THE BALANCED SCORECARD IN A NOT-FOR-PROFIT ENVIRONMENT: A THEORETICAL DISCUSSION

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ABSTRACT

The Balanced Scorecard (BSC) is promoted as a management tool that will clarify strategy; align goals; identify and align strategic initiatives; and provide feedback that will encourage learning. In their examination of the implementation and benefits of the BSC Kaplan and Norton emphasize commercial organisations and devote one chapter to discuss the possible usefulness of the BSC in public sector and not-for-profit organisations. However, there are important differences between the three sectors and the assumptions underpinning the BSC in a business may not be relevant to the BSC in a not-for-profit organisation. In this paper the implications of inappropriate assumptions are considered in the context of the implementation and design of the BSC in a not-for-profit environment. The paper concludes that the BSC would require significant changes if it were to be successfully introduced into a Not-For-Profit organization.

Keywords: Balanced Scorecard, Not-For-Profit organization, strategic planning, performance measurement, organizational culture, extrinsic rewards, commitment, effectiveness, management control system, mission.
INTRODUCTION

The Balanced Scorecard (BSC) is a framework for the development and monitoring of strategy. The BSC uses an iterative process that measures the achievement of strategic objectives and uses this information to initiate learning that may lead to the modification of processes, the strategic objectives or possibly even the mission of the organisation. It is seen as a means of enhancing the effectiveness of an organization. The BSC has four perspectives, the financial, growth and learning, internal processes and customers that provide a holistic view of the organisation. As the BSC does not focus on financial issues alone it would appear to be an appropriate management tool for Not-For-Profit (NFP) organizations. Kaplan and Norton (2001) have devoted a chapter in their book to the BSC in NFP and Public Sector (PS) organizations suggesting changes that would make the BSC suitable for those environments. By specifying changes that can be made to adapt the BSC for NFP organizations Kaplan and Norton are implying that the remaining features of the BSC implementation process are appropriate for business, public sector and NFP organizations. Therefore, while some of the issues raised in this paper are of concern for business entities they are also of importance to organizations in the third sector.

The BSC is designed for a business environment and Kaplan and Norton (2001) assume that it can be transferred, with minor modifications, to the NFP context (see also Kaplan, 2000). That assumption is questioned in this paper. The external environments of the two types of organization differ, therefore requiring a different approach to strategy. The cultures of the two types of organizations differ requiring a more participative style of management. Values of service form the basis of most NFP organizations rather than the economic values that underpin businesses. Issues of performance measurement are important to business but are of greater significance in a NFP as are the concerns about incentive payments.

Anthony and Young (2003) state that the BSC can assist organizations to focus on their missions and understand the processes required to achieve it. It is believed that by measuring performance against goals employees will become motivated to meet those goals. Also, since those measures are closely linked to the organizations mission the BSC can facilitate employees to improve performance. The BSC is based on the idea that no single measure is capable of representing an organization’s entire performance. According to Anthony and Young (2003) the BSC typically contains a limited set of performance measures that focus on the key activities that an organization must do well.

Kaplan (2001) states that the BSC has enabled NFP organizations to create a link between unclear strategy statements and operational activities. He goes on to say that the measurement system of BSC will shift an organization’s focus from programs and initiatives to outcomes. The BSC facilitates NFP organizations to align initiatives, departments and individuals to work in ways that:

- reinforce each other so that dramatic performance improvements can be achieved. Used in this way, all organizational resources – the senior leadership team, technology resources, initiatives, change programs, financial resources, and human resources – become aligned to accomplishing organizational objectives (p. 369).

In this article Kaplan is advocating the use of the BSC in NFP organizations without examining the problems created by using a business system in a different environment.
THE CASE FOR THE ADOPTION OF THE BSC

An emphasis on financial outcomes, it is argued, can result in customers, internal processes and learning within an organization being ignored. In this study it is assumed that for an organization to survive and grow in a changing environment management must be aware of the multi-dimensional nature of organizations, the inter-relationships between the different dimensions and the factors that influence them. This is particularly true for Not-For-Profit (NFP) organizations where the attainment of normative objectives rather than profit is the primary motivation. The BSC will encourage management to have a holistic view of an organization because requires management to continuously monitor the non-financial aspects of the organization. Kaplan and Norton (2001) maintain that the BSC should lead to the monitoring of strategy and organisational learning (p.320).

Through the process of gaining a consensus around the mission and strategy opportunities for communication are opened up. Strategy is communicated to staff and broken down into departmental objectives, which are measured by performance indicators. Kaplan and Norton suggest that the number of indicators should be limited and that the measures should be seen as being relevant by the staff. Such performance measurement enables the monitoring of strategy and becomes the basis of learning. The BSC becomes the basis of sharing information and co-operation.

