

# Doctorat HEC

## Spécialisation : Information, Comptabilité, Contrôle et Organisation

### Atelier Recherche

**Vendredi 5 décembre 2008**  
**14h à 16h**

**Thème :** “Balancing Multiple Competing Objectives with a Balanced Scorecard”

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# **Balancing Multiple Competing Objectives with a Balanced Scorecard**

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# **Balancing Multiple Competing Objectives with a Balanced Scorecard**

## **Abstract**

This paper investigates how multiple and competing objectives are managed within an organization, and the role that the Balanced Scorecard (BSC) plays in balancing organizational objectives. The issue of achieving multiple objectives, those which represent the interest of various stakeholders, has come to the forefront of the corporate agenda as companies are seen increasingly as more than a source of profit for shareholders, but rather as ‘citizens’ playing a broader role in the society. This study adopts an exploratory case study approach to understand how the BSC is used in the management decision and control processes to assist with the balancing of objectives. The case organization is a state owned electricity company, and provides a unique setting where multiple and equally important strategic objectives exist. The results demonstrate that the BSC has the potential to help making trade-offs and balancing objectives, but there are certain requirements for this to succeed. The paper provides insights into issues of balanced strategic management as it discusses ‘balance’ in terms of both process and outcomes.

*Key words:* Objectives, decision making, trade-offs, Balanced Scorecard, Management Control Systems, case study

## 1. Introduction

This paper investigates how the Balanced Scorecard enables the balancing of multiple and competing organizational objectives. Discussion on organizational objectives, their multiplicity and conflict, is not new (Cyert and March, 1963; Simon, 1964, Freeman, 1984). However, what is new is the shifting external environment, where organizations are being held increasingly accountable for their impact on society and the environment. Particularly over the last decade companies have faced increasing pressure to demonstrate corporate social responsibility, prioritizing the interests of their various stakeholders, in addition to maximizing the wealth of shareholders (Freeman, 1983; Berman *et al.* 1999; Harrison and Freeman, 1999; Gray, 2002; Post *et al.* 2002; Deegan, 2002; Phillips *et al.* 2003; Freeman *et al.* 2004). This is manifest in some of the broad issues moving up on the corporate agenda which range from climate change and the related risks, waste management, transparency and accountability of performance, workplace health and safety, human rights, government and community relations and strict environmental legislation (Innovest, 2004).<sup>1</sup> There is little academic research or practical guidance on how to effectively manage these multiple and sometimes conflicting objectives that evolve from the competing interests of stakeholders (see e.g. Gregory and Keeney, 1994); particularly, how management control systems (MCS) may be designed and used to address this issue.

The Balanced Scorecard (BSC) with its broad based approach has the potential to enable the management of multiple objectives through the systematic and overt recognition of stakeholders and their objectives, how these can be brought together with other organizational objectives in a strategic performance management system, and how the tradeoffs or balancing of these objectives can be undertaken with its assumed cause and effect relationships between objectives and measures. While research has considered a range of issues including the underlying assumptions of the BSC (Nørreklit, 2000, 2003; Bourguignon *et al.*, 2004), the types of organizations likely to adopt the BSC (Hoque and James, 2000), the design and content of the BSC in organizations (Chow *et al.*, 1998; Quinlivan, 2000; Kaplan, 2001; Malmi, 2001; Griffiths, 2003; Malina and Selto, 2004), how the BSC is used (Malina and Selto, 2001; Malmi, 2001; Tuomela, 2005), its organisational performance impacts (Malina and Selto, 2001; Malmi, 2001; Ittner *et al.*, 2003; Said *et al.*, 2003; Bryant *et al.*, 2004; Davis and Albright, 2004), and impact on decision makers (Lipe and Salterio, 2000; Baker *et al.*, 2004; Roberts *et al.*, 2004), little research has considered whether it lives up to its theoretical potential of enabling management of multiple stakeholders' objectives along with other organizational objectives beyond critical success factors and specific measures. This becomes especially important if we approach the issue from a managerial perspective: how managers discuss balance and make trade-offs between different organizational objectives. Most of the earlier studies seem to emphasize the control aspects of the BSC, while ignoring how the BSC may lead – together with other MCS – to (more) balance in the process of strategic management.

