Developing a Conceptual Model for Measuring Performance of Australasian Nonprofit Sector

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Abstract
Measurement of strategic performance is important to any organisation, irrespective of the sector to which the organisation belongs. The nonprofit sector is a growth sector in Australasia. With the growth in the sector comes increased pressure from different stakeholders for better management of nonprofit organisations to improve their performance. This paper explains the development of a conceptual model that is primarily grounded on a performance measurement (PM) model known as the balanced score card (BSC)—a widely accepted PM model by the for-profit sector. The work reported in this paper cover the initial phase of a larger project on operationalising the BSC to the Australian and New Zealand nonprofit healthcare organisations.

Key words: Performance measurement (PM); Australasian nonprofit healthcare organisations; Balanced Scorecard (BSC)

Topic: Quality and performance

Methodology: Theory and/or research framework

Introduction
Measurement of strategic performance is important to any organisation, irrespective of the sector to which the organisation belongs. The nonprofit sector is a growth sector in Australasia. As such, the nonprofit sector is beginning to make an impact on the economies of both countries. With the growth in the sector comes increased pressure from different stakeholders for better management of nonprofit organisations (NPOs) to improve their performance. Whilst all organisations exist to achieve certain high level (strategic) objectives, in the case of NPOs most of these objectives, if not all, relate to serving the community (hopefully a well-defined group) to make some positive impact on them (Maas & Liket, 2011; Salamon & Sokolowski, 2004). No matter to which sector an organisation belongs (for-profit, public or NPO), it needs to measure (formally or informally) how it is performing in achieving its strategic objectives. Formal performance measurement (PM) models, such as the balanced score card (BSC) have been prescribed as models or tools that aid managers in developing appropriate performance measures to suit the strategic objectives of individual organisations. A PM model (e.g. the BSC) is useful to the practitioner as a model for generating performance measures for his/her organisation only if the dimensions or the constructs of the PM model have been defined well enough to facilitate the generation of performance measures (Kaplan, 2001, 2002; Neely et al., 2000). If the dimensions (constructs) of the
PM model are inadequately defined for the sector to which the practitioner’s organisation belongs, the PM model does not help either the practitioner (in generating performance measures) or academia (in explaining successful performance from not so successful performance of the practitioner’s organisation) (Kaplan, 2001, 2002; Neely et al., 2000).

Historically, performance reporting (hence performance measurement) focused on the owners (including shareholders of publically quoted companies) of private sector organisations; they required financial information to ensure that they get the expected returns on the investments they make. The managers who manage the organisations on behalf of the owners also needed financial information to take corrective action, when needed. Kaplan and Norton (1992) who developed the BSC (for profit-based organisations) were the first to show the disadvantage of relying on the financial dimension alone. Since the financial performance is a lagging indicator, in the sense, the current financial performance is a result of certain causes that have occurred already, Kaplan and Norton argued that key causal antecedents of financial performance should also be monitored (and corrective action be taken) as an integral part of performance measurement (Kaplan and Norton, 1996; Voelker et al., 2001). The BSC is by far the most widely used PM model around the world (Chytas, Glykas, & Valiris, 2011; Neely, 2002; Taticchi, Tonelli, & Cagnazzo, 2010).

The main focus of a formal PM model is facilitating the generation of performance measures along the performance measurement dimensions prescribed in the model. For example, the BSC prescribes four dimensions for the for-profit organisations: learning and growth, processes, customer, and financial. This prescription is based on the premise that strategic organisational resources—learning and growth, being characterised by organisational capital, information capital, human capital—cause efficient and effective processes, which in turn cause customer value creation, which ultimately causes shareholder value creation. Thus the underlying theory, its assumptions as well as the constructs (dimensions) of the BSC are well defined for the for-profit sector (Leroux & Wright 2010; Kaplan, 2008).

The BSC prescribed for the nonprofit (and public) sector uses the same PM dimensions for the for-profit sector, plus one additional dimension (mission) (Kaplan. 2001, 2008). However, the nature of NPOs, the goals that they pursue, and the environment within which they operate, do significantly differ from those for the for-profit sector (Carman and Fredericks, 2008; Salamon and Anheier, 1997). Therefore the BSC constructs (dimensions) for the nonprofit sector need to be operationally defined differently than for the for-profit sector. Unfortunately, there is very little work being done in Australasian settings to understand how the BSC constructs (or constructs of any other PM model for that matter) do work or how they are operationally defined for the nonprofit sector. This paper describes research aiming to fill this research gap.

