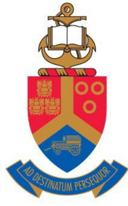

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Redesigning the Balanced Scorecard Model: An African Perspective

by

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Submitted in fulfilment of the requirements for the degree

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in the
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at the
University of Pretoria
Pretoria
South Africa

Study Leader: Professor F.N.S. Vermaak
Co-study Leader: Professor D.G. Gouws

May 2011

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DEDICATION

I dedicate this Ph.D. thesis to

my late father, **Bambo Kamwachale Khomba**

and to

my late mother, **Mayi Anamayesa Soko,**

who supported me tirelessly even long before I was born.

If I am able to see further than others,

it's because I have always been climbing on shoulders of these two giants.

May their dear souls rest in eternal peace

Amen

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This product is a culmination of the efforts of various people who have made a tremendous contribution to the completion of this study in their various capacities.

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I would also like to thank my employer, the University of Malawi, for sponsoring this multi-million Kwacha Ph.D. research project, and also the University of Pretoria, for providing an environment conducive to my studies.

To many others, I am duly indebted – thank you very much for your various inputs into this project.

SIYABONGA KAKHULU.

DECLARATION

I, James Kamwachale Khomba, declare that my thesis, *Redesigning the Balanced Scorecard model: An African perspective*, which I hereby submit for the degree Doctor of Philosophy (Financial Management Sciences) at the University of Pretoria is my own work and has not been previously submitted by me for a degree at this or any other tertiary institution, and that all sources that I have used or quoted herein have been indicated and acknowledged by means of a complete reference system.

James Kamwachale Khomba | Date

ABSTRACT

The Kaplan and Norton's (1992) Balanced Scorecard model was designed for Western countries that operate within a capitalist system. African countries differ from Western developed countries in respect of aspects such as their infrastructure, markets and customers, sources of capital, government interventions, literacy levels, and socio-cultural frameworks. Thus, the original Balanced Scorecard model cannot be reconciled fully with an African environment that is more humanist, community-based and socialist in nature. Hence, the study set out to establish whether or not a different understanding or new perspectives on the Balanced Scorecard model were needed and could be conceptualised and developed specifically for organisations in Africa.

A structured questionnaire was used for the primary data collection. Exploratory factor analysis and correlation analysis, using SPSS Version 16.0, were employed to identify the four significantly intercorrelated perspectives of the African Balanced Scorecard model which is proposed in this study: (1) the **relationships and culture** perspective, which looks at an organisation's continued stakeholder dialogue and relationships; (2) the **stakeholder** perspective, which looks at the recognition of contributions by individual stakeholders; (3) the **value creation** perspective, which considers maximum economy, efficiency and effectiveness when creating organisational wealth, and (4) the **corporate conscience** (**resource allocation**) perspective, which looks at the equitable allocation of organisational wealth to all stakeholders, especially those that are usually disregarded, such as local communities and the natural environment.

The results of the study will facilitate the review and design of better corporate planning and performance measurement systems, the review and design of government and industrial policies and regulations, management consultancies, and will promote and facilitate change in accounting and auditing principles and

practices. The study is subject to some limitations, particularly a lack of larger geographic coverage (as only Southern Africa was covered), the limited availability of information from some participants, and the need for further validation of the cause-and-effect relationships between the four perspectives of the proposed African Balanced Scorecard model.

Key words: Africa, allocation, Balanced Scorecard, business ethics, corporate governance, corporate performance, corporate social responsibility, Malawi, South Africa, sustainability, triple bottom line, Ubuntu

BRIEF TABLE OF CONTENTS

1 CHAPTER ONE: INTRODUCTION 1

2 CHAPTER TWO: CORPORATE PERFORMANCE AND FINANCIAL MEASURES 25

3 CHAPTER THREE: PERSPECTIVES SURROUNDING THE BALANCED SCORECARD (BSC) MODEL 77

4 CHAPTER FOUR: THE AFRICAN UBUNTU PHILOSOPHY 126

5 CHAPTER FIVE: SUSTAINABILITY SCORECARDS AND THE TRIPLE BOTTOM LINE REPORTING 165

6 CHAPTER SIX: BUSINESS ETHICS AND CORPORATE GOVERNANCE 200

7 CHAPTER SEVEN: RESEARCH DESIGN AND METHODOLOGY 238

8 CHAPTER EIGHT: RESULTS AND ANALYSIS OF RESEARCH FINDINGS 283

9 CHAPTER NINE: DEVELOPMENT OF THE AFRICAN BALANCED SCORECARD (ABSC) MODEL 366

10 CHAPTER TEN: SUMMARY, CONCLUSION AND RECOMMENDATIONS 393

LIST OF REFERENCES 423

APPENDICES 462

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

DETAILED TABLE OF CONTENTS

DEDICATION ... i

ACKNOWLEDGEMENTS ... ii

DECLARATION ... iii

ABSTRACT ... iv

LIST OF ACRONYMS ... xx

LIST OF DEFINITIONS ... xxii

LIST OF FIGURES ... xxvii

LIST OF TABLES ... xxix

1 CHAPTER ONE: INTRODUCTION ... 1

1.1 BACKGROUND ... 1
1.2 USE OF FINANCIAL MEASUREMENT SYSTEMS ... 3
1.3 THE BALANCED SCORECARD MODEL ... 5
1.4 A CONCEPTUAL FRAMEWORK OF STAKEHOLDER RELATIONSHIPS AND NETWORKS ... 7
1.5 RESEARCH PROBLEM STATEMENT ... 9
1.6 RESEARCH OBJECTIVES ... 10
1.6.1 Primary research objective ... 10
1.6.2 Secondary research objectives ... 10
1.7 RESEARCH QUESTIONS ... 11
1.7.1 Research Question 1 ... 11
1.7.2 Research Question 2 ... 12
1.7.3 Research Question 3 ... 13
1.7.4 Research Question 4 ... 13
1.8 DATA GEOGRAPHIC COVERAGE FOR PRIMARY RESEARCH ... 14

