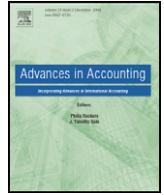




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The effects of task outcome feedback and broad domain evaluation experience on the use of unique scorecard measures[☆]

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ABSTRACT

Prior research has found that division evaluators using balanced scorecards in a performance evaluation process relied almost solely on common measures and virtually ignored unique measures. Other studies have found certain situations in which measures that are unique to a particular division are not completely ignored. However, no study has addressed whether outcome feedback over a period of time can motivate evaluators to rely more on unique measures that are predictive of future financial results. Our study involving executives with varying levels of prior evaluation experience examines two factors that may lead to increased use of unique measures: task outcome feedback and broad domain evaluation experience. Results provide evidence of increased reliance on unique measures after multiple periods as evaluators receive outcome feedback showing the predictive value of these unique measures. Further, results indicate that unique measures are used more over time when the prior evaluation experience of the participants is relatively high.

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1. Introduction

Lipe and Salterio (2000) test the effects of common and unique measures on evaluations of two divisions of a clothing firm. Although participants were not asked to compare or rank the divisions, the research finds that evaluators rated the divisions almost solely on the measures common across the divisions and state that “performance on unique measures has no effect on the evaluation judgments” (p. 284). These findings continue to be troubling for proponents of the balanced scorecard approach who contend that evaluations of performance should include unique measures derived from an organization's own vision and strategy (Kaplan & Norton, 1996). However, improved performance evaluation is only one goal of the balanced scorecard (BSC) framework. The real impact of the BSC approach is purported to be strategic alignment and focus within an organization (Kaplan & Norton, 2001, 7–17). This issue is critical to BSC success. If unique performance measures are developed that capture a division's strategic focus, but the organization's managers are evaluated solely on measures that are common to all divisions throughout the corporation, then the managers will focus their efforts on excelling in those common measures (Hopwood, 1972; Kaplan & Norton, 1992). Further,

evaluators who ignore the unique measures, which are often leading measures of future performance (Lipe & Salterio, 2000), may not evaluate the division fairly or optimally.

Various studies since the Lipe and Salterio (2000) study have found certain situations in which measures that are unique to a particular division are not completely ignored (Banker, Change, & Pizzini, 2004; Dilla & Steinbart, 2005; Humphreys & Trotman, 2011; Libby, Salterio, & Webb, 2004; Roberts, Albright, & Hibbets, 2004). However, no study has addressed whether outcome feedback over a period of time can motivate evaluators to increase their reliance on unique measures that are predictive of future financial results. Given that unique performance data are a crucial characteristic of the BSC model, and that evaluations in actual organizations are complex and iterative processes that require learning by all participants, outcomes showing that unique measures are predictive of future performance should increase the influence of unique measures. The first purpose of this study is to test whether multiperiod tasks with outcome feedback involving professionals who have prior evaluation experience will lead to increased use of unique scorecard measures.

Assuming that BSC pundits are correct in asserting the value of unique performance measures that are strategically aligned (Humphreys & Trotman, 2011), prior experience and improved knowledge structures should then support successful integration of unique measures in the process of evaluating managers. Hence, decision makers who already possess general domain knowledge and specific knowledge structures for performance evaluation tasks may have increased ability to recognize and use relevant

[☆] Data availability: Data and case materials are available and may be obtained by contacting the first author.

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information, such as the results of strategically linked unique performance measures provided in a BSC environment (Vera-Munoz, Kinney, & Bonner, 2001). The second purpose of this study is to test whether evaluators with higher levels of prior evaluation experience will increase their use of unique measures more than those with less evaluation experience. Better understanding the effect of outcome feedback in multiperiod tasks and the effect of evaluation experience enlarges the perspective on the results reported by Lipe and Salterio.

Using Lipe and Salterio's (2000) experimental task with additional evaluation periods showing the predictive value of unique performance measures, we ask professionals with varying levels of prior performance evaluation experience to evaluate two divisions over four periods. The results provide evidence of increased reliance on unique performance measures after several periods of outcome feedback showing that these measures are indicative of future performance. Further, the unique measures are weighted more strongly over time when the participant's prior experience in performance evaluation tasks is relatively high.

The rest of this paper will proceed as follows. First, relevant behavioral and performance measurement literature supporting our hypotheses is examined. Next, the experimental research method is described and the results and analysis are presented. Finally, the study's contributions and limitations are discussed.