The operation and scope of NPOs can differ from country to country (e.g. USA versus New Zealand) as well as activity to activity (e.g. professional services versus community healthcare services). However, there are eight internationally accepted country clusters and unsurprisingly, both New Zealand and Australia fall into the same cluster. This paper focuses on developing a conceptual model for the purpose of operationally defining PM dimensions (constructs) for nonprofit organisations in New Zealand and Australia that provide community healthcare services, using the BSC as the main theoretical framework to build upon. The work reported in this paper cover the initial phase of a larger project on operationalising the BSC to the Australian and New Zealand nonprofit healthcare organisations (the state owned hospitals are not nonprofit organisations).
This paper covers the first phase of a wider, ongoing doctoral research project that aims to understand performance measurement constructs for nonprofit organisations. The research project is limited to healthcare Australasian organisations that operate on nonprofit basis but not publically owned.

The specific objectives of the research are as follows:
1. To identify and operationalise the constructs of PM using the BSC for initial model building (this paper relates to the initial work being done to achieve this objective).
2. Explain in descriptive terms how nonprofit organisations achieve their mission (this paper relates to the initial work being done to achieve this objective also).
3. To develop a scientifically validated performance measurement instrument to test the validity of the PM constructs and hypothesised theoretical relationships.
4. To test the PM model using a large sample of data.
5. To compare and contrast the model (its constructs and the hypothesised relationships) with the existing PM models, in particular the BSC from which the study began.
6. To validate the model with longitudinal data (post-doctoral).

**Literature Review**

**Performance Measurement versus Actual Organisational Performance**

Any research that develops new PM models or works on improving the existing PM models (such as this research) would be of little value if the literature does not support the notion that performance measurement leads to improved overall organisational performance. Literature supports the proposition that performance measurement is positively related to organisational performance both in the for-profit sector (e.g. Tung, Baird, & Schoc, 2011) and more importantly, in the nonprofit sector (e.g. Francisco & Alves, 2012; LeRoux & Wright, 2010; Limburg, Knowles, & McCulloch, 2012).

Based on large sample survey data from the US NPOs, LeRoux and Wright (2010) empirically studied the strength of the relationship between the dependence of performance measures and actual strategic performance. They found that there is significant positive relationship between the breadth of performance measures used (i.e. performance measures that span across multiple dimensions) and strategic performance. They also found that there were also other factors that contribute effective strategic performance: “governance”, diversity of funding and the “education level of the executive directors”. From a literature review Limburg, Knowles and McCulloch (2012) showed that whilst performance measurement is positively related to strategic performance in an NPO, the relationship is not as strong as in a for-profit organisation. They showed that the main reasons for this are; having to have multiple purposes (an NPO has to achieve its mission but it must also ensure financial stability), complex stakeholder environment, and having to report to multiple stakeholders who need different information from the NPO. They argued that a PM system of an NPO can improve its effectiveness through an “enterprise performance management system”.

Using a single Portuguese case study (in-depth interview of managers and scrutinising of administrative documents), Francisco and Alves (2012) investigated how multiple stakeholder interests can be incorporated into a PM system to make easier assessment of the organisational performance. They found that whilst the NPO they studied used several measures, the managers were concerned about not having a simple and elegant performance measure such as the “profitability” for a for-profit organisation. Francisco
and Alves proposed a multidimensional framework based on the “stakeholder theory” (Donaldson & Preston, 1995; Freeman, 1984) to improve the effectiveness of the PM system of an NPO.

Performance Measurement Frameworks for NPOs
The literature review revealed that apart from the BSC, there are only a limited number of PM models that have been prescribed for NPOs as tools for measuring overall performance. These include the Performance Prism (Neely, 2002), The Production of Welfare Framework (Kendall and Knapp, 2000), Common outcome Framework (Lampkin, 2007), and Logical Framework (Rosenberg et al., 1970).

It appears that all key PM models use systems theory as the basis for developing these models. Systems theory is a general theory which views an entity (physical or organic) as a collection of interconnected processes—the processes being operated within a known environment—that transforms inputs (resources) into outputs (outcomes in the case of organisations) (Kast and Rosenzweig, 1985; Stoner et al., 2002; Hatch and Cunliffe, 2013). Systems rely on cybernetics (feedback) for survival (Ackoff, 1999) through self-correction and it is here that PM comes into its own (Hatch and Cunliffe, 2013). Two most relevant PM models for the research are reviewed as follows.

