



Balanced scorecard implementation in German non-profit organisations

Dorothea Greiling

*Institute for Management Accounting,
Johannes Kepler University Linz, Linz, Austria*

534

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Abstract

Purpose – The purpose of this paper is to report on the results of an explorative empirical study among German non-profit organisations with respect to the implementation of the balanced scorecard (implementation levels, perspectives, major challenges and obstacles, missing and used performance measures and enabling factors).

Design/methodology/approach – Empirical data are generated and the findings are interpreted based on a descriptive approach. The interpretation is linked to normative expectations regarding the design and use of the balanced scorecard in non-profit organisations.

Findings – Most of the non-profit organisations which have been analysed in this paper are in an early phase of balanced scorecard implementation. The balanced scorecard is often used as a measurement tool and not as a management system. In most cases, participating organisations have an unexpected viewpoint with regard to their attitude towards the balanced scorecard, as they did not sufficiently adapt it to the distinct requirements of non-profit operations.

Research limitations/implications – The findings are based on a sample of 20 non-profit organisations in the field of social services. Thus, the results cannot be generalised, and qualitative interviews as well as a longitude study could be helpful in gaining additional insight.

Originality/value – The paper reports on firsthand empirical findings in an area which has not been extensively researched. Relevant non-profit literature has so far been dominated by how-to-do approaches and normative concepts.

Keywords Balanced scorecard, Non-profit organizations, Performance measurement (quality), Germany

Paper type Research paper

1. Introduction

The balanced scorecard, which was created in the 1990s by Kaplan and Norton (1992, 1996a, b, 2001a), is one of the most popular management tools and technologies-in-action (Andon *et al.*, 2005; Bedford *et al.*, 2008; Wu and Hung, 2008). During the early years of this century substantive implementation rates, which were reported for large companies in the USA and throughout Europe, varied between 40 and 60 per cent (Speckbacher *et al.*, 2003).

With a time lag, the balanced scorecard euphoria has reached the non-profit sector too. Meanwhile, there are numerous proposals on how to implement the balanced scorecard in the non-profit sector. Kaplan (1999, 2001, 2002) is convinced that the implementation of the balanced scorecard in non-profits is, at least, as beneficial as in the private sector. According to Kaplan (2002, p. 6), “society’s ‘third sector’ will become far more efficient in delivering benefits to society”, if the balanced scorecard is implemented. As the following paragraphs of the introductory part highlight,



the research focus in the non-profit sector has been on normative proposals on a how-to-do level and some single organisation descriptions of positive experiences these organisations had with the balanced scorecard. Furthermore, literature reviews exist with an industry focus, including, e.g. non-profit hospitals (Urrutia and Eriksen, 2005; Kokakühlah and Austill, 2007; Gurd and Gao, 2008). There are hardly any empirical studies, which compare real life experience made with the balanced scorecard across various non-profit organisations. After more than a decade of balanced scorecard experience in the non-profit sector, it is time to gain additional empirical insight in this respect. Therefore, the main part of the paper will be dedicated to presenting and discussing the experience of 20 German non-profit organisations, which have worked with the balanced scorecard. By providing comparative empirical results the paper aims to augment the, so far very limited, empirical research in this field. That such, a research is highly desirable but rather research-intensive and difficult to handle is stressed across the sectors by various authors (Speckbacher *et al.*, 2003; Bedford *et al.*, 2008; Gurd and Gao, 2008). The paper does not provide an evaluating literature review of all the normative proposals and single organisation descriptions, which can be found in the non-profit literature. This could also be a rewarding endeavour but this paper addresses the specific research gap to be found in the field of multi-case comparative research. In consequence, the paper can only highlight the general ideas of the normative models and single case descriptions.

As already indicated, quite an extensive body of balanced scorecard literature exists with respect to normative and technical suggestions on how to adapt the balanced scorecard to the specific requirements of non-profit organisations. Most of these proposals go back to the late 1990s and the early years of this decade. Two generations of normative proposals can be discerned. The first generation of normative proposals are tailored to the non-profit sector in general and focus on a few essentials on a how-to-do-level. These proposals describe the general framework of the balanced scorecard. They often highlight specific benefits and elaborate on how the non-profit sector differs from the for-profit world. That has the consequence that the balanced scorecard needs to be modified. Placing a mission perspective at the top of a non-profit balanced scorecard is suggested or proposals are made on how to adjust the performance measures with respect to volunteers or donors (Haine, 1999; Kaplan and Norton, 2001a; Niven, 2008). Sometimes, the customer perspective is split into different stakeholder groups, volunteers or donors, who are also included into the balanced scorecard design. The second generation of proposals are area-specific approaches, focussing for instance on non-profit hospitals, facilities for the elderly, youth organisations or sport clubs. The proposed performance indicators are more area-specific and references are made to the special external and internal challenges non-profit organisation faces in the chosen area. Both generations of normative suggestions give some general guidance on how to adopt the balanced scorecard in non-profit organisations. They assure the reader that, in general, there are no reasons why the balanced scorecard cannot be implemented in the non-profit sector. As how-to-do proposals, they present a management tool and stress the chances more than the obstacles of the balanced scorecard. Back in 1999, Kaplan stated that he found the transition of the original balanced scorecard to a non-profit balanced scorecard quite simple (Kaplan, 1999, p. 3). The customer and financial perspectives may change a little but the basis has proven, according to Kaplan (1999, p. 2), quite robust in its

translation from the private sector. Naturally, these proposals do not report on real life challenges, managers of non-profit organisations are facing when implementing the balanced scorecard.