1.9 RESEARCH ANALYSIS AND RESULTS 14
1.10 RESEARCH SIGNIFICANCE AND IMPACT 16
1.10.1 Review and redesign of best corporate planning and performance measurement systems 16
1.10.2 Review and redesign of government and industrial policies and regulations 16
1.10.3 Catalyst for further debate amongst academics and captains of industry 17
1.10.4 Development of management consultancies 17
1.10.5 A change in the accounting and auditing profession 17
1.11 RESEARCH LIMITATIONS 17
1.11.1 Limited geographic coverage 17
1.11.2 Limited information availability 18
1.11.3 A need for further research on causal relationships 18
1.12 RECOMMENDATIONS FOR FURTHER RESEARCH 18
1.13 OUTLINE OF THE THESIS 19
1.13.1 Chapter One: Introduction 20
1.13.2 Chapter Two: Corporate performance and financial measures 21
1.13.3 Chapter Three: Perspectives surrounding the Balanced Scorecard model 21
1.13.4 Chapter Four: The African Ubuntu philosophy 22
1.13.5 Chapter Five: Sustainability scorecards and the triple bottom line reporting 22
1.13.6 Chapter Six: Business ethics and corporate governance 22
1.13.7 Chapter Seven: Research design and methodology 23
1.13.8 Chapter Eight: Results and analysis of research findings 23
1.13.9 Chapter Nine: Development of the African Balanced Scorecard (ABSC) model 23
1.13.10 Chapter Ten: Summary, conclusion and recommendations 24
1.14 CONCLUSION 24

2 CHAPTER TWO: CORPORATE PERFORMANCE AND FINANCIAL MEASURES 25

2.1 INTRODUCTION........ 25
2.2 CORPORATE PERFORMANCE........ 26
2.3 THE CORPORATE PERFORMANCE FRAMEWORK........ 29
2.4 CORPORATE PLANNING IN A CHANGING ENVIRONMENT........ 31
2.5 IMPLEMENTING CORPORATE STRATEGIES........ 33
2.6 PERFORMANCE MEASUREMENT SYSTEMS 34
2.7 SIGNIFICANCE AND PRACTICAL USE OF PERFORMANCE MEASURES........ 35
2.7.1 Performance measures facilitate the identification of critical areas for special attention........ 35
2.7.2 Performance measures instil positive employee behaviour........ 35
2.7.3 Good performance measures enhance benchmarking systems 36
2.7.4 Performance measures enable improvements in quality and productivity 37
2.8 CHALLENGES AND LIMITATIONS OF PERFORMANCE MEASURES........ 38
2.8.1 Performance measures are based on a single organisation model 38
2.8.2 Performance measures are usually based on existing organisational structures........ 40
2.8.3 Insufficient attention is given to performance measurement systems........ 40
2.8.4 The multiplicity of performance measures leads to interpretation problems........ 41
2.8.5 Performance measures incline towards subjectivity rather than objectivity........ 44
2.8.6 There are often data accuracy problems with performance measures........ 45
2.8.7 Most performance measures are financially driven........ 45
2.8.8 There is a need to redesign performance measurement systems........ 46
2.8.9 There is some confusion between performance measures as sources of control versus sources of flexibility 46

2.8.10 There are difficulties in measuring intangibles 47
2.9 FINANCIAL MEASURES 49
2.9.1 Introduction 49
2.9.2 Background on financial measures 50
2.10 SIGNIFICANCE AND PRACTICAL USE OF FINANCIAL MEASURES 51
2.10.1 Financial measures form a basis for internal corporate performance measurement 51
2.10.2 Financial measures provide a common denominator for business transactions 52
2.10.3 Financial measures are used as a tool to give strategic direction 53
2.10.4 Financial measures are used in product life cycle and portfolio analyses 58
2.10.5 Financial measures form a basis for economic and financial feasibility studies on projects 58
2.10.6 Financial measures provide a basis for reward and motivational systems 59
2.11 LIMITATIONS OF FINANCIAL MEASUREMENT SYSTEMS 60
2.11.1 Financial measures are lagging indicators with a past orientation 60
2.11.2 Financial measures exclude strategic non-financial measures 61
2.11.3 Financial measures tend to focus on the short term rather than the long term approaches 61
2.11.4 Financial measures do not consider the transformation of economies 65
2.11.5 Financial measures are mismatched with contemporary business systems 68
2.11.6 Many financial measures are based on a single performance measure 70
2.11.7 Financial measurement systems are faced with ethical reporting and corporate governance challenges 72
2.11.8 Financial measures distort product costing 72
2.12 CONCLUSION 75