The Balanced Scorecard (BSC)
Since BSC was developed by Kaplan and Norton (1992) as an accounting tool (Kaplan was a professor in accounting at the Harvard Business School at the time of publishing the BSC in 1992) for private corporations (Kaplan and Norton, 1992; Kaplan, 2008), Kaplan and Norton (1992) premised that private corporations are “profit driven” in that they exist to maximise value to the shareholders. However, they showed that traditional financial measures alone do not provide sufficient management information for the managers who manage the organisation on behalf of the shareholders (Kaplan, 2008). Kaplan and Norton showed that value to shareholders (profitability) results from satisfying the external customers (who buy the goods or services produced by the corporation) and that customer satisfaction results from managing the processes efficiently and effectively by using the organisational resources—in particular, people and knowledge. Therefore Kaplan and Norton asserted that management reporting should strike the right balance between information on financial performance and information on the antecedents of financial performance (Kaplan, 2008). Consequently, as mentioned earlier, the BSC entails four measurement perspectives (dimensions) aligned in a sequential order: learning and growth, processes, customer, and financial (Neely, 2002; Kaplan, 2008).

The BSC has come a long way from being a mere management accounting tool to a strategic decision making mechanism through a number of revisions and refinements (Kaplan, 2001; Lawrie and Cobbold, 2004; Kaplan, 2008; 2gclimited, 2009). In addition to tailoring the BSC to suit NPOs at the turn of the century (e.g. Kaplan, 2001), it is generally agreed that the BSC has seen two major revisions (the four measurement perspective have remained intact) (2GCLimited, 2009; Kaplan, 2008; Lawrie & Cobbold, 2004). The first major revision was incorporating strategic objectives (strategic goals expressed in objective terms) into the BSC—each measurement perspective accommodating one or more strategic objective and the general appreciation that the BSC needs to be further developed to explain causality (Kaplan, 2008; Lawrie & Cobbold, 2004). The second revision, which sees the BSC in its current form, addresses the causality through an accessory known as the “strategy map”, which maps the linkages between strategic objectives to explain how the shareholder value is
maximised (in the case of for-profit organisations, which are profit driven) or the mission is accomplished (in the case on NPOs, which are mission driven) (Kaplan, 2008; Lawrie & Cobbold, 2004). It is important to note that the BSC is evolving constantly. The conceptual foundation of the BSC was first detailed by Kaplan in a paper in 2008 (Kaplan, 2008); this paper has since been presented in the public domain as a Harvard Business School’s working paper (Working Paper # 10-074 published in 2010) to invite comment and discussion from a wider audience.

The nonprofit version of the BSC (e.g. Kaplan, 2001; Kaplan and Norton, 2001) was developed by (Kaplan, 2001) in response to some of the difficulties NPOs were facing in using the original BSC. Kaplan found that while the NPOs welcomed the (original) BSC due to its attractiveness of having several (three of them) nonfinancial dimensions, they had a difficulty in comprehending the implied causal structure of the BSC, which (among other things) places financial perspective (financial performance) as the final outcome. Another difficulty the NPOs were facing, according to Kaplan, was comprehending who the customers were. While Kaplan did not attempt to define who the customers of an NPO were—those who provide funding or those who benefitted from the services provided by the NPO (community/constituents)—he recognised that financial performance cannot be the final outcome of an NPO. In his words, “success for nonprofits should be measured by how effectively and efficiently they meet the needs of their constituents. Financial considerations can play an enabling or constraining role but can rarely be the primary objective”. Since the mission of an NPO is creating a positive impact on the constituents, Kaplan used Mission (achievement) as the final outcome (the fifth dimension) that comes with a time lag, as a result of the four dimensions prescribed in the original BSC.

Figure 1 shows the theoretical underpinning of the nonprofit BSC.

![Diagram of the nonprofit BSC constructs/dimensions](Source: Kaplan, 2001)
Kong (2008) raised three questions on the suitability of the BSC for NPOs: lack of an operational definition for customers (donors or the constituents? and if they are both, can they both share a similar expectation?), not taking into account stakeholder satisfaction, and the lack of clarity in the implied causal relationships (Figure 1)—which have been criticised by Norreklit (2000). Taking into account these shortcomings, Williams and Lewis (2008) argued that the BSC, in its current form can cause more harm than good for NPOs.

Criticisms notwithstanding, the applicability of the BSC for NPOs has been tested at organisational level. For example, using the multicriteria decision making approach Grigoroudis, Orfanoudaki and Zopounidis (2012) demonstrated how a BSC could be developed (including strategy map development) in a healthcare organisation. Valderrama, Cornejo, and Bordoy (2013) used the data envelopment analysis method to validate the BSC in a Spanish university. While there have very few Australasian studies on the relevance or the validity of the BSC in NPOs, there have been interesting studies (e.g. Greatbanks and Tapp, 2007; Hoque and Adams, 2011; Northcott and Taulapapa, 2012; Ridwan et al., 2013) on the applicability of the BSC in the public sector organisations such as city councils, secondary and tertiary hospitals belonging to the DHBs, government departments and (Australian) state owned enterprises. The gaps found in some of the studies have relevance to NPOs as the public sector organisations that were covered in these studies operate in a somewhat similar fashion to some nonprofit Australasian organisations (e.g. the social impact is important to both sectors).

