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Extrinsic and intrinsic factors in the Balanced Scorecard adoption: An empirical study in Portuguese organizations



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ABSTRACT

In this article we aim to analyze the relationship between a set of organizational extrinsic and intrinsic factors and the adoption of the Balanced Scorecard (BSC) by privately-owned Portuguese organizations (large companies and small and medium enterprises). These factors are related to companies age, the diversity of products and services, the nature of the ownership structure, the internationalization, and the organizational size. As a primary means of data collection was carried out a postal survey through a questionnaire sent to 549 privately-owned Portuguese organizations, with an overall response rate of 28.2%. The results indicate that the degree of diversity of the products/services of the organization, the ownership of foreign groups, and the organizational size are positively associated with the implementation of the BSC. Thus, we conclude that the BSC increases with the degree of diversity of the products/services of the organization, that the Portuguese organizations that use the BSC are mainly owned by foreign groups; and larger organizations are most likely to use this tool.

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Introduction

The current environment is characterized by economic globalization and internationalization of markets, uncertainty and risk, increased competitiveness, the increase in the range of goods and services offered by companies to their customers, technological development and its impact on shortening the life cycle of products and the introduction of new organizational forms.

All these aspects have led to major changes within companies, as in order to cope with the changes taking place in the environment, they need to make all the processes related to formulation, planning, implementation and strategy control more flexible, facilitating the maintenance and development of competitive advantages (Burns & Vaivio, 2001; Giralt, 2001). Thus, in recent decades, with the aim of improving the link between the strategy and performance measurement, new models and tools for management control have been developed, that combine financial and

non-financial measures among which is the Balanced Scorecard (BSC).

The literature on the BSC is very extensive, and there is a lot of work on the analysis of cases or its use in certain activity sectors (Ferreira, Caldeira, Asseiceiro, Vieira, & Vicente, 2014; Hoque, 2014). The fact is that as in the case of any other management control innovation, the implementation of the BSC is usually associated with the presence of certain organizational environmental characteristics, which make some companies more likely to adopt it than others. However, the vast majority of empirical studies have focused on the generic analysis of the implementation of the BSC, its characteristics and the results of its application (Hoque, 2014), while identifying the factors influencing the adoption of the BSC in organizations is an issue that has been less dealt with. On the other hand, despite the large number of books, articles, etc. which have dealt with the BSC from different perspectives and for different areas and the wide range of Information Technology (IT) solutions that have been developed in recent years, there is a lack of theoretical and empirical studies in Portugal on factors influencing the adoption of the BSC. These findings have led us to ask the following question: What are the factors influencing the implementation of the BSC in private Portuguese companies?

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In light of the above, this article aims to analyze the relationship between various extrinsic and intrinsic factors for organizations and the adoption of the BSC. These factors have been identified within the literature review and are related to the age of the enterprises, the degree of diversity of the products/services offered, the nature of the ownership structure, the degree of internationalization and the organizational size.

In accordance with the objective proposed, the work is structured as follows: initially the theoretical framework is collected and the research hypotheses are defined. On this basis, the methodology and the sample under study are presented, as well as the results obtained and a discussion thereof. Finally, the main conclusions, as well as the limitations of the study and some suggestions for future research are discussed.

The Balanced Scoreboard: determining factors for its adoption

In the early nineties of the last century, Kaplan and Norton (1992, 1993) conducted a multi-business study motivated by the observation that to evaluate business performance, companies relied mainly on traditional financial measures such as return on investment and payback, and that performance measurement systems did not explain the impact of intangible assets on the performance of enterprises, especially on those technology-intensive ones, suggesting that the financial measures were inadequate in a complex and constantly changing environment and should be supplemented by additional indicators reflecting customer satisfaction, internal business processes and the capacity of the organization to learn and grow.

Therefore, there was the need to develop a tool that incorporated a wide range of more generic and integrated measures, capable of linking long-term financial success to performance achieved from the perspective of customers, internal processes and employees and systems (Kaplan & Norton, 2001). Consequently, the BSC has been proposed as a management tool capable of improving the information system of the company and responding to changes in the environment, providing managers with relevant and necessary information to evaluate the development of the strategy and take decisions, identifying four key areas for any type of organization: learning and growth, internal processes, customers and financial results (Ferreira et al., 2014; Zizlavsky, 2014).