3 CHAPTER THREE: PERSPECTIVES SURROUNDING THE BALANCED SCORECARD (BSC) MODEL 77

3.1 INTRODUCTION 77

3.2 BACKGROUND ON THE BALANCED SCORECARD 78

3.3 ASSUMPTIONS OF THE BALANCED SCORECARD MODEL 80

3.3.1 Assumption 1: The Balanced Scorecard model complements financial measures 80

3.3.2 Assumption 2: The Balanced Scorecard model is conceptualised on four business perspectives 81

3.3.3 Assumption 3: The Balanced Scorecard model's perspectives are linked to time horizons 91

3.3.4 Assumption 4: The Balanced Scorecard model suggests cause-and-effect relationships within perspectives 93

3.3.5 Assumption 5: The Balanced Scorecard model can be used as a strategic management tool 95

3.3.6 Assumption 6: The Balanced Scorecard model works in a top-down, hierarchical manner 98

3.4 SIGNIFICANCE OF THE BALANCED SCORECARD APPROACH 99

3.4.1 The Balanced Scorecard model is used as a strategic management tool 100

3.4.2 The Balanced Scorecard model is used as a means of setting organisational priorities 101

3.4.3 The Balanced Scorecard model is used as a motivational tool 103

3.4.4 The Balanced Scorecard adopts a holistic approach 104

3.4.5 The Balanced Scorecard model is the basis for the budgeting and budgetary process 105

3.4.6 The Balanced Scorecard model forms a foundation for sound external financial reporting systems 107

3.4.7 The Balanced Scorecard model provides a means of organisational communication 107

3.5 LIMITATIONS OF THE BALANCED SCORECARD 108

3.5.1 The Balanced Scorecard model is overly simplified 109

3.5.2 The Balanced Scorecard model has conceptual limitations as a strategic management tool 109

3.5.3 Strategy execution using the Balanced Scorecard model is still problematic 111

3.5.4 The validity of the four perspectives of the Balanced Scorecard model has not been proven 112
3.5.5 The Balanced Scorecard model has registered high failure rates 113
3.5.6 The Balanced Scorecard model and its long-term cost-effectiveness are in question 114
3.5.7 Assumptions about the unidirectional linearity of the Balanced Scorecard model perspectives may be erroneous 114
3.5.8 There are no time lags between the cause-and-effect relationships of Balanced Scorecard model perspectives 116
3.5.9 The maximisation of shareholders' wealth is overgeneralised in the Balanced Scorecard model 117
3.5.10 The Balanced Scorecard model focuses on an individual organisation and ignores modern collaborative commerce 118
3.5.11 Over-emphasis on the four perspectives of the Balanced Scorecard model 119
3.5.12 The Balanced Scorecard model does not employ a multi-stakeholder-centred approach 120
3.5.13 The Balanced Scorecard model de-emphasises the significance of socio-cultural frameworks for organisational survival 121

3.6 CONCLUSION 123

4 CHAPTER FOUR: THE AFRICAN UBUNTU PHILOSOPHY 126

4.1 INTRODUCTION 126
4.2 UNDERSTANDING THE AFRICAN UBUNTU PHILOSOPHY 127
4.3 SIGNIFICANCE OF THE AFRICAN UBUNTU PHILOSOPHY FOR CORPORATE PERFORMANCE 130
4.3.1 The community is more important than an individual under the Ubuntu philosophy 130
4.3.2 Positive behaviour is related to the Ubuntu philosophy 131
4.3.3 Synergies and competitive advantages arise under the Ubuntu philosophy 133
4.3.4 African culture and leadership styles can be founded on the Ubuntu philosophy framework 135
4.3.5 African Ubuntu collectivism cultivates a team spirit towards work 137

4.3.6 Ubuntu philosophy involves recognising an employee's socio-cultural values within an African context 138
4.3.7 Respect is shown to one's elders under the Ubuntu philosophy 142
4.3.8 Respect for the community and corporate social responsibility are part of the African Ubuntu philosophy 142
4.3.9 Good corporate governance is made possible under the African Ubuntu philosophy 145
4.4 CHALLENGES IN APPLYING THE UBUNTU PHILOSOPHY 147
4.4.1 The African Ubuntu philosophy is based on unrecorded practice 147
4.4.2 There is insufficient information dissemination and sensitisation about the Ubuntu philosophy 148
4.4.3 The Ubuntu philosophy is negatively associated with some obsolete African traditional rituals, customs and practices 149
4.4.4 The African Ubuntu philosophy is challenged by the proliferation of foreign ideologies 150
4.5 CASES ILLUSTRATING THE AFRICANISATION OF CORPORATE MANAGEMENT SYSTEMS.................................... 152
4.6 CONTRIBUTIONS OF THE UBUNTU PHILOSOPHY TO THE CORPORATE WORLD 157
4.6.1 Promotion of the Ubuntu philosophy management systems 157
4.6.2 Utilisation of African social capital..................................... 159
4.6.3 Effective communication and public relations 160
4.6.4 Global transformation based on the African Ubuntu philosophy 161
4.7 CONCLUSION 163