Greatbanks and Tapp (2007) conducted a longitudinal case study on the Dunedin city council to determine how the BSC impacts on the council’s employees’ activities and processes to deliver customer service. They found that the BSC has a positive impact on the employees in executing the council’s strategic plan to deliver customer service. Hoque and Adams (2011) studied the breadth and depth of application of the BSC in Australian government departments. They found that Australian government departments that use the BSC as a primary mechanism to implement the strategy outperform the departments that do not use the BSC intensely for strategy implementation. Using a postal survey followed up by an interview of select group of personnel Nortcott and Taulapapa (2012) studied how the BSC is being implemented in New Zealand government departments to identify shortcomings of the BSC as a tool for performance management in the public sector. They found that the four constructs prescribed in the BSC need to be substantially redefined to suit the sector and that causal links between the constructs need to be empirically established for managers to use the BSC with greater conviction.

While success stories or otherwise on the tenability of the BSC in NPOs and public sector organisations are prevalent in the literature as mentioned above, through an exhaustive literature review, (Kong, 2010) found that the BSC is less effective in delivering social value an NPO is supposed to deliver, due to incompatibility of the four measurement dimensions with strategic goals. The UK research organisation 2 GC Limited identified five factors that hinder development of scorecards in the nonprofit sector: difficulty in operationalising what success means, difficulty in changing the scorecard frequently as the organisation adjusts and readjusts to strategic challenges, difficulty in defining measurable performance measures, need to change the scorecard to take into account “limited accountability for results”, and lack of guidance on how financial metrics should be developed (2GCLimited, 2009).

Using structural equation modelling (quantitative research is very rare in PM research), and using the literature on the BSC, Wu and Hung (2008) conducted an empirical study...
(N = 135) to test performance factors and their relationships of cause-related marketing in a Taiwanese privately-owned nonprofit social group. They hypothesised that learning and growth causes internal processes which in turn simultaneously causes financial sustainability and customer satisfaction—both of which in turn cause mission achievement. Out of the five constructs they modelled two constructs learning and growth and internal processes as a multidimensional (seconded-order) construct that reflect several first order constructs; leaning and growth was modelled via human capital, organisational capital and information capital while processes were modelled via operation management, regulatory and social, customer management, and innovation. The major shortcoming of this study is excessive abstraction (second order constructs being very abstract) and having too many constructs. The researchers mentioned that a better model needs to be explored to study cause related marketing. Also, the Taiwanese context that the researchers covered could be very different from the Australasian context.

As mentioned earlier, it has been argued that the customer perspective in the BSC imposes some difficulties in adopting the BSC to NPOs. Unlike the for-profit sector, the nonprofit sector attracts different kinds of customers (Moore, 2003; Talbot, 2010). One customer segment consumes goods and services without paying (beneficiaries) whilst a third party, which is also a customer segment, acts as charitable donors who supply the resources to serve the first customer segment. Both customer segments are equally important to NPOs because fulfilling the aspirations and requirements of these customers are crucial for their sustainability (Moore, 2003). Therefore another challenge in implementing the BSC framework to NPOs is the difficulty in identifying who the actual customers are and whether the customer segment beneficiaries should be given priority or otherwise over the customer segment donors (2GCLimited, 2009; Moore, 2003; Talbot, 2010).

Applying BSC to Healthcare Organisations
Yang, Cheng and Yang (2005) proposed an implementation framework of the BSC for Taiwanese NPOs. They then validated their framework through a case study involving a hospital. They employed two research methods in their case study: (a) exploration of NPOs to identify processes, characteristics and issues they may have and, (b) in-depth interviews to obtain the clear picture about the operation and the organisational structure of an NPO. Addition to the above methods, they also used literature related to the BSC to develop their model. Through three comprehensive phases, namely, the planning phase of developing BSC, development of the contents of the BSC, and feedback on the implementation of the BSC, they came up with a final model which consists of five perspectives: Customer, Internal business process, Learning and growth, Financial, and Society promise. After implementing the final model in the organisation for one year, the researchers concluded that the BSC is suitable for NPOs (based on the single case study evidence). They emphasised the importance of continuing the research in other NPOs to further refine their model. The Taiwanese context that the researchers covered could be very different from the Australasian context.