Numerous papers refer to the advantages, strengths and contributions of the BSC for organizations. In the opinion of its creators (Kaplan & Norton, 1992, 1993, 1996, 2001, 2004, 2006, 2007, 2008), the most innovative aspect of the BSC is its capacity to produce strategic learning, providing a global vision of organizational performance and improving the understanding of the objectives as a prior requirement for their achievement.

For Kaplan and Norton (1993), the BSC is not a standard model applicable in the same way to all organizations, but should otherwise be adapted to the particular requirements of their mission, strategy, technology and culture. Therefore, different market situations, product strategies and conditions of competitive environments will involve different applications of this model. Similar statements were made by Leite (2001), who considers that the cause–effect model of Kaplan and Norton is a dynamic system that cannot be indifferent to internal and external contingent factors, and Olve, Roy, and Wetter (2002), who claim that the design and characteristics of the BSC and the process for its implementation will depend on many factors, intrinsic or extrinsic to the organization, whose degree of influence may vary.

Taking into account the objective of this work, we consider that the Contingency Theory provides the adequate framework to

base our empirical study, since it is one of the main theoretical approaches that support studies that try to explain the determinants of the use of different Management Accounting practices (Chenhall, 2003).¹ Thus, applying the assumptions of the Contingency Theory, it can be said that the propensity by an organization to adopt the BSC is contingent regarding its characteristics and the environment in which it operates.

In fact, with the aim of identifying the different factors which influence and condition the implementation and use of the BSC and explain the range of models observed in practice, some authors (Galas & Ponte, 2005; Garengo & Bititci, 2007; Hoque & James, 2000; Speckbacher, Bischof, & Pfeiffer, 2003) have adopted a contingent approach as a reference theoretical framework to deal with this study. In the development of this line of research, possible variables have gradually been identified, denominated contingent or contextual factors that seem to explain the decision of a company on whether to adopt or not the BSC.

While there is no general consensus on what the contextual factors that make certain companies more likely than others to implement the BSC are, in a first approach, and without being exhaustive, we can point out that among the most analyzed factors, there are organizational characteristics such as company size (Hoque & James, 2000; Olve et al., 2002; Sharma, 2002; Silk, 1998; Speckbacher et al., 2003); the strategy (Ittner, Larcker, & Meyer, 2003; Olson & Slater, 2002); the organizational structure (Sharma, 2002) or business culture (Olive et al., 2002), factors related with the characteristics of the industry/market and uncertainty of the environment (Banker, Janakiraman, & Konstans, 2001; Kraus & Lind, 2010; Olve et al., 2002; Sharma, 2002; Speckbacher et al., 2003) and variables linked to the leadership style and personality of management (Wiersma, 2009).

In our case, we tried to combine firstly the interest in seeing whether within Portuguese companies, the results obtained in other countries regarding the influence of certain contextual factors in the adoption of the BSC are confirmed and secondly, the possibility of extending this research to analyze new variables, whose influence has been analyzed in the general framework of systems of management control and performance evaluation, but not in the particular case of the BSC. For this reason, in this work the influence of the following six characteristics are analyzed: (1) the age of enterprises; (2) the degree of diversity of the products/services offered; (3) type of control (family/non-family); (4) the importance of foreign capital in the ownership structure; (5) the degree of internationalization and (6) organizational size (considered this last one a control variable).

The development of the research hypothesis was based on the existing literature on determining factors of management control systems (Chenhall, 2003).

In relation to the first variable under study, the association between the age of the company and its use of accounting/management control systems has been studied by various authors (Dávila, 2005; Gomes, 2007; O'Connor, Chow, & Wu, 2004; Olve et al., 2002).

The main finding of these studies is that the oldest organizations are more likely to adopt management accounting techniques, due to the existence of higher learning (background) of management. Applying these ideas to the degree of adoption of the BSC, it is expected to be higher in older organizations. In this regard, the following hypothesis arises:

¹ The Contingency Theory allowed to introduce in the management accounting research, the study of the influence of the context (external and internal) on the design and use of several techniques and tools of management accounting, becoming due to its great intuitive attraction one of the dominant paradigms for the study of the design of accounting and management control systems (Chenhall, 2003).

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