

Winter 2011

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Recommended Citation

Barndt, R. J., McGee, C. H., & Cataldo, A. J. (2011). Failure to Benchmark: An Out-of-Balance Scorecard at an Academic Institution. *Management Accounting Quarterly*, 12(2), 49-56. Retrieved from http://digitalcommons.wcupa.edu/acc_facpub/3

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Failure to Benchmark: An Out-of-Balance Scorecard at an Academic Institution

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AN OUT-OF-BALANCE SCORECARD CAN CREATE ALL KINDS OF PROBLEMS FOR AN ACADEMIC INSTITUTION FROM LOSING A "FIRST CHOICE" EMPLOYMENT CANDIDATE TO CREATING AN OBJECTIONABLE CULTURE AND TEACHING CLIMATE TO A LACK OF PROCESS ACCOUNTABILITY. THE SITUATION DESCRIBED IN THIS ARTICLE IS JUST ONE EXAMPLE OF A BALANCED SCORECARD FAILURE.

The publication of successful cases of balanced scorecard (BSC) development and application is understandable, but failures may be less frequently documented and published in relevant professional or academic literature streams. Here we will discuss a hypothetical case that focuses on a university's inability to attract and hire its first-choice faculty candidate because it failed to benchmark its BSC. This is just one example of what could occur (and has) in similar situations.

As most people in business and academia know, the balanced scorecard is a widely used strategic planning and management system. Although it is referred to as "balanced," it is actually "weighted." An organization weights the perspectives of its internal scorecard based

on objective external evidence and/or observations. In academia, the observations arise from a review of the institutions a college or university respects and aspires to emulate. During the accreditation process, a peer review team asks the institution to allow team members to review its plan for continuous improvement. In other words, a university develops and adjusts its BSC based on proven best practices.

The nonprofit academic environment differs from the commercial business sector in a variety of ways. Although both have vision and mission statements that must be aligned with perspectives contained in the BSC, the basic foundation or composition of the BSC differs. In addition, having tenure, a guaranteed job for life—with little or no risk of performance-based busi-

ness failure—may produce high levels of perceived invincibility, nonaccountability, and even a corrupt climate.¹

This case and the comparison of ABC University, which benchmarks its BSC, and XYZ University, which does not benchmark its BSC, suggest that first-choice candidates with sufficient expertise in their industry can detect nonbenchmarked scorecards. While these candidates might not understand how the scorecard came to be out of balance, they may think that the absence of assurance and process accountability could be pervasive in such organizations or institutions and at all levels. (Failure to benchmark the BSC at a for-profit organization is likely to be more important, where ongoing profitability and survival are at issue.)

THE UNIVERSITY BALANCED SCORECARD

A BSC traditionally used in business has four perspectives:

- ◆ Financial,
- ◆ Customer,
- ◆ Internal business processes, and
- ◆ Learning and growth.

The academic accreditation process has prompted universities to mold these four perspectives into three:

- ◆ Research,
- ◆ Teaching, and
- ◆ Service.

These three still may include aspects of the more traditional perspectives, such as financial and customer. A teaching- or student-centered institution will add greater weight to the teaching perspective. A research-oriented university, such as XYZ, will add greater weight to research. (See Figure 1 for an example.)

Part of the research perspective includes publishing. In addition to teaching university courses, academics are expected to publish the results of their research. The objective of research and publication efforts is to expand the base of scientific knowledge. In each discipline there are journals acknowledged as those that will publish the results of scientific and academic research. Some journals are perceived by the academic community to have a more rigorous review process than others

and are credited with publishing “high-impact,” “seminal,” and/or “high-quality” research. Others are perceived as publishing less-seminal or lesser-quality works. Universities use these studies, which have survived varying levels or rigor in the editorial review processes, as a source of external evidence and for use as a means of benchmarking.

On the academic balanced scorecard, the research perspective frequently assigns weights to faculty publication in journals. For example, *Strategic Finance*, the official publication of IMA® (Institute of Management Accountants), or IMA’s *Management Accounting Quarterly* would be presumed to represent relatively high-impact professional and academic journals, in part based on their very low acceptance rates. The research perspective might also include quotations in *The Wall Street Journal* or *The New York Times* based on a faculty member’s research, as well as the use of a faculty member’s research by the Internal Revenue Service (IRS), the U.S. Securities & Exchange Commission (SEC), or other well-recognized regulatory bodies or frequently cited publications. A specific point value may be assigned to each target.