Ability to track strategy through milestones and performance measures is a feature of the BSC. Each perspective should have no more than 6 measures. The measures can be either quantitative or qualitative. Milestones are short-term targets that enable the monitoring of tasks. Accuracy is not of prime importance, for example the indicators can be colored dots where green indicates success, amber minor problems and red indicates major problems.

The BSC aligns business processes with strategy. In particular the budget must be linked to strategy so that resources are directed to the most appropriate activities. Processes for dealing with customers should match strategy and must provide for their needs.

The emphasis on learning is what differentiates the BSC from a management control system according to Kaplan and Norton (1996, 2001). The BSC creates strategic awareness and performance information, encouraging people to make changes to the way the organization operates to better fulfill its mission. In effect, the BSC would appear to have the potential to improve the effectiveness of any organization.

The contention discussed in this paper is that the changes to the BSC, to adapt it for use in a NFP, suggested by Kaplan and Norton (2001) do not recognize the differences between NFP’s and businesses. Therefore, the introduction of the BSC, as described by Kaplan and Norton, into a NFP organisation would be fraught with difficulties. That is not to say that the BSC is not without benefits, but those benefits will only be realized if the BSC is adapted to a non-business environment.

THE BSC AS A MANAGEMENT CONTROL SYSTEM

It has been argued that the BSC only pays lip service to learning and that the BSC, as described by Kaplan and Norton, is a management control system (Norreklit, 2003).
Anthony and Young (2003) list the following characteristics of a management control system:

1) Strategic planning,
2) Budget preparation,
3) Operating and measurement,
4) Reporting and evaluation (p.18)

The characteristics of a control system listed above are an integral part of the balanced scorecard. Also Anthony and Young point out that in the development and operation of a control system senior management develops the performance measurement process and all levels of management are responsible for monitoring and reporting of performance (p.800), just as with the balanced scorecard.

Kaplan and Norton (1996, 2001) maintain that the BSC is a strategic tool and not just a management control system, yet the system they describe has all the hallmarks of a management control system (Anthony and Young, 2003) and therefore the BSC has all the problems associated with management control systems such as information asymmetry, the influence of power and goal displacement. If the BSC is a management control system then its usefulness for strategic decision-making is limited. According to Jones (2003) decision-making, particularly trade-offs, are difficult for most managers to make because of bounded rationality and as a consequence there is an emphasis on control. This issue is significant for all organizations but is more telling for a NFP because of the nature of the environment in which they operate.

THE BSC AND BOUNDED RATIONALITY

The BSC, like most management control systems, is based on the principal-agent relationship. Management establishes the goals, the criteria for successful attainment, measures the performance required to achieve the goals and determines the reward for that achievement. Management is therefore the principal and the staff are ‘contracted’ to comply with management’s instructions. According to Jones the principal-agent theory is based on Skinnerian psychology in which incentives control behaviour, thus achieving external compliance rather than commitment and encouraging goal displacement. While this is problematic for all organization it is of greater importance in the NFP context as commitment to the mission and values of the organization motivate and attract people.

THE BSC AND STRATEGY

The BSC is considered to be a significant development in strategic management and appropriate in all organisational contexts, including public sector and not-for-profit organisations. However, Otley (1999) argues that the contingent theory of management accounting suggests that there is no single system of management control applicable to every organisation and that the choice of an appropriate system will depend upon the circumstances surrounding the organisation.

The BSC is predicated on the traditional understanding of strategic management that according to Maranville (1999) may be inadequate for NFP organizations. Maranville argues that NFP organizations are subject to a number of deterministic forces such as funding sources, service recipients, competitors and regulators. Organizations that are subject to high levels of environmental determinism and also experiencing limited capacity and freedom
require a number of strategic management modes; the traditional mode represents a convergence of organizational thought and action directed at implementing a single strategic plan; the dialectical mode shows a strategy that is derived from a divergence organizational thought and action; while the spontaneous mode embodies a strategy that is the result of cumulative decisions and action taken by the organization. The three modes of strategic management provide an organization facing a deterministic environment with internal processes complex enough to act as a go-between for the organization and the deterministic environment. The BSC is only focused on traditional strategic management. All the resources of the organizations are aligned to implement management’s strategy and performance data is gathered to verify the appropriateness of that strategy. The dialectical and spontaneous modes do not appear to be part of the BSC yet Maranville puts forward a case for their inclusion in the strategic management of NFP organizations.

