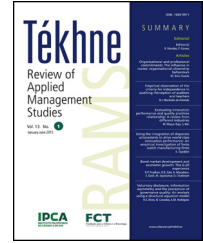




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ARTICLE

How managers use the balanced scorecard to support strategy implementation and formulation processes

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Abstract In the last twenty years the relationship between Management Control Systems (MCS) and strategy has become a relevant issue to management control investigation. This study aims to understand how managers use the Balanced Scorecard (BSC) to support the processes of implementation and formulation of strategy. The research adopts an exploratory case study approach and was conducted on a business unit of a large industrial Portuguese company. Results were analyzed from the standpoint of Simons' four control levers (1995, 2000), and demonstrate that the BSC methodology may be used under a diagnosis mode to implement deliberated strategies and, simultaneously, under an interactive mode to promote learning, support strategy revision, and provide conditions for new strategies. The research provides insights into the relationship between MCS and strategy, as it identifies the characteristics of using the BSC in the several levers of control.

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1. Introduction

Discussion about the relation between Management Control Systems (MCS) and strategy is fairly new. The variable strategy is only openly used in Management Control (MC) investigation papers in the last three decades (Langfield-Smith, 1997). Until then, MC was viewed as a set of mechanisms created for the purpose of producing information to support planning and control, favoring financial

control and accounting related information. During the decade of 80, investigation starts to relate MC and strategy based on the contingency theory. However, these studies have been widely criticized on because they do not facilitate the interpretation of results within an integrated model, the identified relationships are weak and the results are fragmented (Chenhall, 2003; Chenhall & Chapman, 2006; Covalleski, Dirsmith, & Samuel, 1996; Dent, 1990; Hopper, Otley, & Scapens, 2001; Langfield-Smith, 1997; Otley, 1999; Wickramasinghe & Alawattage, 2007). Starting in the mid-decade of 90, research highlighted the active role assumed by MC on the process of strategy formulation and strategy

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change. Conducted research assumes that strategy influences MCS and these can influence strategy. The studies of Simons (1987, Simons, 1987, 1990, 1991, 1994, 1995, 2000) have provided important contribution for this new vision of MC. The conceptual framework of Simons highlights the way managers can use MCS to define and implement strategy and also promote strategic change (Langfield-Smith, 1997).

Along with the interest on the way that MCS influence strategy, the decade of 90 also witnessed the emergence of the concept of performance management, as well as its relationship with strategy (Ittner & Larcker, 2001). The era of performance management introduces, in academic research and corporate practice, a set of management techniques focused on value creation, where the BSC is included. Some studies on the use of performance measurement systems suggest that these type of techniques are used to support strategy implementation (Bhimani & Langfield-Smith, 2007; Chenhall, 2005; Dixon, Nannim, & Vollmann, 1992; Henri, 2006; Ittner & Larcker, 2005; Marginson, 2002; Mooraj, Oyon, & Hostettler, 1999; Tuomela, 2005), as well as to promote strategic changes (Henri, 2006; Ittner & Larcker, 2005; Jazayeri & Scapens, 2008; Kaplan & Norton, 2001; Mooraj et al., 1999; Otley, 1999; Simons, 1995; Tuomela, 2005; Vaivio, 1999, 2004).

Therefore, the research questions considered in this investigation are: how do managers within the Business Unit (BU) use the BSC, and how is the BSC implicated in the process of strategy implementation and strategic change? Our research focuses on the use of the BSC, on its diagnosis and interactive mode, and its relationship with strategy implementation and change, rather than on the BSCs technical details. A qualitative methodology and a case study method were adopted to better understand the processes and context in which the practices of management control take place.

This paper provides some contributions. This research explains, with detail, how managers, from a practical standpoint, use the BSC to implement strategy and promote new strategic initiatives, generating practical contributions to corporations. Second, this research contributes to the theorization on the methodology of the BSC, which is not abundant, leading several researchers to criticize this performance measurement system (Marr & Schiuma, 2003; Norreklit, 2000, 2003). The research on the BSC is considered insufficient and some of the premises do not foster consensus across the research community. This paper aims to secure further knowledge on the form that managers use the BSC and leverage other management processes with it.

The structure of the paper is as follows. Section 2 presents the literature review and propositions which are used to guide fieldwork and subsequent analysis. Section 3 draws the research methodology and design. Results from this investigation are described in Section 4 and Section 5 contains conclusions. Finally, in Section 6 limitations and issues for future research are displayed.

2. Theoretical underpinnings

Simons (1995, 2000) presented a framework that relates four types of control with implemented strategies and with emerging strategies:

- The diagnosis management systems result in the management tools that are capable of transforming planned strategies into implemented strategies;
- The interactive control systems motivate managers to seek opportunities that might result in strategic changes and, later, in implemented strategies;
- The belief systems inspire employees to implement planned strategies but also to look for opportunities for change, as long as they are aligned with the organizational mission;
- The frontier systems assure that implemented actions are coherent with defined product and market strategies.

Control and business strategies implementation imply the integration and balance of the four control levers. And the effectiveness level which is achieved in the implementation of the planned strategies and in the identification, formulation, and implementation of emerging strategies depends on the way that the four control levers are used by managers and how they complement each other. The belief and interactive control systems foster creativity and the search for new opportunities, creating an organizational environment that stimulates information sharing and the organizational learning process. The frontier system and the use of control systems for diagnosis are used to guide behaviors, imposing managers some action frontiers and focusing them on the defined objective set and reward criteria.

Literature review focused on the framework of Simons (1995, 2000) and on the studies that used the four control levers to study the relationship between management control tools and strategy.

The studies of Simons determined the course of research on the relationship between the MCS and strategy. Part of the most recent research on this theme, has proved the work hypothesis in the model of Simons (1995, 2000), especially in the use of management control in the diagnosis or interactive mode, and in the impact of different management control modes in the implementation and strategic changes (Abernethy & Brownell, 1999; Bisbe & Malagueno, 2015; Bisbe & Otley, 2004; Kober, Ng, & Paul, 2007; Marginson, 2002). Nevertheless, the results are not consensual.

Abernethy and Brownell (1999) analyzed the way the budget was used within a context of strategic change and collected evidence that the use of the budget in interactive mode responds better to the learning and adaptation needs in a context of strategic change.

Marginson (2002) sought, through a case study, to understand the relationship between management control and strategy, exploring how (and why) the model and the use of MCS may affect the autonomy of managers in the development of new ideas and initiatives. Based on the model of Simons (1995, 2000), he concluded that: the system of beliefs and values may be used as a strategic change mechanism; the tools of administrative control may be used at the various levels of the organization to assure the strategy implementation; and, the key performance indicators may be used to secure performance in the critical strategic areas. The obtained results validate the conceptual framework of Simons (1995, 2000).

The results of the study of Bisbe and Otley (2004) show that there is no positive relation between the use of management control in the interactive mode and product

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