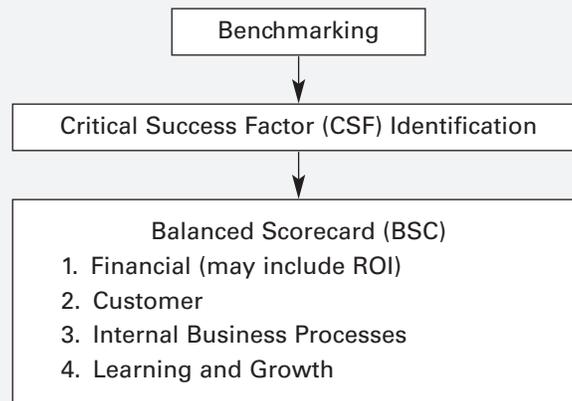
The weights (and points) are stated formally in a list of journals accessible to each faculty member as shown in Tables 1 and 2, are linked to the university mission and vision statements, and may even count toward faculty merit pay increases. Unlike the case with periodic bonuses in a profit-making organization, a university that has faculty merit pay increases may add pay hikes to the base salary. This provides an even greater incentive to achieve or exceed target measures and/or manipulate or fail to benchmark the BSC.

For example, a faculty member who has a base salary of \$100,000 and who receives a merit pay increase of 8% will receive \$108,000 in base salary the next year. If an additional merit pay increase of 5% is awarded in the following year, this faculty member’s base salary will rise to \$113,400 (\$108,000 + 5%). Several consecutive years of relatively high merit pay increases will have a significant compound impact on a faculty member’s base pay.

XYZ is a university with a relatively high research orientation and a merit pay system that impacts promotion and tenure decisions. Therefore, a faculty member

Figure 1: **BSC Frameworks for Nonacademic Organizations and Academic (Research & Teaching) Institutions**

Nonacademic Organization



Academic Organization

BSC		BSC	
<i>Research University</i>		<i>Teaching University</i>	
1. Research	(50%)	1. Research	(35%)
2. Teaching	(35%)	2. Teaching	(50%)
3. Service	(15%)	3. Service	(15%)

(or faculty candidate) who understood these systems would review the BSC before accepting an appointment or choosing to remain at XYZ. This is precisely what occurred in the situation we discuss in this article: A newly minted Ph.D. and faculty candidate noticed that the BSC was not benchmarked and refused an offer and appointment.

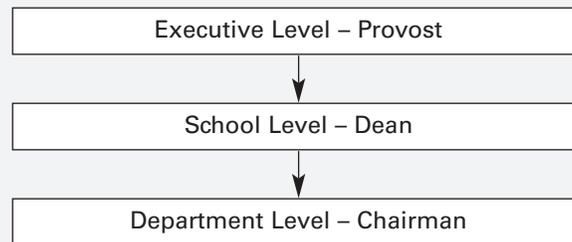
THE XYZ ENVIRONMENT

Assurance and process accountability may have been impacted by the culture at XYZ University. Under XYZ’s broad hierarchical structure, the provost is at the *executive* level, the dean is at the *school* level, and the chairman of the discipline is at the *department* level (see Figure 2). At the time, there were issues and problems at all levels.

Executive level. During the same time period that the candidate was being pursued, the provost rejected an arts and sciences professor for promotion and tenure after the professor received unanimous support from her department, her school, and the XYZ University-level committees. Prior to his appointment as provost, he had been this faculty member’s department chair. A student protest followed the provost’s decision to reject promotion and tenure for the professor, but it was not significant enough to attract the attention of national media in the United States. Although the union at XYZ University formally supported this faculty member through a costly arbitration, the contract clearly gave the provost the right to deny promotion and tenure for any reason.

School level. Assurance and process accountability is

Figure 2: **Hierarchy Approach to XYZ University**



likely to have been negatively impacted by the turnover of school deans during this period. A long-standing dean was not pleased when XYZ University decided to remove a percentage of unrestricted charitable contributions made to the school. A 10% “tax” was to be imposed, and funds he had helped accumulate would be removed for centralized use by the University. The dean was vocal in objecting to the removal of the funds and was summarily fired by the provost. Termination did not occur immediately, however, so for several months this leadership position was in play because the faculty knew about this event, knew that he had no power over them, and knew that they could do what they wanted without any consequences. Therefore, historical processes may have been neglected or ignored. Then the replacement dean resigned after 45 days, and the next replacement, while selected as a result of a school faculty vote and a national search, was not accepted by senior faculty and had to resign.

Department level. Perhaps the best illustration of the XYZ University culture is represented by events at the department level. Here is an example. One tenured full professor sent an e-mail to another tenured full professor, as well as to all department faculty members, including those involved in the faculty search, complaining that the professor had benefitted economically for many years by manipulating the BSC. (Recall that the merit pay at XYZ University was added to the following year’s base pay.)