5 CHAPTER FIVE: SUSTAINABILITY SCORECARDS AND THE TRIPLE BOTTOM LINE REPORTING 165

5.1 INTRODUCTION... 165
5.2 CORPORATE SUSTAINABILITY... 167
5.2.1 Overview on corporate sustainability 167
5.2.2 Principles relating to ecosystems and sustainability 168
5.2.3 Application of ecosystems and sustainability principles..... 169
5.2.4 The stakeholder-centred approach within corporate sustainability programmes 173

5.3 THE TRIPLE BOTTOM LINE (3BL) PRINCIPLE 175
5.3.1 The triple bottom line and corporate social responsibility 176
5.3.2 The triple bottom line and the African Ubuntu philosophy 179
5.3.3 Application of the triple bottom line in the Malawi Growth and Development Strategy (MGDS) national framework 180
5.4 THE CARROLL MODEL 184
5.5 THE SENGE MODEL 185
5.6 SUSTAINABILITY BALANCED SCORECARDS 186
5.6.1 Adding a sustainability perspective to the Balanced Scorecard model 187
5.6.2 The significance of sustainability balanced scorecards (SBSC) 188
5.7 SUSTAINABILITY REPORTING GUIDELINES 189
5.7.1 Integration of social and environmental issues 190
5.7.2 Integrating the Balanced Scorecard model's perspectives with Global Reporting Initiative (GRI) guidelines 191
5.8 SUSTAINABILITY CHALLENGES 194
5.9 CONCLUSION 198

6 CHAPTER SIX: BUSINESS ETHICS AND CORPORATE GOVERNANCE 200

6.1 INTRODUCTION 200
6.2 BUSINESS ETHICS 202
6.3 GENERAL THEORIES OF ETHICS 204
6.3.1 Aristotle's virtue theory 204
6.3.2 Kant's deontological theory 204
6.3.3 Mill's utilitarian theory 204
6.4 APPLICATIONS OF BUSINESS ETHICS 205
6.5 SHAREHOLDER-CENTRED CORPORATE GOVERNANCE 209
6.5.1 Arguments for a shareholder-centred approach 210
6.5.2 Arguments against a shareholder-centred approach 211

6.6 STAKEHOLDER-CENTRED CORPORATE GOVERNANCE 217
6.6.1 Arguments for the stakeholder-centred approach 220
6.6.2 Principles of stakeholder management and corporate reporting systems 222
6.7 CORPORATE GOVERNANCE GUIDELINES 228
6.8 AFRICAN UBUNTU ETHICS 232
6.9 CONCLUSION 235

7 CHAPTER SEVEN: RESEARCH DESIGN AND METHODOLOGY 238

7.1 INTRODUCTION 238
7.2 RESEARCH BACKGROUND 239
7.3 DEVELOPMENT OF A CONCEPTUAL FRAMEWORK OF STAKEHOLDER RELATIONSHIPS AND NETWORKS 240
7.3.1 The relationships and culture strategic theme 242
7.3.2 The stakeholder strategic theme 242
7.3.3 The processes and practices strategic theme 243
7.3.4 The intellectual capital strategic theme 244
7.3.5 The value creation strategic theme 244
7.3.6 The corporate conscience strategic theme 244
7.4 RESEARCH DESIGN 246
7.4.1 Qualitative research approach 246
7.4.2 Quantitative research approach 248
7.5 DATA COLLECTION METHODS USED IN THE STUDY 252
7.5.1 Primary research methods for data collection 252
7.5.2 Secondary research methods for data collection 255
7.6 THE STRUCTURED QUESTIONNAIRE (LIKERT SCALE METHOD) 255
7.7 DESIGN OF THE LIKERT SCALE STRUCTURED QUESTIONNAIRE 257
7.7.1 Development of the questionnaire 257
7.7.2 Pre-testing the initial questionnaire 258
7.7.3 Construction of the final questionnaire 259
7.8 VALIDATION STATEMENTS OF THE QUESTIONNAIRE (SECTION B) 260
7.8.1 The relationships and culture strategic theme 260
7.8.2 The stakeholder strategic theme 260

7.8.3 The practices and processes strategic theme 262
7.8.4 The intellectual capital strategic theme 262
7.8.5 The value creation strategic theme 263
7.8.6 The corporate conscience strategic theme 263
7.9 PROFILE OF RESPONDENTS 264
7.10 SAMPLING DESIGN AND SAMPLING METHODS 265
7.10.1 Geographic coverage of primary research 266
7.10.2 Population and sampling frame 266
7.10.3 Sample size and sample adequacy 267
7.11 DATA COLLECTION PROCEDURES 268
7.12 DATA ANALYSIS 269
7.12.1 Descriptive statistics 270
7.12.2 Univariate analysis (frequency tables and graphs) 270
7.12.3 Bivariate analysis (correlation analysis) 271
7.12.4 Multivariate analysis (exploratory factor analysis) 275
7.13 DATA VALIDITY AND DATA RELIABILITY 277
7.13.1 Data validity 277
7.13.2 Data reliability 279
7.14 ETHICAL CONSIDERATIONS 281
7.15 CONCLUSION 282

8 CHAPTER EIGHT: RESULTS AND ANALYSIS OF RESEARCH FINDINGS 283

8.1 INTRODUCTION 283
8.2 DEMOGRAPHICS OF THE PARTICIPANTS 284
8.2.1 Country of participating organisations 284
8.2.2 Use of the Balanced Scorecard model 285
8.2.3 Rating of the usefulness of the Balanced Scorecard model 286
8.2.4 Management level of respondents 287
8.2.5 Work experience of respondents 289
8.2.6 Industry of participating organisations 290
8.2.7 Number of employees 290
8.2.8 Organisational stakeholders 291

