



# Using strategic performance measurement systems for strategy formulation: Does it work in dynamic environments?

Josep Bisbe<sup>a,\*</sup>, Ricardo Malagueño<sup>b,1</sup>

<sup>a</sup> ESADE Business School, Ramon Llull University, Avda. Pedralbes 60-62, 08034 Barcelona, Spain

<sup>b</sup> University of Essex, Wivenhoe Park, Colchester CO4 3SQ, United Kingdom

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## ABSTRACT

This paper examines how strategic performance measurement systems (SPMS) influence organisational performance through the shaping of the strategic agendas and strategic decision arrays that result from the processes of (re)formulation of intended strategies. Using a combination of archival and survey data collected from 267 medium and large Spanish companies, we find evidence supporting a positive association between SPMS and organisational performance that is mediated by the comprehensiveness of the strategic decision arrays. We find this mediation is negatively moderated by the level of environmental dynamism, so that the comprehensiveness of strategic decision arrays that result from strategy (re)formulation processes mediates the association between SPMS and organisational performance when environmental dynamism is low, but not when environmental dynamism is high.

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## 1. Introduction

Available data suggests that a large number of firms have significantly transformed their performance measurement and management systems during the last decade. A considerable component of this transformation has been the adoption of strategic performance measurement systems (SPMS) (Micheli and Manzoni, 2010; Rigby, 2009). Underpinning these widespread processes of adoption, it has been claimed that SPMS have a beneficial impact on performance (Crabtree and DeBusk, 2008; Davis and Albright, 2004; De Geuser et al., 2009; Hoque and James, 2000) and that this impact is primarily achieved through the contribution of SPMS to the successful implementation (e.g. better communication, better execution, and more effective follow-up) of intended strategies (Garengo et al.,

2005; Kaplan and Norton, 2000, 2004; Murby and Gould, 2005).

These relatively well-established perceptions of SPMS have been challenged by recent research. An emerging stream of studies suggests that SPMS may effectively be used not only for ensuring the implementation of intended strategies but also for shaping the processes of their formulation (Bourne et al., 2000; Gimbert et al., 2010; Kaplan and Norton, 2008). However, despite the growing consensus in the literature about the positive association between SPMS and organisational performance, the empirical research that has examined the significance of the shaping of strategy (re)formulation processes as a possible explanation or channel for this association is still limited. While some research has examined the impact of SPMS on performance (Davis and Albright, 2004; De Geuser et al., 2009) and some studies have highlighted that firms in which SPMS are present engage in strategy formulation differently than those in which SPMS are not present (Gimbert et al., 2010), the connections between these two issues have not yet been addressed. Therefore, we detect an initial gap regarding the extent to which the association between SPMS and

\* Corresponding author. Tel.: +34 932806162; fax: +34 932048105.

E-mail addresses: [josep.bisbe@esade.edu](mailto:josep.bisbe@esade.edu) (J. Bisbe), [rmalag@essex.ac.uk](mailto:rmalag@essex.ac.uk) (R. Malagueño).

<sup>1</sup> Tel.: +44 (0) 1206874108.

organisational performance is at least in part accounted for by attributes of the strategy formulation processes. Hence, the thrust of our first research question is: in addition to the effects of SPMS on organisational performance that are generally attributed to strategy implementation, can the influence of SPMS on the processes of (re)formulation of intended strategies also help to explain how SPMS influence performance?

Recent literature also casts doubts on the ability of SPMS to actually support performance in dynamic environments. The extent to which the implications of SPMS depend on the dynamism of the environment has not been directly explored in previous empirical work, but prior theoretical arguments that have indirectly contributed to this debate point in conflicting directions. Some studies suggest that the adaptive capabilities that are needed in dynamic environments are increased when broader scope information is provided (Chenhall and Morris, 1986; Hoque, 2005). However, other studies have questioned whether SPMS can actually support performance in dynamic environments given the risks of over-commitment to specified intended strategic decisions in such contexts (Bukh and Malmi, 2005; Micheli and Manzoni, 2010; Nørreklit, 2000). Taking into account the inconclusiveness of previous research, our second research question examines whether the association between SPMS and performance that is channelled through the strategy formulation processes depends on whether the company operates in a stable or dynamic environment. We aim to test whether the indirect effects of SPMS on performance when acting through the attributes of strategy formulation processes are salient regardless of the level of environmental dynamism or are instead moderated by such dynamism.