Stewart and Bestor (2000) conducted a case study on a nonprofit Community Memorial hospital in Washington and Ozaukee counties in Wisconsin to design and implement an integrated performance measurement system for the hospital as this hospital was facing both market deregulation and competition for customers (patients) from other hospitals. Stewart and Bestor employed the BSC to develop an integrated performance measurement system, which contained: performance criteria, standards and measures and the link between hospital objectives, operating plans and day-to-day
performance. They found that the BSC approach to performance measurement provides an effective and efficient way to combine day-to-day activities to the strategic objectives of the organisation.

Conducting interviews with a select group of personnel (the vice president, the administrative team and the board of directors) Kocakülâh and Austill (2007) studied the Midwestern healthcare system in the US to answer the research question “why the BSC should be used by the healthcare organisations?” They found that the four constructs prescribed in the BSC do not hit the nonprofit healthcare sector and hence these need to be substantially redefined as Customer satisfaction, Clinical quality, Operations, and Financial to suit the sector; the researchers also emphasised and importance of modifying the BSC according to the mission and vision of the organisation before the BSC is adopted for strategic management purposes (planning, implementing and monitoring the strategies).

The Performance Prism
Neely (2002) designed the framework the Performance Prism (PP) using an accessory that was termed the “success map”; the success map embraces the organisation strategy into the management system. Five interrelated facets (dimensions)—Stakeholder satisfaction, Strategies, Processes, Capabilities, and Stakeholder Contribution—are embodied in the prism. The first facet Stakeholder satisfaction - inquires: “Who are the stakeholders and what do they want and need?” (Neely et al., 2001). This facet provides a wider understanding on stakeholders—employees, suppliers, partners, and the community—compared to the BSC and other PM frameworks (Neely, 2002). The second facet (Strategies), which follows from the first facet, concentrates on organisational-level strategies. The PP emphasises the importance of deriving strategies according to the stakeholders’ expectations. Thus the second facet addresses the question: “What are the strategies we require to ensure the wants and needs of our stakeholders are satisfied?” (Neely et al., 2002). The third facet (Processes), which follows the second facet, addresses the question: “What are the processes we have to put in place in order to allow our strategies to be delivered?” (Neely et al., 2001). PP requires all key processes that have been established to conduct organisational functions be considered in identifying performance measures under the processes dimension. Conceptually, the processes dimension in the PP is analogous to internal processes dimension in the BSC. The fourth facet (Capabilities), which follows from the third facet, captures the employees, rules, skills, machinery and organisational setup. Conceptually, the capabilities dimension in the PP is analogous to the learning and growth dimension in the BSC. The said four PM dimensions of the PP are the dimensions that strengthen an organisation’s competitive advantage (in a nonprofit context, the organisations still do compete with one another for resources such as funding and skilled labour). According to Neely (2002), while most of the other performance measurement systems (most notably the BSC) posit “customer satisfaction” as an antecedent of shareholder value creation (e.g. profitability), these models do not consider the importance of customer contribution (not the money the customers pay to buy products and services) and the other key stakeholder contributions towards the success of the organisation. Taking this into account Neely included the fifth dimension (facet) of the PP: Stakeholder contribution. Figure 2 exhibits how PP explains the relationship between an organisation’s results (Stakeholder satisfaction) and the other facets.
The key feature in the PP is “Stakeholder satisfaction” which is not considered in the BSC and many other PM systems (Forcada et al., 2008). Although the PP has not been empirically validated even at organisational level, stakeholder satisfaction seems to be a valid construct or at least, a proxy for success of an NPO.

However, the PP is not without its critics. Bryson (2001) contends that the PP does not form a link between the strategic indicators and the operational indicators; he also argues that the PP does not provide insights as to how it should be practically implemented for performance improvement (Bryson, 2011); Mendibil and MacBryde, (2005) argue that PP is a weak theoretical model because the causal connections between the facets are not well articulated.

Methodology

Adopting the BSC for the Australasian Nonprofit Healthcare Organisations

Using the literature mentioned above the conceptual model shown in Figure 3 was developed by the first author, primarily based on balanced scorecard. The key reasoning used to develop the conceptual model (Figure 3) is given below.

- Mission and Core Values: The mission and core values should be at the heart of the model (top priority) since NPOs are mission driven organisations and the mission should emphasise why the NPO exists categorically.

- Strategies: The organisational strategies should be derived according to the mission and the vision (not based on profitability motives); in addition the core values and stakeholder satisfaction should also be factored in. The question the managers should ask themselves is: “what are the strategies that need to be formulated and implemented to ensure that the mission is achieved and the stakeholder value is delivered?”

- Processes: Processes should ask the question “what are the processes that have to be put in place in order to allow strategies to be implemented?”

