The American balanced scorecard versus the Chinese practice of Peng Jeng Ji Fen Ka: A critical analysis

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ABSTRACT

Our objective in this paper is to undertake a critical analysis of prevailing frameworks of performance management by aiming to demonstrate that those frameworks fail to address critical cultural factors when Performance Management Systems (PMS) are designed and implemented in multicultural contexts. We investigate the potential issues that may arise from applying the Balanced Scorecard (BSC) or the French Tableau de Bord Prospectif (TDB) in the context of Chinese culture, where the practice of the BSC is commonly known under the name of Peng Heng Ji Fen Ka. We use the Cultural Orientations Model (COM), a theoretical framework for cultural competence, in order to examine the implications of cultural differences on PMS design and implementation. This approach it enables a comprehensive approach to understand how people make sense of the design and the implementation of PMS, by focusing on their behavioral preferences rather than focusing on the social values that imply their behaviors. Our critical analysis addresses several cultural dimensions of the COM model successively, including: the constraint-control, hierarchy-equality, flexibility-order, being-doing, linear-systemic and competitive-cooperative dimensions. For each of those dimensions we analyse the advantages and disadvantages of the BSC and the TDB respectively when applied in a Chinese context. We conclude that the BSC and TDB have both their advantages and disadvantages, but that those advantages and disadvantages are relative and may not be transferable into a context where Chinese social values predominate. This paper extends the recent management literature on performance management by providing justification for more contextualized approach and theories in the field of performance management.

Keywords: performance management, cross-cultural management, and cultural dimensions

INTRODUCTION

Although the Balanced Scorecard (BSC) has been given quite a lot of popularity since its publication by Kaplan and Norton in the 1990s, it has also received a lot of debate and criticism. Meanwhile, there is evidence showing that applications of the BSC in the international business context face cultural barriers.

As a consequence of the rise of globalization, there are growing concerns over the appropriateness of Western-based approach to performance management frameworks in the international context, raising the question of possible dogmatic, Euro-centric approach in performance management concepts. Although some recent evolutions in

conceptual models of performance management can be noticed, favoring a more contextual approach, some scholars claim for the need of examining international variations in the design and use of the BSC or other methodologies across organizations internationally in greater depth. Obviously there is a need for a more contextual approach in order to embrace the complexity and dynamics of interactions at work in PMS projects.

According to Berger and Luckman (1966), individuals and groups are seen as forming and negotiating notions and ideas of each other and the nature of perceived reality in the course of their interactions. These become habituated into reciprocal roles, relationships, and interactions, and are institutionalized when introduced and maintained by newcomers to the group. Therefore, performance management systems are contingent and embedded in social and cultural interactions, processes, and contexts. Indeed, performance management frameworks have attributes and characteristics that we ascribe to them but those attributes may not be objective facts. Indeed they are inter-subjective agreements between members of the organizations where the PMS are implemented. Those inter-subjective agreements are typically the result of the cultural of each organization. However, little documentation exists about the appropriateness of available performance management frameworks to various contexts i.e. about the need for adapting the concepts, approaches and methodology for PMS implementation to various contexts.

This study will address two questions: Firstly, (1) how could attributes and characteristics of PMS be understood better? Secondly, (2) what are the relationships between those characteristics and cultural factors?
Cross-cultural competence methodology frameworks may help provide solutions to those questions, even if those methodologies have not been created to apply strictly to performance management in multicultural contexts. Broadly, cross-cultural competence frameworks intend to mitigate the impact of cultural differences between people and groups to execute particular actions.

Although dimension-based frameworks have gained widespread recognition in the business world since the works of Hofstede, Hall and Trompenaars, there is little literature about how those theories can respond to the need of more contextual based approach in the field of performance management. Analyzing variations in performance management frameworks through the lenses of cultural dimensions would help better understand the impact of social values on PMS design and implementation. Meanwhile, the role of empowerment and strong leadership in PMS projects is already highly recognized.