There are numerous single case descriptions, which report in a positive way about actual balanced scorecard implementation in the non-profit world. The Mayo Clinic, the Special Olympics, Duke Children's Hospital, New Profit Inc. or United Way of Southeastern New England may serve as American examples (Kaplan and Norton, 1996a, b; Curtright *et al.*, 2000; Kaplan, 2001; Meliones, 2002). The Diaconic Foundation of Neuendettelsau or dioceses of the Roman Catholic Church are among the German single case descriptions (Breyer and Hornreber, 2002; Mertes, 2002). It is within the nature of these single case presentations, that they do not give evidence in a comparative way. Even if the authors include more than one case in their publication (Kaplan, 2001), the presentations do not compare benefits and challenges across different organisations; they are success stories and challenges are only dealt with very briefly. The single case presentations often include general management challenges, which the specific organisation faced (e.g. unclear strategy, gaps in the existing strategy, lack of clear priorities, declining quality, loss of members and lack of financial resources) before implementing the balanced scorecard and how these challenges were subsequently successfully resolved with the balanced scorecard. In general, these single case presentations demonstrate a technology-in-action. The minimum requirements for a successful implementation of a balanced scorecard are stated but not challenged by theory-driven reflections.

The body of literature is getting much smaller if one looks for empirical studies that evaluate the implementation of the balanced scorecard in a comparative manner across various organisations. For the for-profit sector, in general, a growing body of empirical studies does exist, conducting quantitative or qualitative research (Malmi, 2001; Bischof, 2002; Speckbacher *et al.*, 2003; Bedford *et al.*, 2008; Schaeffer and Matlachowsky, 2008). These studies often focus on very large organisations, for example those that are listed on the German Stock Exchange. Some comparative studies in the for-profit sector include selective challenges of a balanced scorecard implementation. Not surprisingly, the experience with the balanced scorecard for for-profit organisations is described as mixed (Ittner *et al.*, 2003; Bedford *et al.*, 2008; Schaeffer and Matlachowsky, 2008). Examples of the challenges reported include how to link the performance indicators to an incentive system or how to make it a strategic management system. The implementation is a time-consuming process and difficulties were encountered with respect to cause-and-effect relationships. Schaeffer and Matlachowsky (2008) report on cases where fully fledged balanced scorecards were abolished due to a change in the top management or because the gathering and monitoring of the balanced scorecard indicators were seen as a no-value-adding burden. Owing to the difference in size, number of employees and general strategic orientation findings from these studies cannot be transferred one-to-one from for-profit to non-profit organisations.

2. Literature review and research questions

There are only very few examples of comparative studies that discuss the balanced scorecard in the non-profit sector. Table I provides an overview.

Back in 2002, Inamdar and Kaplan (2002) interviewed nine managers of non-profit hospitals. All nine hospitals were in an early stage of implementing balanced scorecards.

Authors	Type	Focus
Inamdar and Kaplan (2002)	Qualitative study with nine hospital managers	Motives for adopting the balanced scorecard, included perspectives, major challenges and barriers encountered, benefits and encountered performance improvement
Contrast Management Consulting (2002)	Quantitative study including 82 non-profit organisations	Main focus on strategic management instruments, balanced scorecard as the most known instrument, five reasons for implementing a balanced scorecard, six reasons against implementing a balanced scorecard
Greiling (2009)	Quantitative study including 343 non-profit organisations	Main focus: state of the implementation of performance management, relevant stakeholders, used performance measures and goals of non-profit organisations Percentage of balanced scorecard implementers in comparison to other performance measurement systems

Table I.
Comparative studies
of balanced scorecard
implementations in the
non-profit sector

Source: Author's compilation

The introduction of the balanced scorecard took an average of two years. Inamdar and Kaplan (2002, p. 194) reported that the pay-off from this effort was a measurable performance improvement in competitive marketing positions, financial results and customer satisfaction. The cause-and-effect reasoning of the balanced scorecard often helped to identify gaps in existing strategies (Inamdar and Kaplan, 2002, p. 183). The scorecard development process forced these hospitals to clarify and gain consensus on the strategy. Further, it increased the credibility of management with the board members. The four perspectives of the balanced scorecard gave executives a framework for decision making, set priorities by identifying, rationalizing and aligning initiatives and linked strategy to resources allocation. It supported greater accountability – especially when ideas were linked to the manager's incentive plans. The balanced scorecard also facilitated learning and improvement. The main benefits reported read like a text book written by Kaplan and Norton which is not surprising considering the authors of the study.

However, the implementation was not an easy endeavour. The interviewees reported that they devoted extensive time to discussions and consensus building to embed the balanced scorecard in their organisations (Inamdar and Kaplan, 2002, p. 185). The challenges mentioned most often were (Inamdar and Kaplan, 2002, p. 185):

[...] obtaining approval to implement the balanced scorecard, obtaining executive time and commitment, developing the value position from the customer perspective, deploying the balanced scorecard throughout the organisation, gaining commitment to implement, obtaining and interpreting timely data in a cost-effective manner, keeping the scorecard simple and using it for learning.

It is not surprising, that Inamdar and Kaplan see a high potential for the balanced scorecard in healthcare provider organisations in general.