THE CANDIDATE REACTS

The candidate’s awareness of the problems with the XYZ University BSC evolved in a series of meetings leading to and following the University’s interviews with prospective faculty members. For example, the first-choice candidate identified near-term targets in which to try to be published. One publication, *Accounting, Organizations and Society (AOS)*, was not classified by XYZ as a premier (or strongly weighted) journal, yet most research universities classified *AOS* as a premier or top-ranked journal. In fact, one study ranked it as the leading accounting journal in the world.² This faculty candidate was legitimately concerned about how XYZ University’s classification of the journal would impact his promotion, tenure, and merit pay increases because total points for publication would be part of his annual performance review.

The University made the candidate an offer, and his response shows his perception of the flawed scorecard: “I am considering XYZ University...let’s see if we can get that list changed first. :-) You might want to mention that (a third university) ranks it premier, and I was told by their search committee chair to expect negotiations to open there.”

An institution that benchmarks its balanced scorecard—ABC University—ranked *Accounting, Organizations and Society* as a premier journal, which means that publishing there would earn one of its faculty members a high score of four points (see Table 1). The

Table 1: **ABC University School of Accounting Journal Rankings**

Adopted March 10, 1999;
Modified March 19, 2002

ACCOUNTING JOURNALS

Premier:

Accounting, Organizations and Society (AOS)
Contemporary Accounting Research (CAR)
Journal of Accounting and Economics (JAE)
Journal of Accounting Research (JAR)
The Accounting Review (AR or TAR)

same publication would count for only three points at XYZ. In addition, XYZ assigned fixed intervals—whole number values—to the points. ABC University, however, used decimals, which allowed much greater precision (see Table 2).³

In Table 2, we mapped XYZ University's fixed internal point values onto ABC University's more broadly accepted hierarchy. (XYZ groups publications in categories such as "Premier," "2A," "2Professional," etc. ABC's Premier category carries the most points, and "2A" carries more points than "2Academic," which is better than "2Professional.") The relation or correlation between the two scorecards is very low—about 33%.⁴

ABC University's externally benchmarked ranking system classified 13 journals in the "2A" category. On its scale of one to three, XYZ ranked six of the journals at three points, four journals at two points, and three journals at one point. This produced a mean point value of 2.23. Repeating this procedure for journals in the other categories produced similar results. The discrepancy or results from XYZ's failure to benchmark for the research component of its BSC were not merely significant but could be characterized as containing only an inconsequential (33%, as explained above) or insignificant component that was benchmarked.

Perhaps the greatest evidence of XYZ University's

out-of-balance BSC and failure to benchmark was the lack of scholarship evident in the BSC instrument itself. The BSC for the key research principle was nothing more than an Excel file—a table with numbers or scores and column headings. It had no introductory statement, no summary statement, no effective date, no citations of external sources, no explanation of classifications of journals—nothing to support the two-column Excel file filled with journal titles and numbers. A separate balanced scorecard covered teaching, but there was no BSC for service.

Alternatively, the ABC University scorecard was clearly benchmarked to external sources (i.e., published surveys of journal quality). It consisted of a Word file containing related explanations, references, citations, and effective dates of predecessor scorecards. Therefore, the ABC University scorecard was in good form.⁵ See Table 3 for a brief comparison of the two.

BENCHMARKED SCORECARDS ARE A MUST

The key thing to remember is to make sure your organization's scorecard is benchmarked. A nonbenchmark scorecard serves no purpose and might cause unnecessary problems.

XYZ University's first-choice faculty candidate accepted a position with a third institution—one with a benchmarked balanced scorecard. Less than 24 months later, the publication the candidate presented at the XYZ University interview, a paper developed from his dissertation that presumed to represent the research foundation for a new Ph.D.'s career, was published in *Accounting, Organizations and Society*. He had realized that had he joined the XYZ faculty, the work from his dissertation would have been perceived in a discounted fashion, which would have impacted his future.

Although new college graduates may not possess sufficient life experience to detect an organization's failure to benchmark its balanced scorecard and internal reward system, do not assume that this will always be the case. Colleges and universities should be prepared to explain why they do not benchmark their scorecards and systems if they continue to not benchmark.

It may also be preferable for a university to delay balanced scorecard development when assurance and process accountability is at greatest risk. In the case of

Table 2: **A Comparison of ABC University (benchmarked) and XYZ University (not benchmarked)**

Accounting Journal Hierarchy, Rankings, or Scores Used for Balanced Scorecards, Merit Pay, Promotion, and Tenure

	ABC	XYZ	XYZ
<u>N</u>	<u>Category</u>	<u>Mean</u>	<u>Range</u>
13	2A	2.23	1 through 3
15	2Academic	1.73	1 through 3
10	2Professional	1.60	1 through 3
38		1.87	1 through 3

The means were based on XYZ University rankings and designed to minimize the variance or maximize the correlation, which was still very, very low at 33%.