Therefore, the key research questions considered in this paper are: how are multiple objectives reflected in the design and use of the BSC, and how does this translate into trade-offs or balancing of those objectives? It is important to note that our research focuses on the managerial rather than the technical aspect of the theme, and does not intend to problematize the logic of BSC (for example, the cause-effect relations within a scorecard).<sup>2</sup> Our intention is to problematize the BSC from the stakeholder theory perspective: how companies could balance competing objectives using BSC as an enabling device, given the increasingly challenging operating environment.

By addressing the research question using the above approach, this paper makes a number of contributions concerning multiple organizational objectives and the BSC. First, it investigates the adoption of stakeholder orientated goals, and the desire to achieve a balance between financial objectives and the interests of stakeholder groups. In doing so, it contributes empirical evidence to the current understanding in the MCS literature of the nature of organizational objectives, the form they take, and what a balance of objectives may mean.

Second, Ittner and Larcker (1998, 224) raise the question in their consideration of research topics for the BSC of exactly: “what is balance”? Kaplan and Norton (2001a, 2001b) argue that a BSC cannot be designed to accommodate the objectives of organizational stakeholders as well as be strategically

focused. This paper makes a second contribution by examining the meaning of balance for the BSC and argues that a better label for the BSC, depending on its actual use, may be the 'Balancing Scorecard', as this denotes a process rather than an endpoint. Furthermore, we explain what is meant by balance in one organization with a particular emphasis on how an organization can design a BSC to enable a process of balancing stakeholders and their related objectives while being a strategic and balanced scorecard.

The study also answers to calls for field analysis of integrated performance management frameworks in general. A recent study by Stringer (2007) argues that there actually are very few in depth studies on this topic. She points out that there is a great need for studies that help us to understand the systems in use, rather than the intended design of performance management. In addition, the study connects to and supports findings that have demonstrated the enabling role of MCS (Ahrens & Chapman, 2004; Free, 2006; Wouters & Wilderom, 2008). These studies point out the enabling role MCS play in helping people to better understand how their own work relates to the organization's value chain. In this light more important than the BSC's technical details are the communicative and learning aspects of this particular management control technology.

Overall our research finds that the BSC played a significant role in the process of balancing objectives and a balance between objectives was to a large extent achievable in the case organization. We find both consistent and contrary evidence to the normative prescriptions of Kaplan and Norton, and, importantly, also find that while the BSC had a positive impact it did not operate in isolation. Several other factors were critical in achieving balance, including the explicit desire for balance, the ability of stakeholders to exert pressure, other formal management control systems, and informal controls, such as organizational culture and leadership dimensions of management.

The structure of the paper is as follows. Section 2 contains the literature review and develops the key structuring constructs of organizational objectives and the BSC which are used to guide fieldwork and analysis. Section 3 outlines the research design as an exploratory case study. The empirical results from this research are described in Section 4. Section 5 provides an analysis and discussion of the results and draws together the key findings and themes from the research. Finally, conclusions and suggestions for further research are contained in Section 6.

## **2. Literature review and key structuring concepts**

### *2.1 Organizational Objectives*

Overall the organizational objective could be defined as the desired state of affairs that the organization attempts to realize (Etzioni, 1960). But this raises the question of whose state of affairs is the organization concerned with achieving (Gross, 1969; Hall, 1977; Donaldson and Preston, 1995). There are different ways of viewing the organisation which influence how objectives are defined. Two dominant views are apparent within the management and administrative science literature: a shareholder centric and stakeholder centric orientation. The first is that the organization is itself a goal attaining device (Georgiou, 1973). In this sense it possesses its own unitary goal, which is argued by many as the objective of those who created the organization, in many cases this is profit maximization of shareholders (Atkinson *et al.*, 1997; Ittner and Larcker, 1998; Jensen, 2001). This traditional view of the organization is contrasted to one which defines the organization as a social system (Etzioni, 1960) or a collection of individuals or stakeholders (Cyert and March, 1963; Simon, 1964, Freeman, 1984), each with their own objectives. Taking this view the organization's objective becomes the common or consensual goal of all stakeholders (Cyert and March, 1963; Simon, 1964; Freeman, 1984).