8.3 UNIVARIATE ANALYSIS OF QUESTIONNAIRE STATEMENTS 294
8.3.1 The relationships and culture strategic theme 295
8.3.2 The stakeholder strategic theme 306
8.3.3 The processes and practices strategic theme 312
8.3.4 The intellectual capital strategic theme 319
8.3.5 The value creation strategic theme 324
8.3.6 The corporate conscience strategic theme 329
8.3.7 Summary of the univariate analysis 338
8.4 BIVARIATE ANALYSIS (CORRELATION ANALYSIS) OF VARIABLES 339
8.4.1 The relationships and culture strategic theme 340
8.4.2 The stakeholder strategic theme 342
8.4.3 The processes and practices theme strategic theme 344
8.4.4 The intellectual capital strategic theme 345
8.4.5 The value creation strategic theme 347
8.4.6 The corporate conscience strategic theme 348
8.4.7 The six strategic themes of the conceptual framework 350
8.5 MULTIVARIATE ANALYSIS USING FACTOR ANALYSIS 352
8.5.1 Codification of the variables under exploratory factor analysis 353
8.5.2 Rotation of the variables using the promax rotation method 353
8.5.3 Interpretation of the rotation results on four components 356
8.5.4 Intercorrelation of the four extracted components 360
8.5.5 Complementarity of multivariate, bivariate and univariate analyses 362
8.5.6 The four components as foundational elements for the new African Balanced Scorecard model 362
8.6 CONCLUSION 365

9 CHAPTER NINE: DEVELOPMENT OF THE AFRICAN BALANCED SCORECARD (ABSC) MODEL 366
9.1 INTRODUCTION 366
9.2 DEVELOPMENT PROCESS OF THE NEW AFRICAN BALANCED SCORECARD MODEL 367
9.2.1 Phase 1: Univariate analysis 367

9.2.2 Phase 2: Bivariate analysis of variables within each strategic theme 367
9.2.3 Phase 3: Bivariate analysis of six strategic themes 369
9.2.4 Phase 4: Multivariate analysis (factor analysis) 369
9.2.5 Phase 5: Nomenclature of the extracted four components 369
9.2.6 Phase 6: Bivariate analysis of the four extracted components 369
9.2.7 Phase 7: The African Balanced Scorecard model 370

9.3 PERSPECTIVES IN THE AFRICAN BALANCED SCORECARD MODEL 372

9.3.1 The relationships and culture perspective 372
9.3.2 The stakeholder perspective 375
9.3.3 The value creation perspective 376
9.3.4 The corporate conscience perspective 378
9.3.5 Summary of the perspectives in the African Balanced Scorecard model 381

9.4 USE OF THE AFRICAN BALANCED SCORECARD MODEL AS A STRATEGIC MANAGEMENT TOOL 382

9.5 PERFORMANCE MEASURES BASED ON THE PERSPECTIVES OF THE AFRICAN BALANCED SCORECARD MODEL 383

9.5.1 The relationships and culture perspective 383
9.5.2 The stakeholder perspective 384
9.5.3 The value creation perspective 386
9.5.4 The corporate conscience perspective 387

9.6 THE AFRICAN BALANCED SCORECARD MODEL VERSUS THE GENERIC BALANCED SCORECARD MODEL 388

9.7 CONCLUSION 392

10 CHAPTER TEN: SUMMARY, CONCLUSION AND RECOMMENDATIONS 393

10.1 INTRODUCTION 393

10.2 RESEARCH SUMMARY 393

10.2.1 Background 394
10.2.2 Research problem statement 396
10.2.3 Primary research objective 396
10.2.4 The conceptual framework 397

10.2.5 Research design and methodology 398
10.2.6 Secondary research objectives 400
10.2.7 Results and analysis of research findings 404
10.2.8 Summary of the achievement of the research objectives and solution to the research problem statement 410

10.3 CONCLUSIONS 410

10.4 RECOMMENDATIONS 413

10.4.1 Adoption of the African Balanced Scorecard model 413
10.4.2 Review of general business practices in the commercial sector 414
10.4.3 Review of the financial accounting and auditing principles and practices 415
10.4.4 Review of the academic curriculum in business management courses 415
10.4.5 Replication of the study in other African countries 416
10.4.6 Replication of the study in Asian countries 416

10.5 SIGNIFICANCE OF THE STUDY 417

10.5.1 Review and redesign of best corporate planning and performance measurement systems 417
10.5.2 Review and redesign of government and industrial policies and regulations 417
10.5.3 Catalyst for further debate amongst academics and captains of industry 418
10.5.4 Development of management consultancies 418
10.5.5 A change in the accounting and auditing profession 419

10.6 RESEARCH LIMITATIONS 419

10.6.1 Limited geographic coverage 419
10.6.2 Limited information availability 420
10.6.3 Insufficient validation of causal relationships 420