Contrast Management Consulting (2002) reported in a small quantitative study ($n = 82$), that 70 per cent of the participating non-profit organisations knew about the

balanced scorecard, 2 per cent had already implemented a balanced scorecard and additionally 15 per cent planned to implement it. The interview partners were asked to rank five benefits. About 100 per cent expected better steering, 90 per cent an improvement in the linkage of strategic and operational management, 80 per cent improvements of communication and strategy, 50 per cent saw the inclusion of non-financial measures as a benefit and 20 per cent expected that the organisational objectives would be more balanced. Looking at the reasons given against the implementation of the balanced scorecard 69 per cent evaluated the balanced scorecard as very time- and resources-intensive, 31 per cent were content with their present system and 31 per cent regarded performance measurement as difficult to implement. The validity of the performance indicators was seen as a problem by 15 per cent. Another 15 per cent could not see any benefit for their organisation and 7 per cent regarded the balanced scorecard as the latest management whim. The presentation of the benefits and challenges shows that Contrast Management Consulting concentrated only a few pro and cons. The most serious draw back of this study is that only 2 per cent of the interviewed had already implemented the balanced scorecard.

Greiling (2009) conducted a quantitative empirical study which included 343 non-profit social services providers. It established that the balanced scorecard was the least used performance management instrument in the non-profit sector (Greiling, 2009). Only 8.8 per cent of the non-profit organisations had implemented the balanced scorecard, compared to 67.4 per cent with an organisation-specific financial performance measurement system. The balanced scorecard was only addressed as a minor side topic in this study.

So far, we cannot draw on a satisfying body of literature which empirically compares the experience with the balanced scorecard across non-profit organisations. Especially, the quantitative surveys by Contrast Management Consulting and Greiling merely took a few initial steps towards addressing implementation aspects of the balanced scorecard. Inamdar and Kaplan study was limited to non-profit hospitals.

The, in the following, presented study aims at gaining additional, exploratory insight into the experience non-profit organisations have had with the balanced scorecard. Contrary to the qualitative study conducted by Inamdar and Kaplan, this study is not limited to non-profit hospitals.

The guiding research questions for the exploratory study are:

RQ1. To what extent are the minimum requirements of the balanced scorecard met by the non-profit organisations interviewed and how far advanced is their experience?

RQ2. What are the main benefits of the balanced scorecard?

RQ3. What are major implementation obstacles?

RQ4. Which performance indicators are used and which are lacking?

RQ5. What are enabling factors for a successful implementation?

As the balanced scorecard is far from being a clearly definable concept (Ittner and Larcker, 1998; Norreklit, 2000; Malmi, 2001; Andon *et al.*, 2005) and a range of designs are used with respect to spread, content, implementation and application as well as individual user's experience (Speckbacher *et al.*, 2003; Bedford *et al.*, 2008), the survey

includes a part which focuses on the extent basic requirements of the balanced scorecard are implemented by the non-profit service providers interviewed. This has been included in order to take into account Kaplan and Norton's criticism that many companies claim to have the balanced scorecard, because they use a mixture of financial and non-financial measures. These companies do not take into account that the balanced scorecard goes far beyond these features by having a clear strategy orientation, four perspectives and a clear perception of cause-and-effect relationships between the different balanced scorecard elements (Kaplan and Norton, 2001b). Furthermore, Kaplan and Norton regard it as essential that, better sooner than later, the balanced scorecard measures should be linked to the reward system which in itself is a highly controversial topic in German non-profit organisations. A fully developed balanced scorecard also requires a roll-out at all levels of an organisation to make the strategy everybody's job (Kaplan and Norton, 1996a, b).

RQ2 refers to the special benefits of the balanced scorecard for non-profit organisations. The normative balanced scorecard applications in the non-profit sector describe potential benefits only. As presented above, the existing comparative empirical studies merely gathered first evidence with respect to real-life benefits for the non-profit sector. The empirical basis is getting very slim when it comes to obstacles or challenges. The normative suggestions and single case studies only provide very limited evidence.

Whether the chosen indicators correspond with the balanced scorecard requirements has so far not been investigated at all for non-profit organisations. To meet the requirements for a balanced scorecard it is also necessary to include non-financial performance measures at the same level of detail. As the three empirical studies do not elaborate on enabling factors for the balanced scorecard implementation, this empirical study includes this aspect as an *RQ5*.

The remaining part of the paper is structured as follows. The research design is outlined in Section 3. This includes remarks on how the questionnaire relates to the existing literature. Taking into account that no empirically tested questionnaire exists, the reference to the relevant literature cannot be on an item-to-item basis. That would curtail the exploratory nature of the study. In Section 4, major findings are presented. A discussion of central findings follows in Section 5. The results are discussed against the background of the normative proposals on how to design a balanced scorecard in the non-profit sector. When appropriate, the findings are linked to theoretical findings drawing mainly from institutional theory and principal-agent theory. Section 6 provides a short summary, highlights the limitations of the presented descriptive findings and selective courses of action for future research.

3. Research design

Owing to the low-implementation rate of the balanced scorecard in German non-profit organisations (Greiling, 2009), it was a challenge to find any interview partners at all. Sometimes the non-profit implementation scheme reported in literature (Worschischek, 2002) turned out to be a project that did not get beyond the preliminary draft. With the help of a balanced scorecard working group from the German Society for Management Accounting in Social Service Organisations, 20 interview partners could be identified, all operating in the area of social services and healthcare. This does not come as a surprise. In the non-profit sector, organisations in these two areas are regarded as

frontrunners concerning modern management accounting instruments (Seminar fuer Vereins-und Verbandsforschung, 1988; Wendel, 2001). Furthermore, the largest non-profit organisations in Germany are in these areas (Zimmer *et al.*, 2000).