THE ADAPTATION OF THE BSC TO THE NFP ENVIRONMENT

In chapter 5 of their book Kaplan and Norton (2001) discuss, the implementation of the BSC in public sector and not-for-profit organisations, indicating modifications that would be required for the BSC to be suitable for the two sectors. The remainder of the book deals with the BSC in a business context, implying that the approach being suggested is also applicable to the NFP and PS organizations. A limited discussion is provided about the differences between commercial enterprises and Not-For-Profit (NPF) and public sector (PS) organizations but the differences between PS and NFP organizations are ignored. While PS and NFP organisations do share many characteristics there are also a number of differences such as: size; purpose; NFP’s usually have a membership; and are often staffed by volunteers. In some cases NFP’s were formed to provide a service that commercial and PS organisations were unwilling to undertake. Some NFP’s are normative, particularly religious organisations such as churches, charities and development agencies and they are critical of government policies and/or business activities.

The adjustments to be made in the BSC for NFP organizations are structural, placing the financial perspective on the bottom and dividing the customer perspective into donors and recipients. These changes made to the architecture of the BSC do not address the issues with the operation of the BSC. These issues are primarily concerned with the values and vision of the organization; the flow and integrity of information and the nature of rewards. These are cultural issues that Kaplan and Norton (2001) recognize as being important to the organization, however:

Little time is spent discussing the cultural aspects of a feedback system. Yet the cultural context for reporting and feedback has far more potential for positive and negative impact than technology. Cultural assumptions, frequently overlooked and often embedded in the technology itself, can either create or inhibit the climate for change (p.321)

While the authors are aware of cultural issues there is very little in their description of the BSC that recognizes the importance of cultures in organizations. While this is an issue for all organizations it is of particular significance to NFP’s because the staff and particularly volunteers of NFP organizations tend to be motivated by the values and mission of the organization (Brown and Yoshioka, 2003).

Lyne (1995) concludes that in organizations with strong cultures accounting controls are much less important than social controls and that the key element of control is the personal commitment of employees to the organization. Values of service to others and commitment
are important elements in NFP culture. In discussing the acceptance of outcome evaluation by NFP staff Poole, Davis, Reisman and Nelson (2001) argue that culture is an important variable. According to the authors culture reflects an organization’s level of acceptance of new policies and practices. The architectural modifications, suggested in chapter 5 do not recognize the cultural differences between NFP and business organizations.

A major discussion point in chapter 5 (Kaplan and Norton, 2001) is to suggest that the design of the BSC be changed as the financial perspective is not as important for NFP and PS organisations as for a business and should therefore be placed at the bottom of the perspectives diagram. Another change suggested for NFP’s is to replace the “customer” perspective with a separate “donor” and “client/recipient” perspectives. While the BSC can accommodate a number of different stakeholders, for example in the case of a business, shareholders, financiers and customers the competing demands placed on the organization by these stakeholders is not dealt with. Customers want high quality products, this may reduce profits and therefore dividends while financiers want debt to be repaid also reducing dividends. These conflicting demands can be balanced with the help of various markets.

However, the conflicts between stakeholders in the NFP sector are not subject to market mechanisms. Attracting funds to meet the needs of recipients or programs is often based on the reputation of the organization or of the values of donors.

While the architectural changes to the BSC indicate a recognition of the greater complexity faced by many NFP’s the BSC does not provide for the conflicting demands placed on the NFP by the conflicting demands of stakeholders within the same perspective, e.g. the differing demands made by government donors and individual donors.

This point is made in a case study, United Way of Southeastern New England in Kaplan and Atkinson (1998). The case deals with the implementation of the BSC in a large NFP. The president of the organization is quoted as saying that United Ways have three primary choices for the customer perspective: donors, volunteers and agencies. It was decided to become donor-focused, the President deciding that the four basic perspectives of the BSC were flexible enough to include objectives that would address the organization’s relationship with agencies and volunteers (p. 402)

However, Kaplan and Atkinson also quote a senior manager as saying:

\textit{We could not sort through the issue of whether agencies are suppliers or customers. They are definitely a constituency, but where do we put them? We’ve been arguing about this for years, and this process has brought it home one more time, big-time. This issue is hanging out there like a red flag because we’ve got to figure out the meaningful relationships that we should have with our agencies (p. 402)}

It will be noted that the issue of how to relate to the different constituencies was a concern before the BSC was introduced and the creation of another perspective, while highlighting the existence of the various constituencies did not resolve the conflicting demands.