10.7 RECOMMENDATIONS FOR FURTHER RESEARCH 421

LIST OF REFERENCES 423

APPENDICES 462

LIST OF ACRONYMS

ACRONYM	FULL MEANING
3BL	Triple bottom line
ABSC	African Balanced Scorecard
AIDS	Acquired immune deficiency syndrome
BBC	British Broadcasting Corporation
BCS	Balanced Scorecard
BEE	Black Economic Empowerment
CCBE	Clarkson Centre for Business Ethics
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COMESA	Common Market for Eastern and Southern Africa
CRM	Customer relationship management
FAO	Food and Agricultural Organization of the United Nations
FTSE	Financial Times Stock Exchange
GRI	Global Reporting Initiative
HIV	Human immunodeficiency virus
HRM	Human resource management
ILO	International Labour Organization
IMF	International Monetary Fund
ISO	International Organization for Standardization
JIT	Just-in-time
JSE	Johannesburg Stock Exchange
MBA	Master of Business Administration
MDGs	Millennium Development Goals
MGDS	Malawi Growth and Development Strategy
MSE	Malawi Stock Exchange

ACRONYM	FULL MEANING
NGO	Non-governmental organisation
SADC	Southern Africa Development Community
SCM	Supply chain management
SMEs	Small-and-medium enterprises
SPSS	Statistical package for social sciences
TQM	Total quality management
UK	United Kingdom
USA	United States of America

LIST OF DEFINITIONS

Activity based costing (ABC): This is an accounting system which focuses on activities as the fundamental cost objects. It uses their cost as building blocks to compile the cost of other cost objects, for example, products or departments (Horngren, Bhimani, Data & Foster, 2002:891).

Balance sheet: This refers to a financial statement that summarises an organisation's total resources (assets) and indicates how the organisation funds the acquisition of such resources – either through owners' contributions (capital) or through borrowing from external parties (liability) (Own observation).

Balanced Scorecard (BSC): This refers to a management framework that translates an organisation's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system (Kaplan & Norton, 1996b:2).

Benchmarking: This is the measurement of the quality of a company's products, services and activities against the best levels of performance for continuous improvement. An organisation can use internal benchmarking information or external benchmarks from competitors or from other organisations with similar processes, products or services (Horngren *et al.*, 2002:525).

Business ethics: This field studies the ethical dimension of economic activity at the systematic, organisational and intra-organisational levels (Rossouw, 2010b:22).

Cash flow statement: This is a kind of financial statement that summarises the cash generated as cash inflows and how that cash is spent as cash outflows (Own observation).

Cash ratio: This is the most restrictive liquidity ratio, as it assumes that only cash and cash equivalents are available to pay off current liabilities. It is calculated as cash and cash equivalent divided by current liabilities (Correia, FInn, Uliana & Wormald, 2003:517).

COMESA: The acronym stands for "Common Market for Eastern and Southern Africa", an economic bloc whose current members are the following countries: Burundi, the Comoros, the Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, the Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe (Common Market for Eastern and Southern Africa, 2010).

Corporate conscience: It refers to a practice in business ethics which requires managers to act in accordance with people's rights, morals and sense of justice (Nakano, 2007:163).

Corporate governance: This is a set of processes, customs, laws and institutions that affect the way a corporation is directed, administered, or controlled through the provision of guidelines and mechanisms to ensure good behaviour to protect the interests of stakeholders (Prozesky, 2010:262).

Corporate social responsibility (CSR), also referred to as **corporate citizenship:** This is a company's sense of responsibility, as a corporate citizen, towards the local community and the natural environment in which it activities take place and its business survives upon (Caroll, 1999:292)

Culture: For the purposes of this study, the term refers to a set of values, beliefs and norms which govern or influence the behaviour of people in organisations (Flamholtz, 2001:271).

Current ratio: This ratio is calculated as current assets divided by current liabilities. Current assets include cash and marketable securities, bank balances, debtors, stocks/inventories. Current liabilities include creditors, accrued liabilities, short-term debts, and current portion of long-term debts. The **quick ratio** eliminates stocks from current assets so that the calculation of this ratio becomes assets less stocks, divided by current liabilities (Correia *et al.,* 2003:5-12).

Customer relationship management (CRM): This management information system tracks the way in which a company interacts with its customers and analyses all these interactions to optimise revenues, profitability, customer satisfaction and customer retention (Laudon & Laudon, 2006:60).

Debt/equity ratio: This ratio is a financial leverage measure of the proportion of debt or liabilities as compared to the shareholders' equity. The bigger the debt, the bigger the ratio, and the bigger the financial leverage (Correia *et al.*, 2003:515).

Eco-efficiency: This refers to a process where business production activities are made to be ecologically efficient through resource reduction, process redesign, recycling, and reuse. Eco-efficiency creates value for the corporation by engaging cost and differentiating competitive advantages (Stead & Stead, 2004:81).

Effectiveness, also referred to as **doing things right:** This term refers to the relationship between organisational outputs and its goals. Effectiveness is the degree to which an organisation achieves its objectives (Horngren *et al.*, 2002:891).

Efficiency, also referred to as **doing right things:** An efficient organisation achieves its objectives at the minimum cost or with the minimum consumption of resources. Efficiency is getting the most output from the least amount of inputs in order to minimise resource costs (Horngren *et al.*, 2002:891).

Ethics: An ethical approach focuses on what is good and right in an economic activity by engaging in a moral analysis and assessment of such economic practices and activities (Rossouw, 2010b:20).

