1960</td>
<td></td>
</tr>
<tr>
<td>Institutionalist – Maximizing Profit and Linear Economic Rationalism</td>
<td>Integrates Classical management and Process within the context of Social Systems, Organisational Culture and Strategic Goals and Objectives</td>
</tr>
<tr>
<td>Porter (1980)</td>
<td></td>
</tr>
<tr>
<td><strong>1980 – EVOLUTIONARY</strong></td>
<td></td>
</tr>
<tr>
<td>Maximising Shareholder Value and Competitive Markets</td>
<td></td>
</tr>
<tr>
<td>(1963) Cyert and March</td>
<td></td>
</tr>
<tr>
<td>(1991) Ansari and Bell</td>
<td></td>
</tr>
<tr>
<td>(1998) Brown and Eisenhardt</td>
<td></td>
</tr>
<tr>
<td><strong>1970 – PROCESS</strong></td>
<td></td>
</tr>
<tr>
<td>Change management through Business Process Re-Engineering (BPR) – Stakeholder Participation and Downsizing</td>
<td></td>
</tr>
<tr>
<td>(1979) Weick</td>
<td></td>
</tr>
<tr>
<td>(1973) Pettigrew</td>
<td></td>
</tr>
<tr>
<td>(1983) Mintzberg</td>
<td></td>
</tr>
<tr>
<td><strong>Stakeholders</strong></td>
<td></td>
</tr>
<tr>
<td><strong>PROCESS FOCUSED</strong></td>
<td></td>
</tr>
</tbody>
</table>


While the evolutionists focused on shareholder profit maximisation and perpetual market
competition, classical theorists emphasised control of the external environment in pursuit of
financial outcomes. Processualists focused on restructuring for financial gain but also
included some of the human elements by encouraging participatory downsizing. Systems
theorists focused on extracting elements of the classical, processual and systems, as
summarised in figure 2.

**Figure 2: Four Perspectives of Strategic Management Analysis**

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Theory</td>
<td>Classic</td>
<td>Processual</td>
<td>Evolutionary</td>
<td>Systemic</td>
</tr>
<tr>
<td>Strategy</td>
<td>Formal</td>
<td>Crafted</td>
<td>Efficiency</td>
<td>Embedded</td>
</tr>
<tr>
<td>Rationale</td>
<td>Profit maximising</td>
<td>Vague</td>
<td>Survival</td>
<td>Local</td>
</tr>
<tr>
<td>Focus</td>
<td>Internal plans</td>
<td>Internal politics</td>
<td>External markets</td>
<td>External societies</td>
</tr>
<tr>
<td>Process</td>
<td>Analytical</td>
<td>Bargaining, Learning</td>
<td>Darwinism</td>
<td>Social</td>
</tr>
<tr>
<td>Influences</td>
<td>Economics, Military</td>
<td>Psychology</td>
<td>Economics Biology</td>
<td>Sociology</td>
</tr>
<tr>
<td>Key authors</td>
<td>Chandler, Anstoff, Porter</td>
<td>Mintzberg, Pettigrew</td>
<td>Hannan and Freeman, Williamson</td>
<td>Gross and Lynch, Neely, Gregory and Platts</td>
</tr>
</tbody>
</table>

These four perspectives of strategic management have been critically analysed by Whittington (2001), identifying support for, and opposition to strategic management theorists. Kaplan and Norton (2001), capitalised on this knowledge and incorporated selected components of the classical, processual evolutionary and systems theories to formulate the BSC model, as illustrated in figure 3.

Figure 3: Balanced Scorecard Model

The BSC encapsulates elements of strategic management that converts financial and non-financial perspectives into performance measures. Additionally, unlike the relentless pursuit of finance-driven performance models, the BSC allows for the inclusion of the human element. Further, the incorporation of strategic alignment with four interconnected financial and non-financial perspectives, illustrated in table 1, provides components for developing a comprehensive and integrated framework that is missing in finance-focused performance management models.

Table 1. Balanced Scorecard Framework.

| Financial | (cost benefit analysis, risk management, contracts) |
| Customer | (clients, employees, public) |
| Internal / External | (funders, stakeholder, competitor) |
| Learning / Growth / Innovation | (organisational learning, best practice, strategic planning) |

A balanced approach is required to define the BSC as the periodic measurement process of quantifying short and long term strategic outcomes to integrate performance and hierarchical organisational systems and structures (Neely, Gregory and Platts: 1995). Some theorist purported that the BSC exists to improve accountability of multiple stakeholders (Lyn, Heinrich, Hill: 2001). Others have argued that strategic alignment with organisational
development as a possibility when adopting the BSC (Petty and Guthrie: 2000). Systems theorists have suggested that organisational success is contingent on a strategically balanced amalgamation between classical, processual and systemic theories (Ouch: 1980; Gross and Lynch: 1991).