In the preparation phase, it became obvious that the chief executive officers of the non-profit organisations preferred a structured interview in questionnaire style and were not willing to take part in semi-structured qualitative interviews. While a semi-structured interview would have created greater potential for openness, the managers preferred the questionnaire form. The first draft of the questionnaire was discussed in detail with a working group of the German Society for Management Accounting in Social Service Organisations as well as with some researchers.

3.1 Questionnaire structure

The questionnaire has five parts, each relating to one research question. Most of the questions required yes or no answers. In addition to that two open questions were included. In a third kind of question, the interviewees were asked to evaluate the benefits and challenges on a scale from one (not important) to five (very important).

Part I gathered information relating to the minimum balanced scorecard requirements and how far advanced the non-profit organisations were in the roll-out of the balanced scorecard. That included a question on the implementation phase of the balanced scorecard, ranging from first considerations and discussions in the management team to an organisation-wide implementation. The rationale behind this question was to get, like Inemdar and Kaplan, information on whether the organisation was in an early implementation phase or were able to draw on more extensive experience. It was expected that more organisations in an early implementation phase would be found.

RQ2 addressed the elements included. This question draws on the basic literature of Kaplan and Norton (1996a, b). For them a fully developed scorecard should include not only strategic objectives but also identify cause-and-effect relationships and performance agreement on the level of the individual employee. Past experience showed that the majority of the balanced scorecard implementers, in the German for-profit sector, did not have fully developed balanced scorecards. Speckbacher *et al.* (2003, p. 363) distinguish three types of balanced scorecards:

- (1) *Type I balanced scorecard.* A specific multidimensional framework for strategic performance measurement that combines financial and non-financial measures.
- (2) *Type II balanced scorecard.* A Type I balanced scorecard that additionally describes strategy by using cause-and-effect relationships.
- (3) *Type III balanced scorecard.* A Type II balanced scorecard that also implements strategy by defining objectives, action plans, results and connecting incentives.

The guiding hypothesis for the study was to expect mainly Type I balanced scorecards in the non-profit sector, as cause-and-effect relationships are a challenging endeavour. Furthermore, financial incentives are controversially discussed in German non-profit organisations. Some fear that financial rewards will result in a crowding out of the traditional high-intrinsic motivation of non-profit employees (Lakes, 1999; Frey and Goette, 1987; Frey *et al.*, 2001).

The subsequent question focussed on the chosen perspective. As the literature suggests, the original balanced scorecard should be modified if it is implemented

in non-profit organisations. Kaplan and Norton (2001b, p. 98) propose that non-profits should place an overarching objective on top of the scorecard that represents their long-term objective. The financial perspective provides a constraint, not an objective for non-profit organisations (Kaplan, 1999, p. 2). The perspectives included take up the traditional perspectives of the balanced scorecard as designed by Kaplan and Norton (1992, 1996a, b). In addition, perspectives mentioned in non-profit sector specific normative proposals for the balanced scorecard were added (Kaplan, 1999, 2001, 2002). Furthermore, it is often suggested that the mission perspective is placed at the top of a non-profit balanced scorecard and that the customer perspective should be expanded since many non-profit organisations distinguish between financiers and clients at that level (Kaplan, 2002). There is also a tendency in the normative proposals that a non-profit balanced scorecard should have more than four perspectives (Haine, 1999; Kaplan and Norton, 2001a; Schoen, 2001; Wendel, 2001; Esslinger, 2002; Mertes, 2002). To enhance clarity, the interviewees were able to choose from a list of nine perspectives and could additionally add perspectives not mentioned before.

Part II of the questionnaire focused on the benefits of the balanced scorecard experienced in the non-profit sector, thus addressing the *RQ2*. Altogether a list of 20 benefits was compiled, which took up benefits already mentioned in prior empirical studies for non-profit organisations as well as a research design by Bischof (2002) for the for-profit sector. Bischof's research design was used because it is the most elaborate, empirically tested for balanced scorecard implementers, so far. With the exception of a question concerning the shareholder value, Bischof's list of benefits is sector-neutral. Taking into account the influence of cultural relativism the research design by Bischof was chosen because he interviewed German organisations. The interviewees were asked to evaluate the benefits on a scale from one (not important) to five (very important).

Part III of the questionnaire listed 30 implementation obstacles, ranging from obstacles, rooted in unclear and ambiguous organisational objectives, through challenges in the strategy formulation and implementation process, problems with performance measurement to difficulties encountered in the feedback and learning process. The list of obstacles draws heavily on the challenges identified by the authors addressing strategic management and performance measurement in the non-profit literature (Kanter and Summers, 1987; Kaplan, 1999, 2002; Porter and Kramer, 1999; Courtney, 2002; Arbeitskreis Nonprofit Organisationen, 2003; Greiling, 2009) as well as specific obstacles mentioned by the non-profit-managers in the balanced scorecard working group of the German Society for Management Accounting in Social Service Organisations. The challenges mentioned in previous empirical studies were also included. According to Kaplan (1999, 2002), the obstacles for non-profit implementers start with unclear objectives and a mission-measure gap. This is likely to be higher in third sector organisations. Kaplan (2002, p. 3) recognized that most non-profits do not have a clear strategy. The strategy documents often ramble on for 50 pages and only consist of lists of programmes and initiatives, but lack anything specific about the actual outcome the organisation aims to achieve. Most strategies moreover represent a combined wish list from the organisation's members. Combining this fact with what Anheier calls the "law of non-profit complexity" indicates that non-profit organisations tend to be more complex than for-profit organisations of a similar size due to the prominence of a substantive mission allowing a great variety of interpretations.