Human capital: This is the availability of strategic competencies in the form of skills, talent and know-how to perform the activities required by the corporate strategy (Kaplan & Norton, 2004c:13).

Information capital: This is the availability of strategic information in the form of knowledge applications and the infrastructure that is needed to support the corporate strategy (Kaplan & Norton, 2004c:13).

Institute of Directors in Southern Africa: This is the only organisation in Southern Africa that represents directors, professionals, business owners and leaders in their individual capacities. The Institute is the custodian of corporate governance which enhances the development of business owners and directors through educating and improving on governance structures (Linkedin.com, n.d.:n.p.).

Intellectual capital: This refers to the collective knowledge of the individuals working in an organisation. This knowledge can be applied to produce wealth, to multiply the output of physical assets, to gain a competitive advantage, and/or to enhance the value of other types of capital (BusinesDictionary.com, n.d.:n.p.).

Just-in-time (JIT): This is a scheduling of systems that minimises inventories by having components arrive exactly at the moment they are needed and finished goods shipped as soon as they leave the assembly line of production (Laudon & Laudon, 2006:96).

Key performance indicators (KPIs): These are measures or mileage markers that indicate whether procedures are actually working to help an organisation to achieve its goals (Savitz & Weber, 2006:254).

Millennium Development Goals (MDGs): These are eight international development goals that all 192 United Nations member states and affiliated international organisations adhere to achieve by the year 2015. The MDGs include reduction of extreme poverty, reduction of child mortality rates, fighting disease and epidemics such as HIV/AIDS, and developing a global partnership for global development (United Nations, n.d:n.p.).

Organisation capital: This refers to the availability of organisational culture in the form of awareness and internalisation of the shared mission, vision, and values needed to execute corporate strategy. Organisation capital also includes leadership, alignment and teamwork within an organisation (Kaplan & Norton, 2004c:13).

Performance measure: This a measure used to quantify the efficiency and/or effectiveness of an action. Thus, a set of these measures represents a performance measurement system (Neely, Gregory & Platts, 1995:80).

Performance measurement system: This refers to a set of measures used to quantify both the efficiency and effectiveness of organisational actions. Hence the level of performance an organisation attains is a function of the efficiency and effectiveness of the actions an organisation undertakes (Neely *et al*., 1995:80).

Profit and loss account: This a financial statement that shows revenues and their corresponding costs within a given accounting period, usually one year (Own observation).

Research and Development (R&D): This term covers a systematic activity combining both basic and applied research, and aimed at discovering solutions to problems or creating new goods and knowledge. Research and development may result in the ownership of intellectual property such as patents. In accounting for research and development costs, the development costs may be carried forward, but the basic and applied research costs are often written off as they are incurred in the accounting period (BusinessDictionary.com, n.d.:n.p.).

Return on capital employed (ROCE): This is a measure of the return in terms of profitability on every amount invested into the business. The ratio is calculated as the net income divided by the capital employed (Own observation).

SADC: This acronym stands for the Southern African Development Community. Originally known as the Southern African Development Coordination Conference (SADCC), SADC is a socio-economic development forum whose current member countries are Angola, Botswana, the Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Zambia and Zimbabwe (Southern Africa Development Community, 2010).

Stakeholder: This term refers to any group or individual who can affect or is affected by the achievement of the organisational objective (Freeman, 1994:411).

Supply chain management (SCM): This is the integration of a network of organisations and business processes for procuring materials, transforming these materials into intermediate and finished products and distributing finished products to customers (Laudon & Laudon, 2006:385).

Sustainability: This refers to living and working in ways that do not jeopardise the future of social, economic and natural resources. It requires a focus on future. In business, sustainability means managing human and natural capital just as vigorously as financial capital (Stead & Stead, 2004:111).

Sustainable development: This is development that meets the needs of current generations without compromising the ability of future generations to meet their needs and aspirations (World Commission on Environment and Development, 1987).

SWOT analysis: This is a process where managers identify and critically evaluate organisational internal **S**trengths and **W**eaknesses through the internal audit analysis, as well as external **O**pportunities and **T**hreats through an external audit analysis, also referred to as environmental scanning. SWOT analysis is also called **corporate analysis** or **corporate appraisal** (Own observation).

Total asset turnover: This figure is calculated as sales divided by total assets. Fixed asset turnover is sales divided by total fixed assets, whist **debtors' turnover** is defined as credit sales divided by debtors. The **average collection period** measures the average length of time that it takes to collect from a customer, which is calculated as 365 days divided by debtors' turnover (Correia *et al.,* 2003:513-514).

Total quality management (TQM): This is an approach that sees quality control as a responsibility to be shared by all the people in an organisation (Laudon & Laudon, 2006:505).

Triple bottom line (3BL): This is a reporting system that recognises the considerable power that modern organisations wield, as they are accountable not only for their financial or economic single bottom-line performance, but also for their social and environmental performance (Rossouw, 2010e:129).

Ubuntu/Umunthu: This Nguni (isiZulu) word means "humanness" or "dignity" or "humanity towards others" and is the basis of African social laws encompassing social values such as sharing, caring, respect and dignity that are omnipresent on the African continent (Binedell, 1995; English, 2002; Moloketi, 2009).