In this study, we intend to provide a critical analysis of the applicability and appropriateness of Western-based approach to performance management, by analyzing how differences in social values of organizations can affect the purpose and means of achieving PMS implementation. By examining how Chinese values can potentially conflict with some attributes of the BSC or the TBD, we will provide ground justification for further research initiatives to develop more integrative, intercultural approach to PMS implementation and design.

Our aim in this study is not to give specific recommendations on how to solve the complexity of cultural differences at work in multicultural organizations. Firstly, it would be necessary to define the different ways organizations can design performance monitoring systems, as well as to clarify the attributes and characteristics of PMS systems (as for example the priority given to either long-term or short-term objectives, or taking a more or less future-oriented or external-oriented perspective). Linking performance objectives to individuals or teams, mixing 'lead' and 'lag' indicators, or the degree of

acceptance of subjectivity in the choice of indicators are some other examples of the differences that can arise in the ways to design and implement PMS.

LITERATURE REVIEW

There is abundant management literature arguing that human behaviors represent an important factor in the effectiveness of performance management systems. Yeoh *et al*. (2014) have identified ten inhibiting barriers related to the implementation of corporate performance management systems based on a survey of 283 organizations across China and North America. Zeng and Luo have identified three cultural barriers when implementing the BSC in a Chinese context, namely Confucianism, high power distance, and low individualism (2013). Hoque (2014) concludes that only a few studies are situated in different types of research settings in developing and emerging countries and that further research is needed to determine international variations in the design and use of the BSC in organizations in both private and public sectors.

There is abundant literature trying to establish a core of universal components for PMS. According to Fitzgerald *et al*. (1991), PMS are concerned with defining, controlling, and managing both the achievement of outcomes or ends as well as the means used to achieve these results at a societal and organisational, rather than individual level. However, they agree that, in reality, great variability exists in the ways PMS are understood, notably depending on whether it refers to individual performance, or group performance, and links to appraisal schemes. Also, some conceptual models have been developed that integrate levels of controls as a universal component of the PMS frameworks.

Broadbent and Laughlin (2009) underline the limitations of the conceptual models developed by Otley and Ferreira (2009), arguing that questions regarding cultural and contextual factors of PMS are insufficiently addressed. They conclude that:

> *'Context also plays a major role in moulding the nature of any PMS. This relates to the societal and organisational situation in which any PMS is located and is trying to control'*

Some other scholars have highlighted that the TDB and the BSC have excessive focus on economic criteria, combined with a persistent lack of attention to the political and strategic dimensions of management control (Bessire & Baker, 2004). According to them, the BSC and TDB reduce PMS to a mechanical perspective. The primary concept of PMS is often referred to as a "scientific management model" in the management literature, which reflects in the comments made by Bessire and Baker (2004) previously mentioned above.

> *'Both BSC and TDB have a major point in common, that is the over-emphasis on a mechanical metaphor i.e. the tendency to view an organisation as being a machine like an automobile or airplane which can be piloted to its destination'*

Bourguignon *et al*. (2014) have investigated the ideological assumptions of both BSC and TDB and concluded that the main differences between those two can be explained in terms of the ideological assumptions underlying both approaches respectively. Broadbent and Laughlin (2009) attempt to develop a conceptual model taking into account two models of rationality depending on context. They propose an extension of current conceptual models by distinguishing between instrumental rationality and communicative rationality in the design and implementation of PMS.

Beyond those differences, management literature has attempted to identify the core principles and fundamentals of PMS systems, independently of the external factors that may influence them. Fitzgerald *et al*. (2009) identify five main questions that any PMS system should address. These five questions constitute the "skeleton' of any PMS system, as indicated below:

What are the key objectives that are central to the organization's success, and how does it go about evaluating its achievement for each of these objectives?

What strategies and plans has the organization adopted and what are the processes and activities that it has decided will be required for it to successfully implement these? How does it assess and measure the performance of those activities?

What level of performance does the organization need to achieve in each of these areas defined in the above two questions, and how does it go about setting appropriate targets for them?

What rewards will managers (and other employees) gain by achieving these performance targets?

What are the information flows (feedback and feed-forward loops) that are necessary to enable the organization to learn from experience, and to adapt its current behavior in the light of that experience?