This makes measurement difficult. In addition, non-profits are multiple stakeholder organisations and often depend on multiple revenue sources. According to Kanter and Summers (1987, p. 164), the core of their governance and management dilemmas is due to the existence of multiple constituencies. In such an environment, it is normally difficult to reach a clear consensus on strategy, and that is absolutely necessary for the balanced scorecard. Therefore, it can be expected that non-profit organisations already encounter serious challenges during the strategy formulation process.

To gain a better understanding about the measurement aspect, in Part IV, the interviewed were additionally asked to rank 21 performance indicators and to answer a question on six areas of missing indicators. Here, the questionnaire draws on Greiling who uses the same approach to describe the status quo of performance measurement in the German non-profit sector. In the fifth and final part, an open question was asked concerning the enabling factors. *RQ5* gave the interviewees space to elaborate on enabling factors.

3.2 Data collection and sample structure

Altogether 24 persons agreed to being interviewed. Four interviews were not included in the findings as the implementation was only envisaged for the future. No initial steps had so far been taken. The balanced scorecard was just the idea of a potential useful instrument in the head of the interview partner and the organisation expected unpaid consultancy in order to take first steps. Three quarters of the remaining 20 interviewees preferred a telephone interview. The telephone interviews lasted between 30 and 45 minutes, the personal interviews normally took an hour to one-and-a-half hours. Only two organisations provided additional internal, undisclosed information material. In the interviews, the managers often augmented their answers with personal remarks, which were added in writing to the answers by the interviewer. The open questions were analysed by content. For the closed questions, where a ranking from one to five or a yes or no answer was required, the statistical programme "MS EXCEL" was used.

In 18 cases, the interviewees were the chief executive officers of German non-profit organisations. In two cases, the director of the management accounting division was the interviewees. The participating non-profit organisations operated in the fields of youth services (four), care for the elderly (three) or handicapped (eight) and health care (one). The remaining four operated in more than one area. About 50 per cent of the organisations interviewed had an annual turnover of more than €10 million, a quarter of the interview partners had more than 1,000 full-time employees. Only one organisation had less than 20 employees. In this particular case, the balanced scorecard was brought to the organisation's attention by the partner of a board member who was a top manager in the German automotive industry. With respect to the size of the non-profit organisations studied, one has to take into account that the average German non-profit organisation has 14.3 employees according to the statistics provided by the Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege (2006, p. 14). The fact that major non-profit organisations are more likely to implement the balanced scorecard is in line with the empirical results by Speckbacher *et al.* (2003) and Bedford *et al.* (2008) for the for-profit sector. Given the small size of the sample and the fact that the participants were chosen by their willingness to participate, the following results cannot be generalised. Nevertheless, they offer an empirical insight into a field which is heavily under-researched.

4. Findings

With respect to the implementation phase of the balanced scorecard, four participants answered that they knew the balanced scorecard and had developed first ideas in the management team; another eight reported that their non-profit organisation had already taken initial steps to introduce the balanced scorecard in their organisations, e.g. by setting up a steering group. One interview partner reported that a pilot project for a balanced scorecard had started; another one reported its implementation in one division. Only six interviewees had implemented the balanced scorecard organisation-wide. Therefore, most of the non-profit organisations were, as in the study by Inemdar and Kaplan, still in an early implementation phase.

Regarding the elements of the balanced scorecard, all 20 participants of the study confirmed that their scorecards included strategic objectives, 18 of them had identified performance measures. The statements in this context made it clear that most non-profits followed a selective approach. Most of the organisations were far away from a comprehensive indicator framework. The translation of the performance measures into specific actions was partly implemented in 13 non-profits. A total of 13 organisations had also implemented target agreements – focussing either on the individual performance of a middle manager or of the team he or she was leading – on the middle management level. Performance agreements on the level of the employees were in an early stage and not always welcome. Only five interviewees reported that cause-and-effect relationships were identified.

Table II presents the compiled answers of the balanced scorecard perspectives included. One interview partner was still in the process of finalizing the perspectives included.

Two interviewees were explicitly opposed to including a mission perspective and one stated: “I am not a saint”. A total of 12 non-profits had four or fewer perspectives, one organisation six and the rest had five perspectives.

Concerning the benefits of the balanced scorecard, where the participants were asked to evaluate the relevance on a one to five scale, the consolidated figures are presented in Table III. As more than one benefit achieved the same score, no ranking was possible. As the list of benefits draw heavily on a research design by Bischof (2002) for stock exchange listed for-profit enterprises his ranking of benefits is included in Table III.

Perspectives	Frequency
Outcome perspective	1
Financial perspective	18
Customer/client/patient perspective	17
Mission (perspective)	3
Internal business process perspective	15
Learning and growth perspective	15
Employee perspective	10
Membership perspective	1
Output perspective	1

Note: $n = 19$

Source: Author's compilation

Table II.
Perspectives of the
balanced scorecards

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Benefits	Sum scores	Bischof ranking
Clarifying and communicating strategy	90	4
Improved alignment of strategic objectives with actions	87	1
Building up a performance measurement system	82	n.a.
Aligning strategic initiatives	82	9
Strengthening an organisational change process	82	n.a.
Focussing resources on strategy	80	7
Improved customer focus	79	12
Identifying business process reengineering opportunities	78	5
Developing strategy (further)	78	14
Developing a consistent system of objectives in the organisation	78	6
Support of a strategy for quality leadership	78	n.a.
Improving strategic learning	78	13
Improved understanding of cause-and-effect relationships in the organisation	74	8
Better consideration of stakeholders	69	16
Enhancing the investment in intangibles	64	17
Stronger consideration of non-financial drivers of performance	58	2
Improved financial results in the long term	58	3
Support of a low cost leadership strategy	58	n.a.
Building up a base for an incentive system	57	15
Supporting a strategy of growth	55	10