ABC University Publication Titles and Categories
Category 2A

XYZ University's Fixed interval Score

<i>Accounting and Business Research</i>	3
<i>Accounting and Finance New Zealand</i>	2
<i>Accounting Forum</i>	1
<i>Accounting Horizons</i> other than basic research articles	3
<i>Advances in Accounting</i>	3
<i>Advances in Accounting Information Systems</i>	1
<i>Advances in Management Accounting</i>	3
<i>Advances in Taxation</i>	3
<i>International Journal of Accounting</i>	3
<i>Management Accounting Quarterly</i>	1
<i>Management Accounting Research</i>	2
<i>Research in Accounting Regulation</i>	2
<i>Research in Governmental and Non-Profit Accounting (RIGNA)</i>	2

2Academic

<i>Accounting Educators' Journal</i> basic research articles	2
<i>Accounting Historians Journal</i>	2
<i>Advances in Accounting Behavioral Research</i>	1
<i>Advances in Accounting Education, Teaching and Curriculum Innovations</i> basic research articles only	1
<i>Advances in International Accounting</i>	3
<i>Advances in Public Interest Accounting</i>	3
<i>European Accounting Review</i>	1
<i>International Journal of Intelligent Systems in Accounting, Finance and Management</i>	1
<i>Issues in Accounting Education</i> other than basic research articles	3
<i>Journal of Accounting Education</i> basic research articles only	2
<i>Journal of International Accounting, Auditing and Taxation</i>	2

(continues on next page)

ABC University Publication Titles and Categories**XYZ University's Fixed interval Score****2Academic (continued)**

<i>Journal of International Financial Management and Accounting</i>	1
<i>Journal of Accounting and Computers</i>	1
<i>Pacific Accounting Review</i>	1
<i>Research on Accounting Ethics</i>	2

2Professional

<i>CPA Journal</i>	1
<i>CMA-The Management Accounting Magazine</i>	1
<i>Journal of Accountancy</i>	2
<i>Journal of Cost Management</i>	2
<i>Journal of Taxation</i>	3
<i>Internal Auditor</i>	2
<i>Strategic Finance</i> previously <i>Management Accounting</i>	1
<i>Public Finance and Accountancy</i>	1
<i>Tax Advisor</i>	1
<i>Taxes-The Tax Magazine</i>	2

Table 3: **Basic Comparisons between XYZ and ABC Journal Ranking Scorecards**

ABC University	XYZ University
Effective dates included	No effective dates
References included	No references
Word file document in good form	An Excel file without form

XYZ, recall that deans (school level) were fired or resigned and that turnover was high during this period when a faculty search was in progress. Assurance and process accountability is, therefore, at greatest risk when there is no one in charge or accountable.

Finally, when you are job hunting and are considering a position with an organization, understand that its failures to benchmark the balanced scorecard may represent top-down leadership issues (executive-level). These issues may be, at best, the result of a long-lasting lack of process accountability and, at worst, evidence of a culture of corruption. As was the case for the first-choice faculty candidate for XYZ University, you and

others in this situation may simply choose to build a career with another organization or institution if the BSC is out of balance. ■

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ENDNOTES

- 1 Robert Hauptman, "Dishonesty in the Academy," *Academe*, November-December 2002, pp. 39-44; and Joseph F. Castellano, Kenneth Rosenzweig, and Harper A. Roehm, "How Corporate Culture Impacts Unethical Distortion of Financial Numbers," *Management Accounting Quarterly*, Summer 2004, pp. 37-41.
- 2 Alan Lowe and Joanne Locke, "Perceptions of journal quality and research paradigm: results of a web-based survey of British accounting academics," *Accounting, Organizations and Society*, January 2005, pp. 81-98.
- 3 A ranking of journals based on fixed intervals or whole numbers, such as four, three, two, etc., represents a fixed interval

approach. This approach is fundamentally flawed because it ignores any variation within an interval. It presumes, for example, that all two-point journals are equal, but actual published journal articles producing survey-based rankings provide far greater precision, which could be reflected in decimals. To the best of our knowledge, such an approach has never been published successfully in any journal of any significance.

- 4 The correlation is an objective measure of the simultaneous change in the value of the XYZ and ABC university measures. A correlation approaching 1.00, or 100%, suggests a perfect correlation or linkage. A correlation approaching 0.00, or 0%, suggests the complete absence of any relation between these rankings or measures.
- 5 Lawrence D. Brown and Ronald J. Huefner, "The Familiarity with and Perceived Quality of Accounting Journals: Views of Senior Accounting Faculty in Leading U.S. MBA Programs," *Contemporary Accounting Research*, Summer 1994, pp. 223-250; and Rita P. Hull and Gail B. Wright, "Faculty Perceptions of Journal Quality: An Update," *Accounting Horizons*, March 1990, pp. 77-98.