This second view of the organization has been increasingly discussed and debated in recent years, and it is reflective of that argued under stakeholder theory (Freeman, 1983; Donaldson and Preston, 1995; Phillips *et al.*, 2003; Freeman *et al.*, 2004; see e.g. Grey *et al.*, 1997; Unerman and Bennett, 2004, and Perera *et al.*, 2005, for a discussion of stakeholder theory, accounting and accountability). This theory defines the purpose of the organization as more than simply maximizing shareholders' wealth, but rather paying attention to the interests and well-being of those who can assist or hinder the organizations

survival (Freeman, 1984; Phillips *et al.*, 2003). It acknowledges the organization as playing a role in the broader social environment, owing a responsibility to both direct and indirect stakeholders. One issue central to the stakeholder debate is whether organisations pursue the satisfaction of stakeholder interests for economic reasons or simply because doing so has intrinsic merit (Donaldson and Preston 1995, Harrison and Freeman 1999). Strategic stakeholder management (Berman et al 1999, Harrison and Freeman 1999) suggests that concern for stakeholders is motivated by the perception that it can improve financial performance. Intrinsic stakeholder commitment (Berman et al 1999, Harrison and Freeman 1999) rests on the assumptions that firms have a moral commitment to advance stakeholder interests and this shapes firm strategy. Under both models, however, multiple objectives arise as a result of the various interests of stakeholders. The shift towards a more stakeholder orientated model of the organization poses many new management challenges for the organization and its managers, particularly how to allocate resources to the competing priorities of stakeholders and how to measure whether the organization has been effective in satisfying the various stakeholder objectives.<sup>3</sup>

It is important to note, that this paper is not arguing whether the shareholder should be prioritized in the analysis of organisational objectives, or building hierarchies between or prioritizing the perspectives; the crucial issue is that no matter which perspective is adopted, organizations will still have multiple and potentially conflicting objectives. Multiple objectives will exist in a context of a range of stakeholders and their individual goals, along with the goals associated with the short term and long term time horizons of organizations (Cyert and March, 1963; Simon, 1964; Hall, 1977). Moreover, these goals and objectives will at times be conflicting due to limited resources and that maximization of one objective can be detrimental to the satisfaction of another (Cyert and March, 1963; Jensen, 2001). A useful classification of the various objectives is to define them in terms of ‘goals, motives and constraints’<sup>4</sup> (Simon, 1964 p.3) or as ‘outcome goals’ and ‘support goals’<sup>5</sup> (Gross, 1969). This suggests that the organization must satisfy a set of conditions to maintain the current state of affairs in order to move towards a desired state of affairs (Etzioni, 1960). This literature further suggests that one objective is not more important than another as such: rather, the starting point is that all objectives are important and mutually dependent (Perrow, 1961; Georgiou, 1973).

Given the multiplicity and potentially conflicting nature of objectives, a choice exists for managers between prioritizing and maximizing particular objectives and the adoption of a satisficing approach (Simon, 1964). Under a maximization model, managers attempt to choose the best available alternative according to some criterion with the purpose of achieving the optimal outcome. Maximisation is a mathematical concept and researchers have explored mathematical optimisation models for decision making. However, because human decision makers are not ‘mathematical creatures’ and there are limits to rationality they often find it very difficult to make trade-offs among the various dimensions of value (objectives) (March and Simon, 1958). Simon (1964, p.7) argues, however, that “in the decision making situations of real life, a course of action, to be acceptable, must satisfy a whole set of requirements, or constraints...for many purposes it is more meaningful to refer to the whole set of requirements as the goal of action”. Consequently, the adoption of a satisficing approach attempts to make decisions that will ensure an outcome that is at least minimally satisfactory along all dimensions.