Overall, even if the difficulties to implement the BSC in various contexts have been extensively evidenced, little has been documented about how to understand better the cultural variables which can be used to assess the appropriateness of performance management frameworks in a given context, by focusing on the behavioral preferences that are engendered by social values in organizations. This paper adopts a constructivist-based approach to performance management. In such an approach, the focus is on what people, individually and collectively, are thinking and feeling, as well as the ways they communicate between each other as an essential component of the design and implementation of PMS.

METHODOLOGY

For the purpose of this paper we will use the definition and generic framework of performance management proposed by Fitzgerald *et al.* (1991) as mentioned above. In our critical analysis, we focus on the five main components of PMS system identified by Fitzgerald *et al.* (2009) as described above and focus on some critical steps and activities which occur when designing and implementing PMS systems. We also review the different types of performance measures that can be chosen selectively in PMS systems.

We use the Cultural Orientations Model (COM) developed by Schmitz (2006), as a cross-cultural competence framework to explain how differences in social values can affect PMS design and implementation. In conducting our critical analysis of current performance management frameworks, we use the dimensions of the COM model to demonstrate that behavioral preferences can explain the variations in how performance measures can be designed and performance systems implemented. We consider the three countries where the BSC, TDB and Peng Hen Ji Feng Ka have been originally created, i.e. respectively U.S, France, and Mainland China. We interpret the potential differences documented between the BSC, TDB and the Chinese *Peng Heng Ji Fen Ka*, by using the cultural dimensions on a country basis. Cultural profiles are available for each of the three countries on a website with is operated by TMC Corporation. The COM provides a theoretical framework that can be used to: (1) Justify that values imply different behaviors towards the design of performance measures and the process for implementation of PMS; (2) Explain how those behavioral preferences can affect PMS projects.

The COM fits into a broader theoretical framework, called the Cultural Orientation Approach (COA). Cultural risks are defined in the COA methodology as skills associated with cultural competence that includes: cultural due diligence, style switching, cultural dialogue, and cultural mentoring (Schmitz, 2006). Cross-cultural competence is defined as the ability to reduce the risks and maximise the opportunities inherent in cultural differences and similarities, as well as culture-based performance and success factors (TMC, 2006). Originally, the COM serves as a summary of key empirical and theoretical contributions in the field of cross-cultural communications, known from the cultural dimensions school of thought. The COM is complemented by the Cultural Orientation Index (COI), which can be used to measure individual preferences on a number of seventeen value orientations. A value orientation is defined as a general and organized principle concerning basic human problems that profoundly and pervasively influences man's behavior. Behavioral preferences can be measured on a continuum for each value dimension.

The COM distinguishes three main value orientations, which are described as follows:

The Interaction Style cultural continua consist of a cluster of variables that describe behavior, specifically how we use time, handle conflict, adhere to etiquette, protocol, and convention, apply rules and standards of fairness, balance tasks and relationships, and display emotions.

The Thinking Style cultural continua consist of a cluster of variables that shape how we process, read, and create meaning, as well as how we perceive, reason, and reference.

The Sense of Self cultural continua consist of a cluster of deep, primary variables that shape our sense of agency, social identity, boundaries, and basic motivation, distribution of power and privilege, and tolerance of uncertainty.

It should be noted that the purpose of the COM model is primarily to provide a tool to identify cultural gaps between cultural levels (country, team, organization or individual…); therefore interpreting the root causes of cultural risks in PMS projects may require more country-specific knowledge of culture and rituals. For example, in the case of a Chinese firm willing to implement the BSC, we would need to examine how responsibilities are delegated, and the nature of the relationships between the managers and subordinates, because Guanxi-based relationships between employers and employees are best to explain that those relationships affect the use of measures for monitoring performance, which will reflect in cultural gaps in the dimensions of power distance, or high-context communication as for example.

CRITICAL ANALYSIS

When referring to the BSC, Malo (1992) states that assimilating the concept of a dashboard for the firm to a dashboard for the airplane could be very detrimental. Such a statement reflects some of the limitations of the BSC when applied to a control-oriented environment where external locus of control and low sense of empowerment predominate, under the main belief that outcomes are determined by forces that people cannot influence (TMC, 2006).