To address these two research questions, we have counted on a combination of archival and survey data gathered from senior managers of 267 medium and large Spanish companies. For the survey data, this paper uses the same data set as Gimbert et al. (2010), but here the scope is substantially broadened to include two additional variables (namely environmental dynamism and organisational performance) obtained from publicly available archival data. Gimbert et al. (2010) was centred exclusively on the links between SPMS and attributes of the strategy (re)formulation processes. The expanded focus and incremental contribution of this paper result from extending the analysis to further investigate the implications of this association for organisational performance and whether the strength of these relationships depends on the dynamism of the environment.

The contribution of the paper is then two-fold. Firstly, we develop theoretical arguments and provide large-scale evidence that help explain some of the transmission mechanisms present in the association between SPMS and performance. We argue that the comprehensiveness of the strategic agendas and the strategic decision arrays that result from strategy (re)formulation processes (Dutton and Duncan, 1987; Nadkarni and Barr, 2008) help explain some of these transmission mechanisms and mediate such associations. In doing so, we extend the findings of Gimbert et al. (2010) to include the implications for organisational performance. We also extend previous empirical evidence

that had linked SPMS and performance to emphasise the processes of (re)formulation of intended strategies as one of the channels through which that link is enacted.

The second contribution of the paper relates to the inclusion of environmental dynamism as a contingent variable. Limited streams of normative and theoretical literature have provided arguments both claiming and casting doubts on the suitability of SPMS in turbulent environments (Bukh and Malmi, 2005; Kaplan and Norton, 2000; Nørreklit, 2000), but empirical quantitative evidence regarding this issue was missing. This study contributes to the literature by theoretically developing several of the reasons why the associations between SPMS and the comprehensiveness of strategic decision arrays and organisational performance may depend on the dynamism of the environment. We empirically test these associations on a large sample. Our findings provide evidence that environmental dynamism negatively moderates the association between SPMS and organisational performance that is mediated by the comprehensiveness of strategic decision arrays. We contribute to a better understanding of the implications of SPMS by highlighting that the positive consequences of the heightened comprehensiveness of strategic decision arrays that results from SPMS are more likely to be capitalised in the context of low environmental dynamism and that these positive consequences are more difficult to exploit in dynamic environments.

The remainder of the paper is divided into five sections. Firstly, we provide the theoretical background of our study and introduce a series of testable hypotheses. This is followed by two sections that present the research method and results. These results are discussed in a fourth section. A final section offers conclusions and comments on limitations and opportunities for further research.

## 2. Theoretical background and hypotheses formulation

### 2.1. SPMS, performance and strategy (re)formulation

Performance measurement systems (PMS) are concise sets of metrics (which may be financial and/or non-financial, long and/or short term, internal and/or external, ex post and/or ex ante) that support the decision-making processes of an organisation by gathering, processing, and analysing quantified information about its performance, and presenting it in the form of a succinct overview (Gimbert et al., 2010; Henri, 2006; Neely et al., 1995). SPMS are a subset of PMS. Based on prior literature (Chenhall, 2005; Garengo et al., 2005; Gimbert et al., 2010; Hall, 2008, 2011), we define SPMS as those PMSs that present distinctive features such as: (1) the integration of long-term strategy and operational goals; (2) the provision of performance measures in the area of multiple perspectives; (3) the provision of a sequence of goals/metrics/targets/action plans for each perspective; and (4) the presence of explicit causal relationships between goals and/or between performance measures. Instances of SPMS include tools such as Balanced Scorecards (BSC) (Kaplan and Norton, 1996, 2000, 2004); fully-fledged tableaux de bord (Bourguignon et al., 2004); and performance prisms (Neely et al., 2002).

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