The adoption of a satisficing approach, i.e. the balancing of all stakeholder objectives, also presents complex issues in terms of aligning behavior to objectives, and measuring performance and organizational effectiveness. MCS is the key way in which objectives and strategy are implemented in organizations, the behavior of individuals is aligned with organizational objectives, and performance is measured (Otley and Berry, 1980; Simons, 1995; Abernethy and Chua, 1996; Langfield-Smith, 1997; Chenhall, 2003). If the purpose of MCS is to align organizational behavior to objectives, it follows that the design of MCS should reflect those objectives. Under a traditional view of the organization it may be simpler to reflect a unitary objective in the design of MCS or if multiple objectives exist, these are arranged in a clear hierarchy. However, it becomes increasingly problematic to design MCS with the existence of equally important objectives, when the priorities are unclear or change depending on the decision being made, and when a set of constraints or support goals must first be satisfied.

## 2.2 The Balanced Scorecard

The Balanced Scorecard was developed in response to the deficiencies of a sole reliance on financial measures (Kaplan and Norton 1992, 1996a, 1996b, 2001a, 2001b, 2001c) in MCS. Among these problems is the propensity of managers to make short term financial term decisions which put at risk long term performance, sustainable growth and the satisfaction of non-shareholder stakeholders; that the BSC facilitates balance across these objectives (Kaplan and Norton, 1992, 1996a, 1996b). Kaplan and Norton (2001a) outline three types of BSC which to an extent reflect the development of their own thinking over time. First is a key performance indicator (KPI) scorecard where sets of measures are developed under the desired perspectives which have some reflection of strategy set at a higher level in the organization (Kaplan and Norton, 1992). Second is a strategy scorecard where the strategy of the organization is mapped through a BSC and the sets of measures in each perspective are linked in causal logical architecture reflecting this strategy (Kaplan and Norton, 1996a, 1996b). Finally are stakeholder scorecards where the major stakeholders of the organization are identified and measures and targets are built to reflect their interests (Kaplan and Norton, 2001a).

Two studies have considered how these different conceptions of what is a scorecard translate into concepts and practice (Malmi, 2001; Speckbacher, Bischof and Pfeiffer, 2003). Both these studies argue that a BSC should be derived from strategy and objectives, and include financial and non-financial performance measures which are organized around a number of key organizational perspectives. Building from this basic approach, a BSC may include the cause and effect logic between measures, and tie compensation to non-financial measures.

Ittner and Larcker (1998) in their paper on innovations in performance measurement and research implications ask what seems to be a relatively straightforward and obvious question in relation to the BSC; what is balance? They give two conceptions of balance. The first is based on the early Kaplan and Norton (1992) discussions of balance being a diverse range of measures across the four BSC perspectives. The second conception of balance draws on Kaplan and Norton (1996) and is when balance exists between the outcome measures and the input measures, and the BSC reflects a firm's business model in an integrated causal system of measurement.

Jensen (2001) states that the question of "what is balance" is one that cannot be answered. He argues that balance is no substitute for the tradeoffs that need to be made in order to deliver an overall score of organizational success, which he argues is long-run shareholders' wealth maximization. At the root of Jensen's (2001) criticism is that the BSC does not actually give a final score or endpoint result that managers can make decisions against and work towards. Furthermore, he argues that the BSC simply creates a situation that leads to conflict and disappointments as managers have to make inevitable tradeoffs in the process of trying to maximize in each of the multiple dimensions of performance.

There are a number of problems that sit in the limited discussions about what is balance in relation to the BSC. The first is what the word balance actually means and how it has been applied by Kaplan and Norton and those commenting on their work. Related to this is a mixing of the concepts of balance and tradeoffs.

The word balance is a noun which has several related meanings: a counteracting force which relates to a regulating device such as a balance wheel to keep something in equilibrium; an even distribution; harmony in design or proportion. Balanced is an adjective or attribute which means that the phenomenon is: in equilibrium; it has an even distribution; harmony in design; in other words there are either equal or appropriate proportions. So Kaplan and Norton's early ideas on balance in the balanced scorecard contain the idea that there is an even distribution of measures across a range of perspectives. Their later work in considering input measures and outcome measures has a stronger link to the idea of harmony in design or appropriate proportions.