While Kaplan and Norton suggest that the architecture of the BSC be changed for PS and NFP organizations it is assumed that the processes that operationalize the BSC are the same for all organization and so the remainder of the book does not distinguish between business, NFP or PS organizations. Townly (2000) argues that a “one-system-fits-all” approach ignores local conditions and is therefore unlikely to be successful.
THE ORGANIZATIONAL CONTEXT AND THE BSC

The BSC has all the hallmarks of a closed rational “one-size-fits-all” system. According to Macintosh (1997) a closed rational system is most appropriate in organizations with clear unambiguous goals and clear tasks such as a manufacturing business. However, for most NFP’s strategy is ambiguous and normative; often goals are unclear and therefore the outputs are often difficult to measure. Making the BSC operational would appear to be less problematic in a commercial entity where strategy and tasks are clear and easily measured. Where strategy or the environment are subjective or unclear management control systems become involved in supporting “myths” created by management to legitimise their decisions (Macintosh, 1997).

The traditional property rights literature places great stress upon monitoring and incentive contracts. The traditional property rights view of the firm according to Speckbacher (2003) that provide the theoretical basis of the ultimate performance measure in firms as well as an analysis of the incentives derived from ownership are not transferable to nonprofits. Therefore the systems used to monitor performance and incentives are not applicable to the NFP context.

Ansari and Bell (1991) have developed a view of organisations that suggests that the implementation and use of a management control system is effected by organisational characteristics and by implication would question the assumption that the BSC is applicable to all organisations.

Ansari and Bell postulate that

Control systems are designed to preserve an organisation’s unique advantages over individual action or other forms of cooperation. In particular there are three unique advantages of organisations (1) they provide a powerful tool to further the values and beliefs of the community; (2) they provide a frame for collective action, and (3) they provide an efficient exchange mechanism (p. 11).

Ansari and Bell go on to state that to remain viable, organisations must retain all three advantages, which control systems help to preserve. There is a unique function that control systems must perform, corresponding to each advantage. The functions are symbolic, behavioural and resource allocation. The symbolic function involves identifying or creating a community, understanding its values and beliefs and translating these into relevant actions. This requires that the organisation communicates to its community information about its outputs. According to Ansari and Bell the emphasis they place on community reflects the importance of values in regard to organisational legitimacy (p.13). The control system must “enact” and “translate” values into appropriate organisational behaviours and outputs. The activities an organisation undertakes to create or maintain a community are, according to Ansari and Bell, highly symbolic. Strategic planning and information systems are two aspects of control that can also be symbolic as they provide a rational appearance. The BSC appears rational and fits comfortably in the rational environment of a business, however, NFP organizations are inherently irrational in that their purpose is not to increase the wealth of those who provide capital and often the values that are the basis of their existence have more to do with altruism, beauty, enjoyment, community, and the spiritual rather than the economic.
VALUES AND THE BSC

Johnson and Gill (1993) state that organisational life can be interpreted as ‘continuous process of conflict’ with a need for negotiation and co-operation between individuals who have differing goals and interest. Issues of goal congruency, that is, the extent to which an individual’s goals coincide with those of an organisation; strategy, what goals to pursue; and performance measurement, decisions regarding what and how to measure, are linked to organisational culture and power. The inter-relationship between goals, performance and culture suggests that to be successfully introduced the new system must be compatible with the dominant culture.

The BSC process does appear to make allowances for the creation of a community based on values that are enacted and translated by appropriate organisational behaviour. However, the community created by the BSC process is based on the values of the management group because it is the management group that determines and communicates strategy, which is underpinned by the values of the most powerful members in the management group. This group may establish procedures for the organisation also based on the dominant group’s values.

Williams (1998, p. 134) points out that people have different values, motives and perceptions and are not passive recipients who will automatically respond to work systems as management wishes. Values are therefore important to the development of an individual’s commitment to an organization. According to Ravlin (1995: 598) values are ‘a set of core beliefs held by individuals concerning how they should or ought to behave over a broad range of situations’. Campbell and Yeung (1991a) argue that bringing about a congruence of individual values with organisational values is creating a sense of mission that is, an employee’s personal commitment to the organization’s mission.

This issue is particularly important to NFP’s as they are normative organizations and people are often attracted to them, as employees or volunteers, because of the organisation’s mission. NFP’s are dependent on employee/volunteer commitment as a source of motivation. In a normative organisation, therefore values and mission are central to its formation and its continued existence. The BSC does not appear to have a process to develop a consensus around the organizations values and incorporate them in the operations and strategy of the organization. While it might be argued that values could be incorporated into the BSC, the suggested method of implementation means that the values incorporated into the BSC would be those imposed by the board and/or top management. A top-down management control system based on the rational values of the principal / agent relationship is not appropriate for normative organizations based on the irrational.