> *"Overloaded with mechanical connotations, it causes us to forget that besides the pilot, there are passengers who are able to manipulate controls and even affect the way the engine works."*

We argue that the BSC is more suitable to a control-oriented environment rather than constraint-oriented environment like for example in Chinese cultural context. The BSC intends to give more assurance on the predictability of results, assuming that cause-and-effect relationships amount to four predefined areas of measurement and exist from the lower to upper levels of the organization. Constraint-oriented behaviors assume, contradictorily, that it is presumptuous to claim direct control over a business.

Hierarchy-oriented behaviors are defined as social environments that tend to value power structures and the recognition of power and status differentials among individuals. It is important to notice that the BSC is often viewed not only as a strategic measurement system but also as a strategic control system to clarify and align departmental and personal goals towards strategy (Kaplan & Norton, 1996). In such, one major principle of the BSC is that it can be used as a tool to foster communication and build consensus. We argue that this advantage is only relative: it would be particularly relevant in an equality-oriented culture (like in the United States) rather than a hierarchy-oriented culture (like in China). Then, it is not surprising that recent management literature has concluded that cultural barriers exist when implementing the BSC in a Chinese context. In Confucianism values the need for harmonious relationships in organizations may refrain open dialogue on strategic objectives (Zeng & Luo, 2013). D'Iribarne *et al.* (2009) observe the case of one French company operating in China and conclude that the French company

was unable to make its method of managing disagreements by open discussion acceptable. Bourguignon *et al.* (2004) note that the TDB does not embrace the idea of mono-responsibility, and that the deployment requires interaction and negotiation between the various levels, including choosing local action variables, which is based on the generally accepted idea that local managers know their own business best.

The being-doing dimension of the COM model provides another obvious evidence to illustrate that the BSC may lose its benefits in non-Western cultural contexts. We argue that the hierarchical process of the BSC, which cascades objectives to each echelon of the organization and creates a hierarchy of responsibility centers, may not be appropriate in a being orientated context where relationships have priority, and where priority is given to nurturing relationships as a critical condition for accomplishing tasks and objectives. Indeed, the hierarchical, top-down processes of constructing the BSC is supposed to provide a tool for delegation of objectives, as well as clear accountability rules at various levels, which would be more relevant in a doing-oriented environment. It seems that the TDB, which is less likely to tie performance indicators to measures for accountability, would be more suitable in a being-oriented environment like China. Similarly, the advantage of the BSC in providing a mechanism for incentives and rewards systems, usually well recognized, is most likely not to be such valuable in a being-oriented environment.

In a flexibility-oriented environment, uncertainty and ambiguity are assumed and expected. Responsiveness to change, improvisation and resilience are sources of pride. Chinese culture, and the principle of *Zhong Yong*, would typically value more flexibility in the way measures are designed. We argue that flexibility-oriented environment would accommodate better with the TDB rather than with the BSC, the latest being more rigid in the way of categorizing measures and linking them to strategic objectives or financial objectives. In that regard, several scholars have claimed that the BSC is too 'mechanistic'. Indeed, the authors of the BSC recognized the need for some flexibility in the design of indicators, as well as for going beyond the normal categories provided in the BSC structure.

Some other considerations address differences in the ways of thinking. The French TDB is often valued for being able to provide a broader picture of the strategic objectives of the firm. Bessire (2011) identifies the capacity to integrate the political dimension of performance management as a key advantage of the TDB. We argue that the BSC could become inappropriate in a context where systemic, non-linear thinking styles predominate. The types of performance measures may also depend on context. The BSC does emphasize the need for objective measures rather than more subjective or qualitative assessments of impacts, which has been recognized as one of its main advantage by several scholars (Bessire *et al.* 2004). In that sense, we could argue that the BSC would be more appropriate in environments where systemic thinking, non-linear thinking styles predominate.