Here is the issue; the words balance or balanced are an outcome attribute or idea, like a Balance Sheet. Consequently, implicit in the question that Ittner and Larker raise and explicit in Jensen's' (2001) discussion of this is that there is some optimal or maximized end point and the BSC either enables this,

or reflects this, contingent upon how it is used. However, organizations are not outcomes but social systems or processes (Weick, 1979; 1995); the accounting framework recognizes this with the going concern concept. Consequently, with an organisation as a process, the issue is the use of a mechanism to enable tradeoffs between stakeholders in an ongoing process to either maximize shareholders' wealth or enable satisficing multiple stakeholder objectives. Therefore, the noun balance or the adjective balanced is problematic and the verb *balancing* may be more appropriate. So a better label from the stakeholder perspective for the Balanced Scorecard maybe the Balancing Scorecard.

Weick (1979) supports this idea and argued that in organisation theory we should stamp out nouns and use verbs to explain and describe the processes of organisations. Bakken and Hernes (2006) argue that this idea complements the "fallacy of misplaced concreteness" argued by Whitehead (1929; 1979, p.18. as cited by Bakken and Hernes, 2006, p. 1601) which seems to dominate much research in accounting (Chua, 2007). Weick (1995) further argues that individuals in organisations use labels (nouns) to describe the processes of organising which really should be verbs and that these nouns such as budgets, plans (and in this case the BSC) are used to structure the organisation. Bakken and Hernes argue that inherit in Weick's work on nouns and verbs is that there is a tension between the two as they struggle for dominance (2006; p. 1608). They extend Weick's arguments with Whitehead's work on experience (verbs) and abstractions (nouns) and argue that nouns and verbs "emerge from the same process" (p. 1610). Rather than being considered substitutes where one is chosen over the other, they exist as complements; that abstractions (nouns) emerge from the experiences (verbs), consequently they are relational. Furthermore, Bakken and Hernes argue that "nouns may be seen as temporal stabilized constellations of verb-based processes" (2006; p. 1612). Consequently the Balanced Scorecard may be a "temporal stabilized constellation" of the balancing process in creating and using the approach. Subsequently, the issue becomes how it enables the process of balancing the multiple objectives designed into the Balanced Scorecard.

### *2.3 How the Balanced Scorecard Enables Balancing*

There are three principle ways in which the BSC enables balancing multiple objectives in organisations. The first is a systematic and overt recognition of the multiple stakeholders. Second is bringing together in a single management report many of the seemingly disparate elements of an organisation's competitive agendas. Finally is the assumed cause and effect relationship in the BSC that enables recognition and balancing of the mutual dependence of objectives. Each of these will now be discussed.

The first key way the BSC enables balancing is the systematic and overt recognition of the multiple stakeholder objectives and strategy to deliver them in the design of the BSC. By identifying who the stakeholders are and what strategies are needed to deliver against their objectives, a foundation is provided to enable the balancing (satisficing) of these objectives. This is somewhat different from the way Kaplan and Norton have conceptualised their stakeholder scorecard.

Kaplan and Norton (2001a) argue that a stakeholder scorecard "defines the organization's goals for these different constituents or stakeholders, and develops an appropriate scorecard of measures and targets" (p. 86-87) and when these sets of interests are reflected in the BSC then it is in a sense balanced. They then argue that "a stakeholder scorecard is not adequate to describe the strategy of an organization and, therefore, is not an adequate foundation on which to build a management system" (p. 87). Furthermore, stakeholder scorecards miss the drivers (causal relations) to achieve goals; they do not address *how* these goals are to be achieved. As a consequence a stakeholder scorecard is not a "strategy Balanced Scorecard" (p. 87). This is set in the context that the outcome for a "strategy Balanced Scorecard" is to deliver shareholder value.<sup>6</sup>