Table III.
Benefits of the balanced scorecard

Note: n.a. = not asked
Source: Author's compilation

The majority of the interviewees stated that the balanced scorecard was a very helpful instrument supporting a strategy-focussing process and it even helped them to build up a performance measurement system. Regarding the financial results, a few interviewees remarked that they were in such an early stage of implementation that they could not predict the consequences on the financial results. One added that this was a highly speculative question because he did not know how the financial results would have been without the balanced scorecard. Compared to the study by Bischof (2002) who interviewed DAX-100 companies, the non-profit interviewees were less optimistic about substantial improvements of financial performance in the non-profit sector due to the balanced scorecard, although nine interviewees expected a rising return on sales. The very low position for "building up a base for an incentive system" does not come as a surprise. This question created some adverse reactions. There were those – mostly providing services for handicapped persons – who were in favour of financial incentive systems and others who were totally opposed to it. One interview partner remarked (translation provided by the author):

If I linked our balanced scorecard with a financial incentive system, I would endanger the organisational change process that was triggered by the balanced scorecard. For our organisation it is quite a success that we even started a process to come to a consensus as to what our strategy actually is, deciding not only on priorities, but also reaching a consensus on what not to do. Linking the balanced scorecard to an incentive system would lead to endless discussions regarding the controllability and validity of the performance measures chosen.

The participants were additionally asked to give their view on a list of implementation obstacles, again by giving scores from one to five. Five means that this is a very relevant obstacle. Tables IV and V present the very high and very low scoring obstacles.

Table VI presents the sum scores for the performance measures.

The results show that financial measures play an important role in non-profit organisations. The interviewees were also asked which essential performance measures were missing. A total of 12 interview partners came to the conclusion that recipient satisfaction indicators could be improved and 11 saw a necessity in improving their measurement system with respect to ecological and social indicators.

Last but not least, the interviewees were asked about enabling factors for a balanced scorecard implementation. Commitment of the board, of managers and employees were regarded as an important enabling factor. Furthermore, a tight budget was seen as an enabling factor because the willingness to question traditional methods of operation and to focus on certain areas is higher if the non-profit organisation is on the brink of bankruptcy. The implementation of a balanced scorecard needs sufficient time and a lot of communication on all levels. The chief executive officer should have a good knowledge

Implementation obstacles	Sum scores
Pay regulations substantially limit the scope for financial incentives	76
Measurement of non-financial measures, especially outcome measures, is resources-intensive	71
Evaluation of the performance of individual employees and teams is difficult	71
Changes in laws and regulations make strategic planning quickly obsolete	71
The balanced scorecard is mainly used as a measurement instrument for financial and non-financial performance	67
Conflicting stakeholder expectations	65
Multidimensionality of the organisation's success	64
Identifying the appropriate indicators for non-financial objectives	64
Competing organisational objectives	62
Underdeveloped strategic management accounting	62

Source: Author's compilation

Table IV.
High scoring
implementation obstacles

Implementation obstacles	Sum scores
Time-consuming decision-making process to agree on a strategy	49
Underdeveloped quality management	48
Number of committees involved in setting strategic objectives	47
Missing strategy	47
Ambiguous strategy in order not to offend important stakeholders	45
Ambiguous organisational objectives	45
Opposition on part of the employees	44
Difficulties with prioritising strategic objectives	43
Ranking of the perspectives of the balanced scorecard	41
Too many performance measures (more than 25)	40

Source: Author's compilation

Table V.
Low scoring
implementation obstacles

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Performance measures	Sum scores
Covering of the expenses	92
Liquidity	80
Number of patients/clients	76
Profit	74
Cash flow	74
Sales revenues	70
Employee satisfaction	69
Recipient satisfaction	69
Satisfaction of the cooperation partners	66
Return on sales	62
Satisfaction of the donors and other financial resources providers	62
Satisfaction of the relations to the clients	62
Long-term outcome	59
Market ratio	53
Earning-equity-ratio	53
Short-term outcome	52
Increase in turn-over	50
Increase in market ratio	49
Return on investment	47
Ecological performance measures	44
Social performance indicators	31

Table VI.
Performance measures

Source: Author's compilation

of the balanced scorecard and also some expertise in managing organisational change processes. The steering group should be interdisciplinary and it is helpful if the middle management thinks in strategic terms. One interviewee mentioned that a risk management system is helpful; another stressed the necessity of a good computer system. A clear strategy is essential, as well as the willingness to discuss competing demands. The balanced scorecard should be in line with the organisation's logic and it is better to start with few good indicators. Clear responsibility and reporting structures are helpful. The balanced scorecard should also be used as a learning instrument.

5. Discussion

On a technical level one can say that the majority of non-profit organisations in the healthcare and social serve sector had taken some steps in the direction of a balanced scorecard. With less than a third that had progressed to an organisation-wide implementation the majority of the interviewees could not look back to an extensive experience with the balanced scorecard. Their situation is similar to those included in the empirical study by Inamdar and Kaplan. The result that cause-and-effect relationships had only been identified in five non-profit organisations indicates that most interviewees were only on their way towards a full balanced scorecard. According to Kaplan and Norton (2001b), it has to be stated that, if the cause-and-effect linkage is missing, then the organisations have a checklist of measures for managers and not a real balanced scorecard. Following the terminology of Speckbacher *et al.* (2003) only a minority has a Type II balanced scorecard and none a Type III balanced scorecard. The majority was in

the stage of a Type I balanced scorecard (framework for a strategic performance measurement that combines financial and non-financial strategic measures) at best. Another question is whether the measures included were really strategic. The findings concerning the implemented performance indicators raise serious doubts due to the dominance of short-term financial measures.

