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The interplay of different levers of control: A case study of introducing a new performance measurement system

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Abstract

In this paper, different notions of control are investigated in the context of a longitudinal field study dealing with the introduction and use of a new performance measurement system at one case company. The control framework of Simons [Simons, R., 1995a. Control in an age of empowerment. Harvard Bus. Rev., 67(2), 80–88; Simons, R., 1995b. Levers of Control: How Managers Use Innovative Control Systems to Drive Strategic Renewal. Harvard Business School Press] is used as a theoretical frame of reference. In earlier studies, differences between diagnostic control and interactive control have been frequently addressed [e.g. Abernethy, M.A., Brownell, P., 1999. The role of budgets in organizations facing strategic change: an exploratory study. Account. Organ. Soc., 24, 189–204; Bisbe, J., Otley, D., 2004. The effects of the interactive use of management control systems on product innovation. Account. Organ. Soc., 29, 709–737; Vaivio, J., 2004. Mobilizing local knowledge with 'provocative' non-financial measures. Eur. Account. Rev., 13, 39–71]. In our paper, it is shown that strategic performance measurement systems can be used both diagnostically and interactively, but such systems have implications for beliefs control and boundary control as well. Interactive use of performance measures is apt to improve the quality of strategic management and to increase commitment to strategic targets. On the other hand, interactive discussion of specific performance metrics increases the visibility of actions which may initiate resistance. In addition, interactive use of performance measures may be costly in terms of time consumption both when collecting the data and when discussing the results. Two major differences were found in the actual use of strategic performance measures when compared to the normative literature. First, in contrast to ascertaining certain cause-and-effect relationships before implementing new measures, it was perceived that the measures themselves would be used over time to confirm or reject alleged relationships. Second, no tight connections between the new measurement system and managerial bonuses were

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made. This was mostly due to the development process, during which the top managers themselves developed the measures to reflect their belief about the best way of achieving the ultimate financial targets.

Keywords: Strategic control systems; Performance measurement; Balanced scorecard

1. Introduction

Discussion of strategy, management accounting systems and their relationship has intensified after the introduction of strategic performance measurement systems like the Balanced Scorecard (Kaplan and Norton, 1992, 1993, 1996a, 1996b) and Performance Pyramid (Cross and Lynch, 1989; McNair et al., 1990; Lynch and Cross, 1991). But even though these well-promoted strategic control systems have rapidly diffused to several (big) companies (Ittner and Larcker, 1998; Malmi, 2001), there are numerous hints of potential problems and challenges. A number of case studies have pointed out the persistence of management accounting systems (e.g. Granlund, 1998, 2001; Burns, 1996; cf. Burns and Scapens, 2000). It might not be that easy to engage in using a new performance measurement model, since several controllable or uncontrollable factors can act as barriers to full implementation of such systems (Kasurinen, 1999, 2002). In addition, Ittner and Larcker (1997) have suggested that the benefits from new performance measurement systems could be outweighed by increased bureaucracy. Implementation of complex measurement systems is costly and evidence on economic benefits of these systems is thus far limited. Detailed approaches to strategic performance measurement systems could induce inflexibility into strategic thinking (see Mintzberg, 1987; Hamel, 2000).

According to the normative literature, the construction of strategic performance measurement systems starts from the (vision and) strategy of the organization in question (Kaplan and Norton, 1993). But even the objectives behind the strategy are far from clear-cut. Different coalitions or stakeholder groups may dominate in goal setting (Ezzamel and Hart, 1987). The ultimate objectives of a company can be associated with, for example, creating shareholder value (Rappaport, 1998) but has also been argued that a company should satisfy the needs of all relevant stakeholders (Emmanuel et al., 1990). The Balanced Scorecard, for instance, has been perceived both as a tool for creating shareholder value (Kaplan and Norton, 1996a) and as a stakeholder model (Otley, 1999; Ax and Bjornenak, 2000). In addition, the objectives of the performance measurement system itself can be unclear. Contradictory views of control purposes may lead to a rejection of a proposed new strategic control system (Kasurinen, 1999).

The Balanced Scorecard is typically presented as a tool for introducing a new strategy to a business unit, and hence, it is logical that the Balanced Scorecard should be constructed in accordance with the new strategy. It has also been claimed that one major benefit from the Balanced Scorecard stems from the construction phase as it indeed helps in specifying the strategy (e.g. Kaplan and Norton, 1996a; Epstein and Manzoni, 1997; Tuomela, 2000). While it is important to explicate strategy-based assumptions of means-end relationships, mapping such chains of events is by no means simple (Otley, 1999; Norreklit, 2000, 2003; Wenisch, 2004). As a matter of fact, recent research suggests that a seemingly clear and uniform strategy can turn out to be much more complicated during the development of a new performance measurement system and consequently undermine the entire project (Kasurinen, 1999). Since it is likely that a realized strategy is a combination of both intended and emergent ingredients (Mintzberg, 1978), capturing the essence of strategy to a performance measurement system is quite a challenge (cf. Lipe and Salterio, 2002).