While strategy has been defined in a number of different ways, broadly it has been defined as the 'how' to achieve organizational objectives. Quinn (1995) defines a strategy as the pattern or plan that integrates an organization's major goals [objectives]. He identifies three essential elements of strategy: (1) the most important objectives to be achieved, (2) the most significant policies guiding or limiting actions, and (3) the major action sequence that is to accomplish the defined objectives within set limits. This view of strategy is consistent with Mintzberg's (1978) definition of strategy as a plan and the concept of strategy adopted by Kaplan and Norton (2001a) for the BSC: strategy identifies the path intended to reach the

destination. A key characteristic of defining strategy in this way is that while strategy incorporates objectives, it relates to how these objectives are to be achieved, and is not a process of objective formulation. If an organization has multiple objectives, rather than a single objective (such as maximizing shareholders' wealth) then strategy is about how to achieve these multiple objectives. Furthermore, if these objectives are related to satisfying multiple stakeholders, then logically it seems to follow that a carefully designed stakeholder scorecard may be a "strategy Balanced Scorecard" and as a consequence Kaplan and Norton's (2001a) argument that stakeholder and strategy scorecards are mutually exclusive is questionable.

So while Kaplan and Norton (1992, 1996a, 1996b, 2001a) argue that the end point is financial performance, and the BSC is about what activities deliver this, a strategy Balanced Scorecard can incorporate multiple objectives that are potentially as important as traditional ones, along with the sequence of activities required to deliver these multiple objectives. This overt recognition of the stakeholder objectives and the strategy to deliver them provides a basis for the balancing that exists on a day to day basis in the processes of an organisation. Without identifying who the stakeholders are and how to satisfy them balancing cannot occur.

The second key way in which the BSC enables balancing is that it brings together in a single management report, many of the seemingly disparate elements of an organisation's competitive agendas (Kaplan and Norton, 1992, 1996a). This is reflected in the dimensions of measurement (Kaplan and Norton, 2001a): financial (lagging indicators), customer, internal business processes, and learning and growth (leading indicators). In this sense the BSC structure attempts to reflect the distinction between outcome goals and support goals. Further to this, while the original conception of the BSC had these four basic perspectives (Kaplan and Norton, 1992), the more recent conceptions have also other perspectives such as environment (Kaplan and Norton, 1996a, 1996b, 2001a, Speckbacher *et al.*, 2003). A recent study undertaken by Bedford *et al* (2006) found the inclusion of perspectives other than the traditional four to be quite high; this included environment (50%), community (53%), supplier (47%) and government (49%). This overt recognition of other stakeholder groups in the design of the BSC provides potential for accommodation of objectives from these related stakeholder groups. As a consequence, managers are able to better identify where potential conflicts may arise between different objectives and aspects of performance. This may enable managers to balance their attention to those items on the agenda that must be dealt with strictly on time, to meet certain operational targets, and to those activities that require more discrete and ad hoc consideration (Johanson *et al.*, 2006).

A third feature of the BSC is the assumed cause and effect relationship between the perspectives and measures (Kaplan and Norton 1992, 1996a, 1996b, 2001a, 2001b, 2001c). A properly designed scorecard is argued to illustrate the mutual dependence of objectives.<sup>7</sup> This overt recognition of the assumed cause and effect relationships between measures and perspectives is thought to enable managers an understanding of when improvements in one area of the organisation may improve the perspectives and measures that they are causally linked to. Furthermore, establishing when improvement in one area may be achieved at the expense of another is assumed to make clear when trade-offs have to be made (Kaplan and Norton, 1992). There is though recent evidence that such causal relations may not be found in BSCs in practice. Malina *et al.* (2007) demonstrate by econometric validation that in the BSC they studied statistically significant causal relations could not be found. However, this did not hinder its use or affect satisfaction with the BSC. This made the authors to turn to other explanations for the use of and satisfaction with the system. It appeared that a better model in this context would many times be logical or finality relation, rather than causal relation (p. 962-3):