Values and boundaries are, according to Simons (1995), very important to the development of strategy in any organization; values are positive and promote the search for opportunities while boundaries limit the search. According to Simons people are intrinsically motivated by the organization’s values to make a commitment to an organization often overriding self-interest. Simons argues that the greater an individual’s commitment the higher the level of his or hers performance. Boundaries establish clear limits on behaviour by delineating the acceptable of behaviour and specify both means and ends. Neither system is cybernetic i.e. depending upon the routine feedback of variance information to make corrections. However, values and boundaries form the basis of traditional cybernetic management control systems.
Values and boundaries are important to the management control system of any organization, yet their importance is ignored in the development and operation of the Balanced Scorecard. Values and boundaries are of particular significance to NFP organizations because of their dependence on staff and volunteer commitment. The effectiveness of an NFP is enhanced by the performance of individuals and searching for opportunities, that Simons argues are heightened by commitment to the organization’s values.

IMPLEMENTATION OF THE BSC

According to Norreklit (2003) Kaplan and Norton ignore the problems of implementing the BSC. She quotes Kaplan and Norton (1996, p. 202) as saying that vision can be communicated through newsletters, videos meetings and executive announcements. These suggested modes of communication further reinforce the impression of a top-down implementation process. Burns and Scapens (2000) argue that management control systems implemented in a top-down manner and supported by extrinsic rewards will only achieve compliance and not commitment. This would be a concern in a business. In a NFP, which is grounded in its values and mission and where commitment is an important element of the organizational community, the suggested implementation proposed by Kaplan and Norton would be inadequate.

In commenting on their research on the acceptance of outcome evaluation Poole, Davis Reisman and Nelson (2001) state that staff involvement proved to be the most powerful predictor of evaluation plan quality. These comments have been included in this discussion because they point out the importance of staff participation in the implementation of management systems in NFP organizations. Poole et al (2001) cite a number of articles showing that participatory approaches foster trust between staff and managers, build shared values and stimulates creativity. This stance is in strong contrast to the mode of implementation used with the Balanced Scorecard.

Without strong goal congruence between staff and management an organization will become divided against itself reducing its ability to act in a focused way. If there is disagreement about the organization’s goals or a conflict between the goals of individuals and those of the organization then the possibility developing a coherent strategy, and acting upon it, are reduced. The BSC does not have a mechanism to develop a consensus about organizational values that can be used to inform strategies and goals. Kaplan and Norton (1996, 2001) assume that management is the most appropriate group to develop the organization’s vision and strategy and assume that management can develop a consensus around its vision.

However, Kaplan and Norton (1996, 2001) do not deal with the process associated with establishing goals. According to Williams (2000) there are five areas for concern:

1) the establishment of higher-level goals that enable the integration of individual goals with unit-level goals;
2) subjectivity and interpretation;
3) the effect of goal setting on an individual’s workplace relationships;
4) environmental turbulence which can render goals obsolete;
5) goal-setting appears more effective for simple tasks minimum levels can become maximum levels and aspects of performance may not be measured.

The establishment of a vision and goals is an important part of implementing the BSC, yet Kaplan and Norton do not discuss the difficulties raised by Williams.
THE BSC AND ORGANIZATIONAL EFFECTIVENESS

It is assumed that NFP’s are unique in the tasks they undertake; their cultures differ from commercial and public sector organizations, however, because the attainment of their stated objectives underscores the reason for their existence the measurement of performance is important. As stated in the introduction the BSC attempts to improve the effectiveness of organizations. However, effectiveness in NFP’s organizations is difficult to identify. Forbes (1998) reviewed the research dealing with NFP effectiveness from the last twenty years. He lists three reasons for the problematic nature of effectiveness in the non-profit context:

1) npo’s cannot be assessed using the common measures for commercial organization such as profitability or share market performance;
2) npo’s often have goals that are amorphous and offer services that are intangible;
3) the work of npo’s is often based on values about which there is little or no consensus.

Forbes argues that the most recent conceptualisation of effectiveness by researchers has been the reputational approach that sees effectiveness in term of the reported opinion of key persons such as clients or service professionals. Forbes highlights the research of Tassie, Murray, Cutt, and Bragg (1996) that found that extensive dialogue among involved parties helped to build a sense of shared subjectivity with regard to evaluation criteria making the process more constructive and beneficial for all parties. The BSC uses a ‘top-down’ approach that would make the fostering of a shared subjectivity difficult to achieve.

Sheehan (1996) studied effectiveness from the goal–attainment perspective and evaluated the degree to which an organization’s own performance measures were aligned the articulated mission statement. He found that most non-profit organisations did not have performance measures that could evaluate their impact. The BSC is meant to provide measures that are aligned to the mission statement and should indicate if goals were attained. However, Sheehan’s research indicates that in the NFP context the development of such measures is problematic therefore the possibility of the BSC being able to provide appropriate measures is limited. Yet, the measurement of performance within the different perspectives is central to the operation of the BSC, however, Kaplan and Norton (1996, 2001) do not discuss the issues in any detail.