LIST OF FIGURES

Figure 1: A conceptual framework of stakeholder relationships and networks 8

Figure 2: A roadmap to the thesis 20

Figure 3: Corporate performance framework 29

Figure 4: Literature review outline on corporate performance systems 31

Figure 5: Corporate performance and the traditional financial measure 49

Figure 6: Corporate performance and the Balanced Scorecard model 78

Figure 7: The Balanced Scorecard model, showing its four perspectives 81

Figure 8: Time horizons for the Balanced Scorecard model's perspectives 92

Figure 9: The strategy map represents how an organisation creates value 94

Figure 10: The Balanced Scorecard model as a strategic framework for action 96

Figure 11: Corporate performance and the African Ubuntu philosophy 127

Figure 12: Corporate performance and corporate sustainability 166

Figure 13: The Sustainability Balanced Scorecard (SBSC) model 187

Figure 14: Corporate performance, business ethics and corporate governance 201

Figure 15: Country of participating organisations 285

Figure 16: Use of the Balanced Scorecard model 286

Figure 17: Rating of the usefulness of the Balanced Scorecard model 287

Figure 18: Management level of respondents 288

Figure 19: Work experience (years) of respondents 289

Figure 20: Means of the response ratings of statements under the relationship and culture strategic theme 305

Figure 21: Means on response ratings of statements under the stakeholder strategic theme 311

Figure 22: Means on response ratings of statements under the processes and practices strategic theme 318

Figure 23: Means of the response ratings on statements under the intellectual capital strategic theme 324

Figure 24: Means of the response ratings on statements relating to the value creation strategic theme 328

Figure 25: Means of the response ratings on statements relating to the corporate conscience strategic theme........ 337

Figure 26: Statistical components and the corresponding perspectives of the new African Balanced Scorecard model 364

Figure 27: A roadmap towards the African Balanced Scorecard model 368

Figure 28: The African Balanced Scorecard model showing its four perspectives........ 371

Figure 29: Relationships of the four perspectives in the African Balanced Scorecard model........ 380

LIST OF TABLES

Table 1: Significance and limitations of performance measures........................ 48

Table 2: Significance and limitations of financial measures.............................. 74

Table 3: Significance and limitations of the Balanced Scorecard model......... 122

Table 4: Derivatives of 'Ubuntu' in Bantu languages 128

Table 5: Positive attributes and meanings of the African Ubuntu philosophy 132

Table 6: Significance of and challenges in implementing the Ubuntu philosophy 156

Table 7: Intersection of the Balanced Scorecard model and the Global Reporting Initiative's economic sustainability indicators 192

Table 8: Intersection of the Balanced Scorecard model and the Global Reporting Initiative's environmental sustainability indicators 192

Table 9: Intersection of the Balanced Scorecard model and the Global Reporting Initiative's social sustainability indicators 193

Table 10: Statements relating to the relationships and culture strategic theme 261

Table 11: Statements relating to the stakeholder strategic theme 261

Table 12: Statements relating to the practices and processes strategic theme 262

Table 13: Statements relating to the intellectual capital strategic theme 263

Table 14: Statements relating to the value creation strategic theme 263

Table 15: Statements relating to the corporate conscience strategic theme 264

Table 16: Country of participating organisations 285

Table 17: Use of the Balanced Scorecard model 286

Table 18: Rating of the usefulness of the Balanced Scorecard model 287

Table 19: Management level of respondents... 288

Table 20: Work experience of respondents 289

Table 21: Demographics on industries 290

Table 22: Number of employees........ 291

Table 23: Organisational stakeholders 292

Table 24: Stakeholder popularity rankings 294

Table 25: Statistical summary of the univariate analysis on the relationships and culture strategic theme 304

Table 26: Statistical summary of univariate analysis on stakeholder strategic theme 311

Table 27: Statistical summary of univariate analysis on processes and practices strategic theme........ 317

Table 28: Statistical summary of the univariate analysis on the intellectual capital strategic theme........ 323

Table 29: Statistical summary of the univariate analysis on the value creation strategic theme 328

Table 30: Statistical summary of the univariate analysis on the corporate conscience strategic theme 336

Table 31: Pearson correlation analysis for the relationships and culture strategic theme 341

Table 32: Pearson correlation analysis for the stakeholder strategic theme..... 343

Table 33: Pearson correlation analysis for the processes and practices strategic theme 344

Table 34: Pearson correlation analysis for the intellectual capital strategic theme 346

Table 35: Pearson correlation analysis for the value creation strategic theme 347

Table 36: Pearson correlation analysis for the corporate conscience strategic theme 349

Table 37: Pearson correlation analysis for the six strategic themes of the conceptual framework 351

Table 38: Total variance explained by the four components 356

Table 39: Component 1 (Relationships and culture) 357

Table 40: Component 2 (Corporate conscience) 358

Table 41: Component 3 (Value creation) 359

Table 42: Component 4 (Stakeholders) 360

Table 43: Pearson correlation analysis for the four components using exploratory factor analysis 361

Table 44: Performance measures relating to the relationships and culture perspective 384

Table 45: Performance measures relating to the stakeholder perspective 385

Table 46: Performance measures relating to the value creation perspective 386

Table 47: Performance measures relating to the corporate conscience perspective 387

Table 48: The Balanced Scorecard model versus the African Balanced Scorecard model 391

Table 49: Solution to the problem statement and meeting of the research objectives 411