

Overcoming the main barriers in initiating and using purchasing-BSCs

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Abstract

The Balanced Scorecard (BSC), as a strategic management and control tool with an integrated set of leading and lagging performance measures, can secure successful implementation of purchasing strategies. However, the quality of the BSC itself as well as the effectiveness of the process to set up, implement, and use the BSC are crucial. Recognizing the growing importance of the purchasing-BSC (P-BSC) combined with the problems companies are facing, the authors emphasize the necessity for a better management process for purchasing strategies, introduce the P-BSC concept as a means to improve implementation success, and study the main barriers companies are facing when they initiate and use P-BSCs. This study and the recommendations how to overcome these barriers are based on seven in-depth case studies which derived from an action research project with European multinational firms.

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1. Introduction

Increasing environmental complexity, global competition, technological advances, and increased demands by upper management and shareholders has led organizations to focus on new sourcing practices and more complex approaches to purchasing. For example, the focus shifted from “make” to “buy” (e.g., Leiblein et al., 2002), from short-term-oriented deal making with suppliers to differentiated supplier management (e.g., Wagner and Boutellier, 2002), or from price focus to total cost of ownership (e.g., Ferrin and Plank, 2002). These changes are coupled with the evolution of purchasing to a strategic activity. Once considered primarily an administrative function,

purchasing is today viewed as an important contributor to a firm’s competitive position (e.g., Rajagopal and Bernhard, 1993; Carr and Pearson, 1999; Wagner and Johnson, 2004). Purchasing activities should also be taken into consideration as part of business and corporate strategy (e.g., Freeman and Cavinato, 1990; Watts et al., 1992; Narasimhan and Carter, 1998) and the responsible managers should design strategies to give purchasing activities and structures a proper strategic direction (e.g., Carr and Smeltzer, 1997; Eßig and Wagner, 2003). As it is likely that many firms in the years to come need to gain a sustainable source of competitive advantage from their purchasing practices (Carter et al., 2000), the importance of strategies in purchasing will further increase. Knowing about the importance of strategies in purchasing is not sufficient. The capabilities of purchasing to successfully implement them will influence how and where contributions to a firm’s competitiveness are made.

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The Balanced Scorecard (BSC) has often been recommended as a management concept (or a management tool) linking strategies and short-term actions, i.e. to speed up and to simplify the process of strategy implementation (e.g., Kaplan and Norton, 1996b; Horváth and Kaufmann, 1998). A review of the pertinent literature—published in academic as well as in professional journals—revealed that there is a substantial body of knowledge on the initiation, set-up, roll-out, and ongoing use of BSCs. The literature mostly circles around the use of BSCs for the implementation of “classical” corporate or business unit strategies and investigates BSC applications in various industries. Although, Kaplan and Norton (2000) explicitly recommend that the flexibility of the BSC concept allows for its application in various situations and functional areas (e.g., shared services, support units, departments), research and literature on the BSC application in specific functional areas are rare. Only recently, with an increasing number of firms starting to utilize the capacity of BSCs to also better manage their strategies in purchasing, logistics, and supply chain management, have we seen literature on BSCs in these areas. Whilst there are some—mostly practitioner oriented—contributions on the use of BSCs in logistics (e.g., Liberatore and Miller, 1998; Siepermann, 2003) or supply chain management (e.g., Brewer and Speh, 2000, 2001; Stölzle et al., 2001; Weber et al., 2002; Zimmermann, 2002; Kaufmann, 2004), there are no academic and only a few managerial publications on BSCs in purchasing (e.g., Axelsson et al., 2002; Buchholz and Roos, 2002; Engelhardt, 2002; Boutellier and Wagner, 2003; De Quervain and Wagner, 2003; Wagner 2003, 2004; Aich and Fiedler, 2004).

Our premises for this research were first that the purchasing-BSC (P-BSC) can help to effectively formulate and implement purchasing strategies, and second that firms would be better positioned to succeed in initiating and using P-BSCs if they are aware of typical barriers which they may encounter and if they are prepared to avoid or overcome them. The research underlying this article was designed to uncover the most common barriers and to aid managers in overcoming them. Furthermore, our research which is built on empirical data ought to be more rigorous than the hitherto published prescriptive or conceptual articles.

Section 2 briefly introduces the building blocks of the BSC concept which are important for the later discussion of the barriers. In Section 3, the research approach underlying this article is described. Specifically, we discuss the rationale for and use of a multiple case study approach to the implementation of BSCs in purchasing. Section 4 delineates, analyzes, and discusses barriers that companies need to be aware of when P-

BSCs are initiated and set up. We will elaborate on each barrier based on the experiences from our case studies as well as the literature and give suggestions on how to overcome them. The same will be done in Section 5 for barriers that might be encountered during roll-out and ongoing use of P-BSCs. The final sections summarize the key findings and provide recommendations for further research.

2. The BSC concept

The BSC concept was designed in the early 1990s in response to the shortcomings of traditional financial measures of business performance. At that time, the BSC was primarily a “balanced” performance measurement system (Kaplan and Norton, 1992). Soon, such an understanding turned out to be confining. When the concept was expanded for the first time, its capacity as a strategy implementation and strategic control tool was emphasized (Kaplan and Norton, 1996a, b). In the second major expansion, the BSC was assigned the potential to serve as a strategic management system that leads to the so-called “strategy focused organization” (Kaplan and Norton, 2000). The following paragraphs will provide readers with a concise overview of the content of a BSC and sketch the scorecarding process.

2.1. Content of a BSC

BSCs consist of (1) strategic objectives that are “balanced” with respect to (2) predefined perspectives. The link between the strategic objectives is established through (3) cause-and-effect relationships and hypotheses regarding the strength of these relationships. In order to be able to plan and control the achievement of the strategic objectives, a BSC contains (4) financial and non-financial indicators. For these indicators (5) targets are set. Only a more detailed definition of (6) strategic initiatives, actions, or measures can guarantee goal achievement. In a (7) BSC matrix, strategic goals, indicators, and targets for each perspective are summarized. The graphical representation of the cause-and-effect relationships and the hypothesis underlying these relationships is called the (8) BSC-map and the corresponding verbal description the (9) BSC-story. Table 1 summarizes these nine elements of a BSC, provides alternative terminologies which we came across in the literature and in our empirical study, as well as a brief description. Due to their complexity and their peculiarity in P-BSCs compared to corporate or business unit BSCs, two elements warrant a more elaborate description: perspectives and cause-and-effect relationships.

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