Forbes comments that the latest research has drawn attention to the interactions within organisations that lead to the development of criteria for effectiveness as well as the role played by information and communication in shaping judgements about effectiveness. Forbes goes on to say:

Accordingly, in the emergent approach to organizational effectiveness, assessments of effectiveness are not regarded as objective facts but neither are they regarded as arbitrary or irrelevant. Rather, the emergent approach holds that definitions and assessments of effectiveness have meaning but that the meaning is (a) created by the individual or organizational factors involved, (b) specific to the context in which it was created, and (c) capable of evolving as the actors continue to interact (p8).

The assumption behind the BSC is that management develops objectives and measurements without necessarily consulting staff. The emergent approach to gauging organizational effectiveness requires the development of shared definitions and a continuous dialogue about performance that seems incompatible to the top-down approach of the BSC.

PERFORMANCE MEASUREMENT AND THE BSC
The effectiveness of the processes of the BSC is dependent upon the flow of performance information. Without accurate and timely information about the level of achievement of the objectives in each of the four perspectives learning cannot take place, adjustments cannot be made and the BSC cannot provide a holistic view of the organisation. Yet Kaplan and Norton do not deal with issues of accuracy or integrity.

Similarly, the demand for efficiency and the means to measure performance has been introduced into the Not-for-profit sector because many npo’s are funded by government and compete for government contracts. Also, to attract and retain donors, npo’s must be seen to be focused on efficiency, effectiveness and to have implemented the most up to date management systems (Ortmann and Schlesinger, 1997).

Townley (2001) points out that performance measures are particularly problematic. Performance measures tend to focus on what can be easily measured and demonstrated and therefore rarely capture the complexity of the activity or what is important to the organization. She goes on to argue that a growing number of performance indicators will be used to ensure all the activities are captured. However, the system becomes too complicated and soon information becomes discarded and only core functions are measured. This, says Townley, results in a degraded image of staff functions and a subsequent loss of organizational capabilities. These problems are not peculiar to NFP organizations, however, the normative nature of the objectives of many NFP organizations, the difficulty of measuring outputs and the reliance on non-financial indicators to demonstrate the organization’s effectiveness mean that performance measurement is of critical importance to most organizations in the third sector.

The BSC is supposed to have a limited number of performance measures for each perspective and Kaplan and Norton are critical of ‘KPI Scorecards’ maintaining that the BSC is intended to measure strategic outcomes. However, their opinions about KPI Scorecards appear contradictory, after warning against their limitations the authors go on to state:

\[\text{KPI scorecards will be most helpful for departments and teams when a strategic program already exists at a higher level. In this way, the diverse indicators enable individuals and teams to define what they must do well to contribute to higher level goals. Unless the link to strategy has been clearly thought through, however, the KPI scorecard can be a dangerous illusion} (p. 103).\]

The above raises more questions than it answers. Are Kaplan and Norton suggesting that developing a link between performance measurement and strategy is problematic? Yet the operation of the BSC is dependent upon such a link. Is there a role for KPIs in a strategic BSC? Kaplan and Norton do not indicate whether to maintain a system of KPIs concurrently with strategic performance measurement.

Goal displacement where maintaining a ‘good record’ becomes paramount can be a by-product of performance measurement. Thus meeting a pre-determined target becomes the sole criteria of performance. When for example departmental targets are disaggregated so that individuals are required to undertake a certain number of cases per month, regardless of their complexity; complex cases can be treated superficially resulting in inattention to detail and follow up. According to Townley with the increase in the numbers of precise and detailed performance indicators, in particular when designed to measure at an aggregate level, not only is there goal distortion and data manipulation, there is the danger of increased inflexibility at the local level. A final consideration is the effect of performance
measurement on organisational activities that according to Townley will conform to the constructions demanded by the management technique.

It is Townley’s (2001) contention that modern management systems are too abstract, being introduced into diverse organizations on the basis of “one size fits all”, often disregarding local conditions.

Lapsley and Mitchell (1996) state that performance in the public and private sectors is a complex multi-dimensional concept the measurement of which suffers from a number of deficiencies including: selectivity, manipulation, restricted disclosure, understandability, interpretability, verifiability, and the motivational effect measurement can have on those being measured. The issues raised by Lapsley and Mitchell are of particular relevance in NFP organizations because of the normative and therefore potentially ambiguous nature of their objectives, the determinist external environment, and the strongly individualistic and independent style of staff in a service culture that sees efficiency as less important than helping people (Lindberg, 2001).