Another perspective would come from differentiating deductive and inductive preferences in the way of thinking. The BSC has a more linear approach by trying to demonstrate the cause-effect relationships between elements, whereas the TDB leaves the ambiguity here, assuming that the relationship will be made intuitively by users of the TDB, then adopting a more holistic way of thinking. Bourguignon *et al*. (2004) says that the TDB does not assume any systematic overall link between the strategic areas of measurements. The degree of objectivity in performance measures promoted by the BSC may not be appropriate in a context where subjective measures are preferred. On the contrary, Bourguignon *et al*. (2004) note that the TDB does not explicitly rely on specific strategic models or areas of measurements but on managers' conception of strategy.

In a cooperative-oriented culture, harmony and balance are prized and a source of pride, whereas in a competitive environment, maximum gain and achievement are prized and represent a source of pride. In Chinese culture, friendship and helping each other is highly valued within the group, however behaviors tend to be competitive-oriented rather that cooperative oriented outside of the group or *guanxi* relationships. We argue a cooperative approach to the design of performance indicators would be more suitable in a Chinese culture environment. In that regards, the BSC would most certainly be more appropriate in competition-oriented cultures, whereas the TDB would be more appropriate in cooperation-oriented cultures like in China, considering the context of the team or group in which the PMS is implemented. However, one may argue that if we consider external parties to the organization that tend to value achievement, assertiveness and the acquisition of money, property, or goods, more competitive behaviors might also be expected in Chinese context.

CONCLUSION

From our critical analysis, we conclude that both the BSC and TDB have their advantages and disadvantages, but that those advantages and disadvantages are relative to the context and especially may be seen differently when applying those frameworks in a Chinese context. On some aspects, applying the BSC could be seen as providing some advantages in an organization dominated by Chinese social values, whereas on some other aspects the French TDB would fit better. This analysis concludes that none of those frameworks might be fully suitable to a Chinese context, but that further investigation on the practice of *Peng Heng Ji Fen Ka* could provide us with more insights about how this model can better embed the social values of Chinese organizations. We should notice, however, that little documentation is available at the time when this article is written about the Chinese practice of *Peng Heng Ji Fen Ka*.

By using cultural dimensions of the COM model, we have investigated the consequences of the behavioral preferences that take place in PMS design and implementation projects. The question of 'How' to execute the core components of PMS as well as the question of 'What?' are critical and require a preliminary phase of evaluating the degree of appropriateness of one given framework compared to another. It should be part of the cultural competence than any manager should have when implementing PMS in international organizations or multicultural contexts. In practice, a preliminary assessment of the cultural orientations in each particular context would be required in order to evaluate the suitability of one given performance management framework, the BSC, TDB or any other.

Recent research works about the integration of external overseas acquisitions by Chinese firms provide useful insights about the applicability of Western-based performance management models in a Chinese context. Liu and Woywode (2013), after conducting surveys over several firms in Germany acquired by Chinese investors, propose a framework of integration model for Chinese international acquisitions, entitled the *Light Touch Approach*, which posits that team learning and continuous improvement is a key dimension of Chinese post-integration models. It would be useful to analyze how performance frameworks can apply to the context of the *Light Touch Approach* integration mode of Chinese MNCs. For example, considering that this model is driven by the need to integrate collective learning priorities, it would be more likely that an approach promoting

collectivistic-oriented behaviors, as defined by the identification of employees to the organization, would be more appropriate.

Our study demonstrates the need for a more contextual-based adaptation in PMS already claimed already by scholars (Bessire & Baker, 2004; Broadbent & Laughlin, 2009). By bridging the gap between the two disciplines of management and intercultural communication, this paper provides a useful example to those who think that management issues can be better understood and resolved through cross-disciplinary approach. The benefits would be worth being considered in the sector of higher education, business schools as well as training programs for business executives.

The *Zhong Dao* model of management (Chen, 2013) could provide the theoretical basis for emerging performance management models that integrate *ambicultural*, epistemological approaches in the field of performance management. By developing sensitivity to situations, promoting multicultural mindset and practicality in action, the *Zhong Dao* model offers a contingency framework of management that could be further examined in order to create more holistic, non-reductionist models of performance management.

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