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The impact of the corporate balanced scorecard on corporate control—A research note

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ABSTRACT

The paper explores the adoption of the corporate balanced scorecard (CBSC) and its impact on corporate control of business units. Following interviews with senior corporate managers in 15 of Sweden's largest multinational companies, 8 were found to adopt CBSC. However, CBSC had little impact on control at the corporate level. Corporate control was financially focused in all the companies: mainly financial measures were important, standards were only set for financial measures and rewards were largely based on financial performance measures. Top management's need for simplicity and comparability internally, and capital market pressures motivated the financial focus.

1. Introduction

The balanced scorecard (BSC) has received considerable attention since Kaplan and Norton's (1992) first article on this topic. Surveys suggest that BSC is a global success and is widely adopted (Hoque and James, 2000; Kald and Nilsson, 2000; Silk, 1998; Speckbacher et al., 2003). This is reinforced by case studies on BSC applications in the US, U.K., Finland, Denmark, Sweden, Australia and The Netherlands (Andon et al., 2007; Braam and Nijssen, 2004; Bukh et al., 2000; Kasurinen, 2002; Malina and Selto, 2001; Olve et al., 1999, 2003; Toumela, 2005). Leading accounting journals such as *Accounting, Organizations and Society*, *The Accounting Review*, *Journal of Management Accounting Research* and *Management Accounting Research* contain articles on BSC (e.g., Ittner and Larcker, 1998; Ittner et al., 2003; Lipe and Salterio, 2002; Malmi, 2001) and it is covered in major management accounting textbooks (Anthony and Govindarajan, 2007; Drury, 2004; Hopper et al., 2007; Horngren et al., 2002).

In their first book on BSC, Kaplan and Norton (1996a) mainly discussed BSC at the business unit level. One chapter, however, was devoted to corporate BSC (CBSC) in which they stated that "a corporate-level scorecard establishes a common framework, a corporate template, about themes and common visions that must be implemented in the scorecards developed at the individual SBUs. The corporate scorecard also establishes how the corporation adds value beyond the value created by the collection of SBUs operating as independent units" (Kaplan and Norton, 1996a, p. 37). Ten years later, Kaplan and Norton (2006a) wrote an entire book on CBSC and they argued that the most successful BSC organisations were those that were best at organisational alignment and the most successful BSC applications needed a CBSC to align their business units, support units, external partners, the board and their investors with the corporate strategy. There is a need for research on CBSC since most previous studies lie at the business unit level and therefore ignore linkages between the corporate and business unit level as well as disregard the interaction between top management and financial analysts (Kald and Nilsson, 2000; Malmi, 2001; Speckbacher et al., 2003). A CBSC is different from a business unit BSC in two fundamental ways. First, it is alleged that a CBSC helps the corporate management implement and develop

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corporate strategy with a focus on the coordination of multiple strategic business units. Hence, a CBSC focuses on relationships between the top management and business unit managers and it differs from a business unit BSC, which concentrates on implementing and developing business strategy with a focus on the coordination of functional strategies with the aim of creating competitive advantage in the business landscape (Kaplan and Norton, 1996a, 2006a). Second, managers at the corporate level are responsible for managing internal as well as external expectations (Roberts et al., 2006). These dual responsibilities differentiate corporate managers from business unit managers in that the former, in addition to internal control of business units, also are responsible for the external reporting and communication with capital market actors.

This paper responds to the call for more research on CBSC and investigates the adoption of CBSC and its impact on corporate control of business units. A CBSC is defined as a multi-dimensional performance measurement system at the corporate level where the measures are systematized in perspectives derived from Kaplan and Norton's original four (Malmi, 2001; Speckbacher et al., 2003). Corporate control is defined, in accordance with Kaplan and Norton (2006a), as the process to coordinate and influence behaviour of managers of decentralized business units to realise company synergies. Hence, corporate control is exerted by corporate management, such as the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), over managers of business units. The paper also identifies company explanations of CBSC's impact on control at the corporate level.

The findings draw from interviews with senior corporate level managers of 15 of the largest publicly listed Swedish multinational companies. This population is likely to use CBSC, as large companies appear to use scorecards more than small ones (Hoque and James, 2000; Speckbacher et al., 2003). The next section lays out the theoretical foundations of the paper in three parts: CBSC-adoption; CBSC's impact on corporate level control; and opposing a priori arguments on CBSC's impact on corporate control. Then the research methods are described, the empirical results presented and discussed, and the paper ends with conclusions and suggestions for future research.

2. CBSC and corporate control

BSC evolved in the early 1990s. Kaplan and Norton's (1992) first article described BSC as a performance measurement system, balanced in terms of the time period considered, short- and long-term performance, and financial and non-financial measures. Their second article noted the importance of linking performance measurements to strategy; only measures connected to strategy should be included in BSC (Kaplan and Norton, 1993). The authors' third article emphasised the importance of cause-and-effect relationships between measures (Kaplan and Norton, 1996b). A BSC should comprise of performance drivers (e.g. cycle times and defect rates) and outcome measures (e.g. return on capital employed). BSC was designated as a strategic management system. The fourth article introduced strategy maps—more elaborated descriptions of cause-and-effect relationships (Kaplan and Norton, 2000). Subsequent Kaplan and Norton articles (2004, 2005, 2006b) fine-tuned the BSC concept.

2.1. CBSC-adoption

The first research issue concerns CBSC-adoption. There is little research on CBSC-adoption; most surveys investigate BSC-adoption at the business unit level. An exception is Speckbacher et al. (2003) which found only 13% of companies were CBSC-adopters. The evolving character of BSC makes it difficult to determine whether companies are CBSC-adopters or not (Malmi, 2001). Should CBSC-adoption be determined by the measures used, the alignment between strategy and measures, the existence of cause-and-effect relationships between measures, or the use of strategy maps (Malmi, 2001)? This study's CBSC definition aims to embrace the widest possible set of CBSC-adopters. A company is classified as a *CBSC adopter* when it applies a multi-dimensional performance measurement system at the corporate level where the measures are systematized in perspectives derived from Kaplan and Norton's original perspectives: investing in learning and growth capabilities, improving efficiency of internal processes, providing customer value and increasing financial success. This is consistent with Speckbacher et al.'s (2003) minimum-standard BSC; BSC as an improved performance measurement system, as considered by Malmi (2001); and the measurement-focused BSC of Braam and Nijssen (2004). However, the number of perspectives needed to be classified as a CBSC adopter needs clarification. In this study a company needs to have measures that can be related to at least three of Kaplan and Norton's original perspectives to be classified as a CBSC adopter.

2.2. The impact of CBSC on corporate control—measures, standards and rewards

The second research issue concerns the impact of CBSC on corporate control. Kaplan and Norton (1996a, 2006a) have argued that corporate management should use CBSC to coordinate and influence the behaviour of managers of decentralised business units to realise all its potential benefits. The authors claimed that CBSC is a central ingredient of corporate control and the most successful companies integrated it into their control systems. Therefore, this paper places CBSC in a general management control framework directed at three generic questions: "What dimensions of performance does the organisation seek to develop?"; "How are appropriate standards set?"; and "What rewards are associated with the achievement of performance standards?" (Otley, 1987; Moon and Fitzgerald, 1996).

Dimensions of performance are specified as *measures* that quantify performance financially and/or non-financially, thereby identifying factors crucial to the company's success (Chenhall and Morris, 1986; Otley and Berry, 1980). This requires an appropriate performance level to set a *standard* to compare performance against (Macintosh, 1985; Otley and Berry, 1980). *Rewards* entail how incentives are tied to measures and fulfilling