Wholey and Hatry (1992) list possible barriers to the use of performance indicators indicating that certain issues are raised repeatedly. First, a concern often discussed about performance monitoring is that it does not indicate the extent to which the reported outcomes are due to agency efforts rather than external factors. This is particularly a problem for NFP organizations. Second, performance-monitoring systems do not provide information on ‘causality’, nor are they intended to. A third concern is whether there are sufficiently valid and accurate indicators of program quality and program results to avoid production of misleading performance information. Fourth, reporting fears are also seen as a barrier to the use of performance indicators.

Townley (2001) argues that the imposition of abstract management systems, such as the BSC, stifles the local learning processes, and system wide controls gradually replaces practical evaluation that relates purpose, values and administrative systems. Layers of measures and targets cascading through the organization are believed to represent organizational reality.

But models are simplified versions of specialist knowledge and complex practice and the consequence of managing through them are potentially dysfunctional in a variety of ways (p. 305).

While Kaplan and Norton (2001) suggest that performance measurement can be reported using red amber and green dots they do not deal with the issues raised by the authors discussed above even though the measurement of performance is central to the BSC. Campbell (2002) commented that in the NFP environment there was not a lack of skills to develop indicators, rather the issues revolved around the ability of indicators to capture the complexity and uniqueness of the projects, the costs of collecting the data and made sense for multiple funders with multiple goals and multiple accountability emphases. He concluded his article by pointing out that quantitative and qualitative indicators must not be substituted for judgement that is grounded in community values. The danger with the BSC is that management will use performance data as the sole means of determining success in achieving aims established by management to the exclusion of community values.
REWARDS AND THE BSC

The mechanistic nature of the BSC is reinforced by the emphasis placed on rewards. Kaplan and Norton (1996) place a heavy emphasis on extrinsic rewards and assume that there must be a link between performance and extrinsic rewards without considering the validity of this relationship or the potentially negative effects of extrinsic reward systems. Kohn (1993) argues that extrinsic rewards fail because; (1) pay is not a motivator, (2) rewards punish, (3) rewards rupture relationships, (4) rewards ignore reasons, (5) rewards discourage risk-taking, and (6) rewards undermine interest. Kaplan and Norton retain extrinsic rewards in the design of the balanced scorecard for NFP organizations yet they do not demonstrate the efficacy of extrinsic rewards in an NFP. They appear to assume that using extrinsic rewards is the most appropriate way to motivate staff and disregard the impact of individual and organisational values. Brown and Yoshioka (2003) cite Mason (1996) as stating that many individuals in NFP organizations conceptualise money as a means to accomplish larger objectives and not as end in itself, either personally or organizationally. Therefore financial incentives and controls may not be as effective in non-profits. It can be argued that managers and staff in a NFP need less monitoring because they are more committed to the organization’s mission. Speckbacher (2003) quotes Rose-Ackerman (1996) as stating that NFP organizations may more easily attract committed employees precisely because the lack of owners is a signal to them that their selflessness is not enriching someone else. This position has been empirically supported by Preston (1989), Weisbrod (1983), and Roomkin and Weisbrod (1999).

Speckbacher (2003) concludes by stating that:

However, as far as monitoring and incentive systems (tied to the balanced scorecard) are concerned, one must be aware of the issues specific to nonprofits. Our analysis suggested that nonprofits must use incentives in particular very carefully with an intelligent mix of different incentive mechanisms with low-powered incentives and relatively subjective evaluations (p.279).

LEARNING VS. CONTROL

Kaplan and Norton (1996) make the point that while the BSC can be regarded as a management control system they view it as a system that will promote organizational learning. There are two forms of organisational learning that according to Senge (2000) must be present:

for a learning organization, “adaptive learning” must be joined by “generative learning”, learning that enhances our capacity to create (p.14).

The BSC could facilitate adaptive learning in that performance data from the four perspectives is available for management to make changes to processes or objectives. Kaplan and Norton argue that the fourth process, feedback and learning that includes articulating the vision, supplying strategic feedback and facilitating strategy review and learning, is what distinguishes the BSC from a management control system. The design of the BSC does not ensure the integrity of the feedback system, therefore ensuring that the information provided is useable. Nor does the BSC overcome the barriers created by performance measurement, as argued by Llewellyn (1996), impeding the flow of performance information. Therefore, it is not at all clear how the BSC encourages adaptive learning.

Generative learning that according to Senge, enhances an organization’s capacity to be creative is particularly important for NFP organizations since they work in complex and
unstable environments. However, the possibility of generative learning is limited by the rationalist nature of the BSC. The top-down flow of decisions and the reinforcement of formal organizational structures will inhibit generative learning. The ability to develop generative learning in third sector organizations would seem to be important given the determinist environment in which many NFP organizations operate, the challenging tasks they confront and the emphasis on effectiveness.