- Organisational capabilities and employee development: Organisational capability embraces all the organisational strengths and limitations (employees, technology, skills, knowledge etc.) that enable the organisation to carry out its processes efficiently and effectively as well as the knowledge the organisation assimilates over the course of its existence. Human resources are the key resource for the NPOs as their contribution is vital for the organisational sustainability and success of the NPOs (it is important to recognise that a vast number of human resources belonging to NPOs are volunteers). Thus the concept Organisational capabilities
and employee development asks the question: “what capabilities we should develop to drive key processes to deliver stakeholder value?”

- Stakeholder satisfaction: This concept prompts managers to ask the question: “who are the stakeholders and what are they expecting from the NPO?” The processes shall result in creating value (hence satisfaction) to all key stakeholders. Stakeholder satisfaction should capture delivering the social impact (social value) to the community to which the NPO serves. The stakeholder dimension has been borrowed from the Performance Prism (Neely et al, 2002)

- Economic sustainability: Though the NPOs are not profit oriented organisations they have to have financial infrastructure to continue serving their customers, pay employees (non-volunteers) and meet numerous overheads—in short, maintaining the organisations. As Kaplan (2001) asserted Financial sustainability acts as an enabler for achieving the mission.

Given that simplicity (without compromising the explanatory power) is a vital characteristic of a good model (Dubin, 1978; Whetten, 1989), in finalising the conceptual model, including creating operational definitions for the constructs through qualitative data collection (see the next section – operationalising the constructs), consideration has to be given to reducing the number of constructs. The mission and core values are the starting point in planning strategies (Bryson, 2011). As such, the mission and core values should be subsumed in the operational definition of the construct Strategy. It needs to be considered, for the sake of simplicity, whether stakeholder satisfaction in NPOs could be equated to achieving the organisational mission (in the conceptual model these are shown as two separate constructs). Conceptually, stakeholder satisfaction in NPOs could be quite different from stakeholder satisfaction in for-profits. In NPOs people work voluntarily and those who donate do not expect a financial return as such. Therefore stakeholder satisfaction does not seem to be monetarily driven in NPOs, thus warranting a comprehensive operational definition of this construct.

![Figure 3- Conceptual model developed for Australasian nonprofit healthcare organisations based on the BSC](image)
Here it explains the first phase of the wider research, which involves three phases—qualitative (phases 1 and 3) and quantitative (phase 2). The first qualitative data collection shall be accomplished by means of semi-structured interviews conducted between the lead researcher and a sample of NPOs (directors/senior executives), in order to draw out rich data to help the researchers to identify and develop the PM dimensions or the constructs (Figure 3); the qualitative data analysis will also enable the researchers to get a deeper understanding of the stakeholder environment and other contextual factors, the strategic goals and objectives of NPOs, the organisational processes that they (healthcare) put in place to deliver value to the stakeholders and achieve overall organisational performance.

**An overview of Australasian Nonprofit Healthcare Sector**
The organisations that provide healthcare services (general and special) and advice on health related issues on a nonprofit basis that are neither private nor public (e.g. private hospitals, government hospitals) are defined as nonprofit healthcare organisations. These organisations are categorised into subgroups according to the services they provide, as shown in Table 1 (Australia) and Table 2 (New Zealand). There is a high degree of similarity between the Australian classification and the New Zealand classification, which is a desired factor in this study as the operational definitions of the PM dimensions (Figure 3 shows the dimensions/constructs) are expected to hold true for both Australian and New Zealand nonprofit healthcare organisations.

**Table 1- The Composition of the Australian Nonprofit Healthcare Sector**

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals and rehabilitation</td>
<td>Primarily inpatient medical care and treatment and inpatient health care and rehabilitative therapy to individuals suffering from physical impairments due to injury, genetic defect or disease and requiring extensive physiotherapy or similar forms of care.</td>
</tr>
<tr>
<td>Nursing homes</td>
<td>Inpatient convalescent care and residential care, as well as primary health care services; includes homes for the frail elderly and nursing homes for the severely handicapped.</td>
</tr>
<tr>
<td>Mental health and crisis intervention</td>
<td>Inpatient care and treatment for the mentally ill and outpatient treatment for mentally ill patients; includes community mental health centres and halfway homes and outpatient services and counsel in acute mental health situations; includes suicide prevention and support to victims of assault and abuse.</td>
</tr>
<tr>
<td>Other health services</td>
<td>Public health and wellness education, rehabilitative medical services and emergency medical services includes ambulatory services and paramedical emergency care, shock/trauma programs, lifeline programs and ambulance services.</td>
</tr>
</tbody>
</table>

Note: There are 21250 registered nonprofit healthcare organisations in Australia
Table 2 - The Composition of the New Zealand Nonprofit Healthcare Sector  
(Sanders et al., 2008)