The idea to make the strategy everyone's job is often also not advanced in healthcare and social services organisations interviewed. Above all, implementation on an individual level was missing. The cascading down to all levels seems to be stuck in the middle. Bedford *et al.* (2008) argue that the missing roll-out is typical for organisations which use the balanced scorecard as a tool for providing information for managerial decision making, but not so much as a strategic management system. The latter requires that the balanced scorecard is cascaded down to the lower levels. According to their empirical finding, which included 92 Australian for-profit organisations, the benefits of a balanced scorecard are greater, if the balanced scorecard is implemented on all organisational levels.

With four or fewer perspectives, the majority of the non-profit organisations interviewed kept their scorecard very simple. The results, which show that classical, for-profit sector perspectives dominate in the interviewed healthcare and social services non-profit organisations are really surprising. This is not in line with the normative suggestions of adapting the balanced scorecard to the non-profit context. Only four interviewees followed the literature suggestions of including a mission or outcome perspective. Several interpretations spring to one's mind: first, it is easier to implement the classical textbook perspective before moving to the more complicated perspectives. Second, the non-profit organisations studied are in a transformation process. They are operating in a field dominated by private sector logic for strategic planning with a focus on customers, markets and competition (Moore, 2000). This interpretation is in line with a finding by Lakes (1999), who argues on the basis of an empirical study, that social non-profit organisations increasingly see their private competitors as a role model. Since the end of the 1990s, the competition in the German health care and social services sector has increased, including the emergence of big for-profit providers and an increased threat of bankruptcy. Another explanation can be argued by using institutional theory (Scott, 1987; Zucker, 1987; DiMaggio and Powell, 1991). The majority of the non-profit organisations interviewed use the balanced scorecard because it is regarded as a modern management tool, helping to create legitimacy. The balanced scorecard may serve as an example of mimetic isomorphism (DiMaggio and Powell, 1987) and is used in a loosely-coupled or decoupled way (Scott and Meyer, 1991, Lawton *et al.*, 2000). Following the argumentation by Scherm and Pietsch (2005), the balanced scorecard may have a double function. First, it helps to increase trust in the management of a non-profit organisation and therefore it may serve as a signal that the management is up-to-date with modern management tools. Second, it may also add to the legitimacy of the major financial resource providers because they can communicate to their own key stakeholders that they have supported organisations, which subscribe to an efficient delivery of societal goals. With a sample of 20 non-profit organisations and the research design adopted, it is not a clear-cut decision which explanations carry most weight.

If we take into consideration the benefits of the balanced scorecard, the healthcare and social services providers seem to use it not so much as a strategy development

instrument but as a strategy implementation instrument which was the original idea of the balanced scorecard (Kaplan and Norton, 1996a, b). The first-third of the answers address aspects which the interviewees of Inamdar and Kaplan also mentioned regarding the consensus on the strategy and a more targeted resource allocation.

It is not surprising that the interviewees see the balanced scorecard more as an instrument to implement a quality leadership strategy than a strategy of growth. Unlike the original idea of the balanced scorecard the answers indicated further that in the organisations studied, the balanced scorecard is used more as a management information system than a strategic management system. This interpretation is in line with the fact that only five organisations had identified cause-and-effect linkages and the dominant performance measures. The balanced scorecard's contribution to promote a better stakeholder-orientation is ranked quite low considering that non-profit organisations, in general, are often seen as multi-stakeholder organisations (Kanter and Summers, 1987; Anheier, 2005) and that this is a major challenge for the non-profit management (Anheier, 2005).

That the benefit of "building up a base for an incentive system" created some antagonism does not come as a surprise. Linking the balanced scorecard to a pay-for-performance system is a widely discussed topic. Kaplan and Norton (1996a, b, 2001a) promote this vigorously, also in favour (Bonner and Sprinkle, 2002). A more sceptical position can be based on arguments found in the Smith (1993), Antle and Demski (1998), Hollstroem and Milgrom (1991) and Pfaff *et al.* (2000). These authors draw attention to the unintended side effects (Smith), the controllability principle (Antle and Demski), the multitasking problem and problems identifying appropriate weighing factors (Pfaff *et al.*). Not unexpectedly some of the interviewees feared a crowding out of the intrinsic motivation in non-profit organisations, which is in line with theoretical discussions (Frey and Goette, 1987; Frey *et al.*, 2001). Sometimes it is also argued, for non-profit-organisations, in general, that to pay for performance is unethical in the non-profit sector (Oster, 1995; Herzlinger, 1996).

Compared to Bischof's empirical results for German for-profit organisations, the interviewed non-profit healthcare and social services providers ranked much lower the consideration of non-financial drivers for performance, the improvement of financial results and the support of a growth strategy. Instead they favoured a strategy of quality leadership, which can be regarded as more in line with a non-profit mission. The low ranking of the non-financial performance drivers is consistent with the fact that the non-profit organisations have still much homework to do measuring the outcome or their social and ecological performances.