A reliance on the formal organisational structure for authority was found to be an impediment to introducing change within a group structure. Chenhall and Langfield-Smith (1998) highlight the complex nature of the issues surrounding the introduction of change into organizations. The point, raised by Chenhall and Langfield-Smith, that using formal organizational structures to introduce change can impede the process, is particularly relevant in the context of introducing the BSC as Kaplan and Norton (1996, 2001) insist that the implementation “cascade down the organization”. Therefore the method of implementation can limit the scope of generative learning and Norreklit (2003) is justified in stating that Kaplan and Norton only pay lip-service to organizational learning.

The criticisms of the BSC presented in this paper beg the question of why the BSC is apparently so popular? Norreklit (2003) suggests that in part the popularity can be explained by the method of discourse used by Kaplan and Norton. An aspect of the of the BSC is presented in theoretical terms however there is no analysis of possible issues, rather, Kaplan and Norton refer to examples of how various organizations implemented the BSC to solve particular problems. The underlying assumption is that the approaches used in the examples are applicable to every situation. There is no analysis of difficulties encountered. Kaplan and Norton (1996, 2001) provide little content in their discourse other than a orthodox management control system that reinforces the authority of management.

CONCLUSIONS

The discussion in this paper questions the suitability of the BSC for use in a NFP context. At key stages of the BSC important issues, such as, the role of values, the establishment of goals, the measurement of performance, the use of extrinsic rewards and the control of information are not dealt with. These issues are of particular importance to NFP organizations. That is not to say that the BSC could not be modified to meet the needs of NFP organizations, however the changes would be so significant that the BSC would bear little resemblance to the BSC described by Kaplan and Norton.

The BSC appears to be a “one-type-fits-all” system that Kaplan and Norton argue can be introduced into commercial, public sector or NFP organizations with few changes. Kaplan and Norton ignore the significant cultural differences between the three types of organizations. In particular the BSC ignores the role of values in the operation of a normative organization. This is a significant oversight since NFP’s usually come into existence as an expression of a set of values. It can be argued that values can be incorporated into the organization’s vision and goals, however given the ‘top-down’ nature of the BSC, these would be a reflection of management’s values and may be at odds with the values of the staff or the original purpose of starting the organization. Given the rationalist nature of the BSC, its introduction may conflict with the traditional values of the organization. The use of extrinsic rewards is a case in point.
The BSC abstracts organisational reality and therefore ignores local conditions. While Kaplan and Norton give examples of adaptations to the BSC’s architecture that different organizations have made the processes appear to be uniform irrespective of the organizational type. In the case of NFP’s the architectural changes are insufficient to cope with the complexity of a deterministic environment faced by most NFP organizations.

The BSC operates as a management control system based on the principal / agent relationship and depends on the information generated by the system to measure performance, make strategic decisions and reward effort. The BSC is a rationalist system that is subject to the limitations of bounded rationality, and does not have processes to overcome the effects of power, information asymmetry, or the inability to gain information, or of making trade-offs.

The operation of the BSC is dependent upon the unimpeded flow of useful performance information. If, however, inappropriate information is gathered, or the information is used to enhance power or create a “myth” of rationality, then the system will become de-coupled and not lead to the improvement of effectiveness. Where the BSC uses numeric measures there is a danger that only those activities that are easily measured will be measured, ignoring the complexities of the activities of most NFP organizations.

Finally, while the BSC is meant to encourage positive organization learning the processes outlined ignore the complexities of individual and organisational learning. While it can be argued that the BSC could enable adaptive learning, there are no processes to encourage it and given the ‘top-down’ nature of the BSC there is no guarantee of adaptive learning. If the BSC is a control system then it has the problems associated with agency particularly if extrinsic rewards are used. Goal displacement, short-term decision-making and an unwillingness to introduce changes that may result in the reduction of rewards will create an environment that discourages learning.

The criticisms, discussed above, call into question the relevance of the BSC for NFP organizations. The BSC provides a holistic view of the organization, however, beyond that it has little to offer NFP organizations. The BSC is a management control system designed for the business sector, however, it does not provide solutions for the many problems associated with management control systems and the process of implementation and the operation of the BSC ignore the fundamental differences between businesses and NFP organizations. Left unchanged the BSC is unsuited for the third sector. However, if the implementation of the BSC can incorporate the culture and values of the NFP organization, eliminate information asymmetry, maintain organisational commitment by encouraging participatory decision-making, and build on intrinsic motivation then the BSC may improve the effectiveness of the adopting NFP organization.
BIBLIOGRAPHY