While opponents of the BSC (Norreklit: 2000) have argued that there is no cause and effect relationship between the BSC financial and non financial perspectives, Kaplan and Norton (2001) assert that it is the interlinking of perspectives which differentiates the BSC from other performance frameworks. This paper suggests that the challenges faced by NPOs necessitate a paradigm shift to mobilise the uncertainties of performance management accountabilities. We assert that the BSC, as a strategic performance management framework, is the essence for propelling a transition to transform and transgress NPOs into the contemporary environment of evidence-based performance management, linkages with funding partners and quality citizen-centred service provision.

Two recent studies by Nicholls (2005) and Martello, Watson and Fischer (2008), illustrated the BSC’s potential as an appropriate framework to create and measure business unit synergies, strategic awareness and learning in NPOs (Nicholls: 2005; Martello et al: 2008; Kaplan and Norton: 2001). The research of Nicholls also explored the untapped potential of NPOs to exploit potential marketing opportunities to increase their funding and legitimacy status. Martello et al (2008), in a recent study demonstrated how the BSC translates, aligns, mobilises strategy and makes strategy and continual quality improvement process. Additionally, the BSC framework provides an avenue to explore marketing opportunities to create a positive image, raise public awareness, improve customer and stakeholder satisfaction and increase revenue (Martello et al: 2008), by using the BSC data to promote their outcomes and achievements to the greater community.

**Discussion and Summary**

To sum up, this research explores a specific component of the NPO sector, expanding the theoretical knowledge of strategic performance management in the Australian NPO context. NPOs are increasingly experiencing challenges and uncertainty that are complex, multifaceted and extensive whilst accountability, transparency and performance continue to be critically scrutinised. Performance management, evidence based outcomes, performance indicators, performance measures are concepts recently imposed upon NPOs by various funding bodies. Additionally, financial performance management, perpetually supported by bottom line evolutionary economic-centric approaches, negatively affected NPOs.

The strategic management framework, extrapolated by Whittington (2001; 2003), highlighted the possibility and potential of inter-connecting strategic management perspectives. Moreover, it provided a platform to explore the BSC from different strategic management perspectives. Since the BSC synergistically draws from other strategic management frameworks, it sets a foundation to construct an integrated citizen-centric NPO performance management framework.

This multi-dimensional framework of performance management, allows NPOs to operationalise performance data collections from four, different but interlinked perspectives and subsequently execute performance management without compromising service delivery. As a pathway to enhance evidence-based performance management, the BSC provides a transparent citizen-focused model that empowers and enables NPOs to evidence compliance,
competition and contractual reporting requirements and sustainable performance management capacity. The BSC is a core component of modernisation of performance management in the NPO sector and provides a valuable alternative to the traditional finance-driven performance management.

The logic of the BSC integrates information and data collection, interactive communication, transparency with performance monitoring. NPOs could utilise the BSC as a reliable measure to inform resource allocation, restructuring of service delivery, future learning, growth and development (Nicholls: 2005; Martello et al: 2008). NPOs can benefit from a framework that adopts a balanced, comprehensive and integrated strategic approach to performance management (Kaplan and Norton: 2001; 2006)

**Limitations and future research potential in the field**

This paper is limited to the analysis of the balanced scorecard as a strategic performance management model in the Australian NPO context and revealed a critical need for a comprehensive and balanced approach to performance management in the NPO sector. The literature review undertaken for the purposes of this paper showed that little empirical research exists in the area of strategic performance management models in the NPO sector. Additionally, an investigation of the excessive use of financial measures in the Australian NPO would be timely. Further, there is currently no data collection available to evidence the impact of the financial crisis on NPOs.

Exploring how and if the global financial crisis adversely influences the viability of NPOs will further contribute to the existing knowledge base. Furthermore, conducting a comparative analysis of small, medium and large NPOs to assess the impact of the A balanced approach is required to define the BSC as the periodic measurement process of quantifying short and long term strategic outcomes to integrate performance and hierarchical recession on Australian NPOs would expand the existing research, which is sparse. To gain further understanding of the complex challenges encountered by NPOs, researchers could explore some of the above identified research gaps.

The next phase of our research is intended to draw on strategic management theory to test the BSC empirically. This research will examine the cause and effect relationship between the four BSC perspectives to ascertain the appropriateness of the BSC as a performance management gateway for Australian NPOs. The ultimate aim of the future research is to provide an evidence-based solution that enables and empowers NPO financial and non-financial reporting requirements, enhances understanding and contributes to the knowledge of strategic performance management capacity in the Australian NPO context.
References