If one looks at the high- and low-ranking obstacles, some of the low-ranking obstacles are surprising in comparison to the expectations presented in the research design. The challenges for the strategy formulation process were ranked low by the interviewees. Neither a clear strategy identification nor the prioritizing of strategic objectives was regarded as a difficult endeavour. Also the ambiguity of organisational objectives was ranked as a minor obstacle for implementing a balanced scorecard, which is in contrast to the theoretical discussion for non-profit-organisations in general (DiMaggio and Powell, 1987; Muray and Tassi, 1994; Herman and Renz, 2004). One explanation is that in the organisations interviewed so far, the balanced scorecard is not well linked to the organisation's overall mission. Such an interpretation would also be supported by the fact that the majority of interviewed non-profit-organisations

had not included a mission or outcome perspective in the balanced scorecard. In the majority of cases, it can be argued that obstacles in the area of strategy formulation are ranked so low because the balanced scorecards implemented lack a tight link to the strategy since only five interviewees had succeeded in operationalising their strategy by cause-and-effect relationships. Such a low ranking of obstacles in the area of strategy formulation foster doubts whether the organisations interviewed use the balanced scorecard as a strategic management system or whether operative measurement effects prevail.

With respect to the indicators used, the results show clearly that financial indicators play an important role on the measurement level, followed by subjective satisfaction measures. A look at the more complicated non-financial performance indicators reveals that the interviewees have some work to do. Furthermore, measures like liquidity, cash flow or covering the expenses may be important measures with respect to the short-term financial situation, but lack a medium to long-term strategic orientation. They do not contribute to looking beyond an organisation's short-term survival. Therefore, on the measurement side the balanced scorecards were not balanced.

The enabling factors are often so general that they are valid for any form of sound project management (sufficient commitment, enough time, sufficient communication and qualifications, etc.). Most interviewees subscribed to a top-down approach. Only one recommended a bottom-up approach, stressing that this helped to increase the acceptance by the employees. The preference of the top-down approach is not in line with the expectation that non-profits may actively promote democracy (Putnam, 1993; Commission of the European Union, 1997; Badelt, 2002; Zimmer and Priller, 2004).

6. Conclusions and directions for further research

With respect to the *RQ1*, it has to be stated that the exploratory empirical study has shown that most of the non-profits studied still have a long way to go if they wish to use the balanced scorecard as a fully developed strategic management system. So far most of the interviewees have only a measurement system with an unbalanced distribution of financial and non-financial performance measures and lack cause-and-effect linkages as well as compensation links at all levels. In the majority of cases, the perspectives mentioned follow the classical approach in its unmodified version as noted by Kaplan and Norton for for-profit entities. In most cases, the experience with the balanced scorecard was not advanced and thus in line with a Type I balanced scorecard.

Concerning the *RQ2*, the following can be stated: especially, benefits in the area of strategy implementations scored high which is in line with the original idea of the balanced scorecard. Also the chance to build up a performance measurement system and supporting organisational change processes ranked high in the non-profit organisations. Limitations to introduce a pay-for performance systems, measuring problems and obstacles originating from challenges in the area of clear organisational success measures were seen as major implementation obstacles. A strategic planning in the heavily regulated social service sector in Germany is difficult due to short-term interventions by the German legislator. This is to some extent a Germany specific.

The dominance of financial indicators is highly unsatisfactory. With respect to long-term measures and non-financial measures the interviewed did not perform well. Most of the enabling factors for a successful implementation are so general that they are valid for many performance or project management initiatives.

In conclusion, the findings show that the interviewed still have a long way to go to implement all elements of a balanced scorecard as a strategic management system. At best they are somehow stuck in the middle, a process, which can be also observed in for-profit implementations (Speckbacher *et al.*, 2003; Andon *et al.*, 2005; Bedford *et al.*, 2008). One of the unexpected results was that so few of the interviewees had chosen to include a mission perspective into their balanced scorecard.

This study, like any empirical research in a complex world, has its limitations. The first one is that it follows a descriptive rather than a qualitative research design. The use of a single item construction made it easy to gather quite a lot of information, however, it would have been of interest to learn more about the why (e.g. why cause-and-effect linkages are not implemented, why a mission perspective is so seldom used, why stakeholder conflicts do not play an important role or ambiguous organisational objectives do not make strategy formulation difficult). Here, a follow up study could be helpful.

The results are not representative as it was a challenge to find non-profit organisations which had managed to implement the balanced scorecard. The sample focused exclusively on healthcare and social services providers. The non-profit organisations included were mostly in the early phase of balanced scorecard implementation. A follow up would therefore be interesting to see if the balanced scorecard proved to be a sustainable management instrument or whether other management tools replaced it. Since Kaplan and Norton claim that the balanced scorecard is not only a strategic management system, but also a promoter for propelling organisations forward to becoming front runners in their field, it would be interesting to find out how this works in markets which, at least in Germany, are heavily regulated. Positive external effects complicate the situation even further.

In a broader context, with respect to the institutional theory, it might be interesting to learn a bit more about the instruments (and their life span) which non-profits adopt to increase their legitimacy. Another unsolved theoretical question is how to balance conflicting stakeholder demands in the non-profit environment. This problematic balancing aspect of the balanced scorecard (Andon *et al.*, 2005) becomes even more complex in the non-profit environment.

Last but not least, it would be of interest to compare the ranking of challenges and obstacles of the balanced scorecard across countries in order to find out if countries with a longer tradition in performance measurement in the area of healthcare and social services come to different results.

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About the author

Dorothea Greiling is the Head of the Institute for Management Accounting at the Johannes Kepler University Linz (Austria). Her main field of research is behavioural management accounting, with a special focus on non-profit organisations. Dorothea Greiling can be contacted at: dorothea.greiling@jku.at

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