2. Motivation and hypotheses

2.1. Common vs. unique measures

Perhaps due to early successes by companies like DuPont and General Motors, conglomerate corporations have traditionally managed their diverse divisions using common financial benchmarks such as return on investment.¹ However, more modern organizations have experienced challenges with using common financial measures to evaluate multiple divisions. These problems include stifled risk taking, unfair comparisons of units with unequal potential, and shortsighted decision making (Johnson & Kaplan, 1991). Partly in response to difficulties with using common financial metrics, many organizations are trying to better “balance” their financial performance measures by including nonfinancial unique measures of performance in their management process. A survey of 382 companies in 44 countries found that over 50% of the respondents use a BSC approach to performance measure tracking (Lawson, Stratton, & Hatch, 2006).

A BSC approach strives to overcome problems inherent in traditional performance measurement sets with a strict financial focus (e.g., ROI) by combining financial measures of past performance with nonfinancial measures that communicate current efforts to pursue unique organization strategies, which are then expected to lead to improved financial performance in the future (Kaplan & Norton, 1996, 8). Evaluation processes that continue to compare diverse divisions using *only* common measures (that typically focus on financial performance) are contrary to the BSC approach.

When evaluators compare divisions with different products and strategies, performance measures that are unique to a division's individual products and strategies should be more informative to evaluators assessing that division's specific performance compared to measures that are common across all divisions. However, Lipe and Salterio (2000) find the opposite result. In their study, participants evaluated two divisions based on each division's scorecard. Although each division's scorecard had an equal mix of common and unique measures, and even though the evaluators were not asked to compare or rank the divisions, the evaluators relied almost solely on measures common to both divisions in making their decisions. These results

were replicated by Banker et al. (2004).² In addition, Ittner, Larcker, and Meyer (2003) use archival data from a financial services firm and find evidence that BSC evaluators may overemphasize common financial performance measures and ignore other measures that were predictive of future financial results.

Lipe and Salterio (2000) motivate their findings largely on the work of Slovic and MacPhillamy (1974) in which participants predicted which of two high school students would subsequently have the higher college freshman GPA. Although the unique measures were not ignored, the common measures consistently had more influence on the evaluators over multiple experiments. Focusing on common dimensions of alternatives is one example of a “simplification strategy” or a “heuristic” (Payne, Bettman, & Johnson, 1993).

Since the Lipe and Salterio (2000) study, several studies have found situations where unique measures are not ignored in BSC division evaluations. Libby et al. (2004) find that requiring managers to justify their evaluations to superiors and providing third-party assurance reports to improve perceived quality of the measures leads to increased use of the unique measures. Roberts et al. (2004) find that unique measures have greater impact on the manager's overall evaluation when the evaluation process is disaggregated by first asking participants to rate performance on each of the 16 BSC measures. Banker et al. (2004), Kaplan and Wisner (2009), and Humphreys and Trotman (2011) all support the idea that stronger communication and articulation of the business strategy and strategic importance of the unique measures can lead to greater impact on evaluations by unique measures.

Related studies find evidence of factors affecting the reliance on financial versus nonfinancial measures in BSC evaluations. These factors include use of BSC categories versus unformatted scorecards (Cardinaels & van Veen-Dirks, 2010; Lipe & Salterio, 2002), use of performance markers (i.e., +, −, =) (Cardinaels & van Veen-Dirks, 2010), the ambiguity tolerance of individual evaluators (Liedtka, Church, & Ray, 2008), and the focus of the evaluation (i.e., individual versus division performance) (Krumwiede, Eaton, Swain, & Eggett, 2008). Lau (2011) finds that nonfinancial measures affect performance through role clarity more than financial measures.

Lipe and Salterio (2000) suggest some limitations to their study, such as participants' lack of involvement in choosing the measures and relatively low prior business experience. Dilla and Steinbart (2005) conducted essentially the same experiment as Lipe and Salterio but first covered the BSC topic in an undergraduate class, asked students to build a BSC for at least two organizations in class exercises, and tested students on the topic. After this task experience, they found that the students used both the common and unique measures in their BSC evaluations, although they still weighted the common measures more heavily. Commenting on Lipe and Salterio's results, Dilla and Steinbart (2005, 45) state, “decision makers initially resort to simplifying strategies when using the BSC. Decision makers who are more familiar with the BSC are expected to behave differently.” Cardinaels and van Veen-Dirks (2010) call for comparing and contrasting the BSC evaluations of more experienced managers, who have more developed knowledge of measurement properties and causal relationships, with the BSC evaluations of students.

Another limitation of the Lipe and Salterio (2000) study is the single evaluative period. Companies establish balanced scorecards with the intent to use them over time in the organization (Kaplan & Norton, 1992, 1996). As such, expanding the setting of BSC evaluations to include multiple periods is critical to gain a more complete understanding of how decision makers actually use this evaluation tool.

¹ Further information on the history of the DuPont ROI formula is available in Davis (1950, 7); reprinted in Johnson and Kaplan (1991, 85).

² Banker et al. (2004) were then able to attenuate the emphasis on common measures by educating their study participants on the linkage between the organization strategy and the unique measures.

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