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals and rehabilitation</td>
<td>Hospitals providing in-patient healthcare including physiotherapy and other rehabilitative therapy for those suffering from injury, genetic defect or disease.</td>
</tr>
<tr>
<td>Nursing homes</td>
<td>In-patient convalescent care and residential care, nursing homes for the severely handicapped, hospice services.</td>
</tr>
<tr>
<td>Mental health and crisis intervention</td>
<td>Psychiatric hospitals, outpatient treatment for mentally ill and outpatient services and counsel in acute mental health situations.</td>
</tr>
<tr>
<td>Other health services</td>
<td>Public health promotion and health education, outpatient health treatment, outpatient rehabilitative medical services and emergency medical services.</td>
</tr>
<tr>
<td>Support and ancillary services</td>
<td>Nonprofit institutions not adequately covered in the activity descriptors above but related in purpose.</td>
</tr>
</tbody>
</table>

Note: There are 8997 registered nonprofit healthcare organisations in New Zealand

Data Collection and Sample Selection
The questions that will be used for the semi-structured interview will cover the constructs in the conceptual model as well as the contextual information relevant for the model/theory being examined. Table 3 below shows some of the questions that will be asked via the interview process.

In qualitative data collection, it is important to focus on a particular group (the unit of analysis) in which all members are similar on such aspects as the occupational level and participant characteristics as this allows a researcher to explore a particular matter to a greater depth (Saunders et al., 2012). For this reason, a homogeneous purposive sampling consisting of directors, CEOs and seniors executives (in Australasian nonprofit healthcare organisations) were selected for the qualitative phase.

Unlike in probability sampling, there are no rules of thumb or parametric techniques to determine sample size in non-probability sampling (Saunders, 2012). Thus sample sizes will be decided on information saturation- until no additional information or new ideas are reached (Saunders, 2012). The sample size determination criterion of data collection is depicted in Figure 4.

Justification of Semi-Structured Interviews
Qualitative data can be collected through participants’ knowledge, experience and observation or various other methods. Interviews are the most common qualitative data collection method. In contrast to survey questionnaires used for large sample studies, qualitative information gathering aims to explore deep beneath the surface issues to identify the real situation that individuals deal with, the complexity of their positions, behaviours and experiences (Saunders et al., 2012; Yin, 2004).

Semi-structured interviews will be used by a researcher to communicate with the respondents. This begins with a set of open-ended questions that encourage the
participants to share their experience, attitudes, beliefs and knowledge (Easterby-Smith and Jackson, 2008). In the research reported in this paper, the open-ended questions (a sample given in Table 3) will be presented in the form of an electronic file (pdf) where respondents can provide written answers to each question (the pdf format allows participants to write down their responses to as much detail as they wish). The interviews that follow-up the written responses give the researcher to engage with the respondents. This will be an opportunity to seek clarifications to certain responses or explain any question that was unclear to the participants (Easterby-Smith & Jackson, 2008; Saunders et al., 2012).

Table 3- Examples of Some Questions - Semi-Structured Interview Process

<table>
<thead>
<tr>
<th>Item</th>
<th>Sample Questions</th>
</tr>
</thead>
</table>
| **Strategy**                         | • What specific strategies do you formulate and implement to ensure that your organisation remains economically sustainable?  
• How do you take into account stakeholder expectations in your strategic planning process?  
• What high level goals has your organisation established to ensure that it achieves its mission? |
| **Organisational Capabilities and Employee Development** | • In your view what are the strengths that enables you to achieve your strategic objectives? |
| **Economic Sustainability**          | • What specific strategies do you formulate and implement to ensure that your organisation remains economically sustainable? In particular, how do you ensure that donors/agencies remain interested in providing funding to your organisation? |
| **Processes**                        | • List the processes that your organisation has put in place to achieve each of the strategic objectives (that you identified above) |
| **Stakeholder Satisfaction**         | • How does your organisation fulfil its social responsibility?  
• How does your organisation verify/validate that it delivers the expected social impact to the target community? (e.g. actual assessment of change in subjective quality of life over time) |
| **Mission and Core Values**          | • Do you have a formal mission statement? If yes, what is it?  
• What progress do you want to see your organisation in 5+ years’ time? |
| **Contextual Factors**               | • What are the major challenges that you face when you are dealing with your stakeholders?  
• How do you make your paid employees and volunteers aware that their efforts contribute to achieving the strategic objectives of the organisation?  
• How do you take into account stakeholder expectations in your strategic planning process? |
Figure 4- The flow chart for sample size determination of data collection
Pilot Testing the Questionnaire

The semi-structured questionnaire was prepared using Adobe Acrobat software (pdf), based on the conceptual model; this questionnaire was reviewed by three independent academics who are knowledgeable on performance measurement; this was to ensure that the content is relevant and free of ambiguity (some minor changes were made based on the suggestions of the independent academics).

Prior to data collection, a new questionnaire should be piloted for clarity. More specifically, a researcher should examine each completed questionnaire to make sure that the participants have had no difficulties or the ambiguities of understanding or responding to survey questions (Fink, 2013). This exercise enables in identifying the questions (if any) that require modification/emendation (Fink & Litwin, 2003). Through pilot testing a researcher will observe different developments from various fronts or try different approaches on trial basis (Yin, 2014) and identify potential problems before implementing the main study. Furthermore, piloting allows a researcher to make an intuitive judgment on the validity and the likely reliability of the survey questions and the data collection process (Saunders et al., 2012). Pilot testing of the survey instrument was done by sending out the questionnaire to a senior executive (the strategic manager) of one of the nonprofit healthcare organisations that is participating in the study. As a result of the pilot test, one question had to be modified and the last question of the questionnaire had to be removed, as it appeared to be repeating a previous question in a different form. In as much as the researchers would have liked to have used more respondents (NPOs) for pilot testing, limited access to NPOs meant that only one NPO was approached for pilot testing.

Proposed Qualitative Data Analysis

Responses of the questionnaires will be coded and analysed. In this research, the researchers expect to identify themes and the dimensions of PM (qualitative coding will be used if required). The identified themes will then be re-examined to investigate whether it provides new insights on the initial conceptual model; if this becomes the case the initial conceptual model will be further refined. The researcher will use the steps proposed by Braun and Clarke (2013)—data familiarisation, initial coding, theme searching, themes reviewing, themes defining and naming, and reporting—to identify the themes and the PM dimensions. Finally, the PM dimensions will be operationally defined to proceed with the next phases of the overall project.

Criteria for Operationalising the PM Dimensions

In the subsequent phases of the overall project, the operational definitions as well as the conceptual model will be tested statistically with large sample data, using an appropriate multivariate statistical technique (most probably structural equation modelling). However, as mentioned at the very outset, the main purpose of operationalising the PM dimensions (constructs) of the conceptual model is facilitating the process of generating performance measures for individual organisations. Testing the practical validity of the conceptual model and the accompanying description (operational definitions are part of it) is the final phase of the overall project. Given the aforesaid project requirements, the following criteria have been established in framing operational definitions for the PM dimensions, upon the proposed quantitative data analysis.

- The operational definitions of the PM dimensions should underpin the conceptual model (if required the initial conceptual model shown in Figure 3 will be refined).
The operational definitions of the PM dimensions should be able to be tested statistically using a Likert-type survey instrument administered on a larger sample.

The operational definitions of the PM dimensions as well as the conceptual model should be able to be presented in a simple and ambiguous format to the NPOs so that they could generate (hopefully) performance measures based on the information provided.

The contextual information (the stakeholder environment, internal and external relationships that an organisation engages with, organisational challenges) should be part of the final conceptual model (the contextual information will possibly feed the organisational strategy and this can be verified at the qualitative data collection and analysis phase) presented to the NPOs.

Conclusions
Any measurement is always tied to some theory that is verifiable. Performance measurement (PM) should be no different. The theoretical underpinning of PM as applied to for-profit sector is reasonably well developed, thanks to the balanced scorecard (BSC) and to a lesser degree, other theoretical frameworks/models. The BSC is based on the notion that the performance of the organisation should be managed (hence measured and monitored) so as to ensure that the organisation’s business yields the expected financial returns to the owners (shareholders) by satisfying the customers by producing goods and services through efficient and effective processes that are being driven by people and knowledge. The nonprofit sector is emerging as a very important sector in our society. Not all public services can be provided by the government. NPOs too need to measure their strategic performance to ensure that they remain viable, in the face of the changing external environment. Unfortunately, management of nonprofit organisations (NPOs) is more complex and challenging. The theoretical underpinnings of PM in NPOs are not well understood and consequently, PM in the nonprofit sector remains under-developed. There is no consensus in the literature as to what guidelines should be used to accomplish PM unlike in the for-profit sector. Through a better understanding of the sector, researches and practitioners can contribute their knowledge towards developing a suitable PM model for NPOs, although to date, not much has been done towards this cause. This paper explains the development of a conceptual model (taking the BSC as the primary theory base). Through the conceptual model the researchers expect to get a deeper understanding of how NPOs approach PM and thereby operationally define the PM dimensions (Figure 3), once the qualitative data are collected and analysed (the data collection any analysis strategies were covered in the paper).

References
2gclimited (ed.) (2009), *Can I apply Balanced Scorecard in a non-profit organisation?*, Maidenhead, Berkshire: 2GC Limited.