*"Logical relations exist by human construction or definition and may be common elements of PMM. They are the results of related human constructs, such as mathematics, language, and accounting... DuPont models (return on investment [ROI]), and net present value calculations are common examples of logical models. [...] A finality relation exists when (a) one believes that a given action is the best or most desired means to an end, and (b) the belief, desire, action, and end are related by custom, policy, or values (Arbnor and Bjerke 1997). Actions driven by finality are performed because the actions conform to the beliefs and wishes of a person (or group)"*

The point is that such relations cannot be tested or validated by statistical causality tests, which explains the weak statistical results regarding causality. This also pushed Malina *et al.* (2007) to present a revised performance measurement model effectiveness framework including issues such as legitimacy, fairness and conformity to further explain why the case company, contrary to (normative) expectations, planned to expand the use of the BSC. In line with this, as will be shown later on in this paper, cause-effect relations indeed seem not to form a necessary condition for a working BSC: there are many intertwined issues involved, ranging from management styles to corporate culture to couplings between different elements of the MCS “package”. In other words, we may argue that the benefits of BSC do not flow from causal relations between the BSC dimensions and respective measures. BSC is in this paper rather approached as a managerial “thinking device”.

In addition, we answer to the call by Malina *et al.* (2007) to investigate the conditions where logical, finality and causal relations are expected to emerge in relation to performance measurement systems. However, in our case we target this analysis to the relations between different organizational objectives. As will be shown such relations appear mainly as finality relations: there are other, more important, issues involved that overrule the need for causal relations. An important issue deserving further analysis here is also that the relations can be seen as social constructs, and they thus represent beliefs of causal relations, even if not verifiable by statistical tests. It is a different thing whether the managers using the BSC then even want to test the relations or not. Strong belief in the business model and in the causalities therein can be considered to be enough to guide decisions and actions, but if this is reliably testified as wrong, the whole basis for management control vanishes, having many consequences.

Further, Johanson *et al.* (2006) argue that the features of connectivity, regularity and stability of the BSC have a potential to assist more comprehensively in allocating attention and control. This relates mostly to the inclusion of a wide range of financial and non-financial indicators that are causally linked. Thus the design and use of the scorecard can play a significant role in achieving procedural fairness (Lind and Tyler, 1988; Phillips 2003) because it makes a more comprehensive set of data available to consider all objectives and systematically weigh up outcomes of different decision alternatives. Further to this, Johanson *et al.* (2006) argue that if certain relations and connections over time are clarified, their features may assist managers in communicating and legitimizing certain activities that would be harder to legitimize, given data that are more discrete and ad hoc, and structured in completely different ways.

In summary, this paper recognizes that in the contemporary business environment organizations have to satisfy stakeholders beyond their shareholders which translates into them having a range of objectives rather than a single objective. At times these objectives may conflict which may lead to a satisficing and balancing approach and at times these objectives may complement each other. Kaplan and Norton have recognized that the BSC can be used to reflect stakeholder interests; however, their conception of this is more like a KPI scorecard where goals, measures, and targets are established for stakeholders. While they argue that a stakeholder scorecard is not a strategy balanced scorecard, we argue, based on commonly held conceptions of strategy, that this is wrong as a strategy balanced scorecard can include stakeholder and other firm objectives to be achieved, as well as the plan, the guiding or limiting actions, and the sequence to accomplish these objectives (Mintzberg, 1978; Quinn, 1995). There are three ways in which the BSC enables the management of multiple and at times competing objectives. First is the systematic and overt recognition of these multiple objectives and the strategy to deliver them. Second, the specification of the outcome and support goals reflected in the leading and lagging indicators and their links to stakeholders. Finally, the assumed cause and effect characteristic explicates the mutual dependence of objectives and facilitates the process of balancing or making trade-offs. This process is about the balancing (verb) which leads to the “temporal stabilized constellation” of balance in a BSC.

### **3. Research design**

This study adopts an exploratory qualitative case study method in order to explore how and why questions in an area where there is little research available on which to base hypotheses.<sup>8</sup> The primary research was conducted from April 2005 to November 2005. The case company, Energyco,<sup>9</sup> is a state owned electricity company (SOC) in Australia. Energyco operates in both the electricity distribution and

retail markets. Energyco was formed under an Act of Parliament as part of the state government's structural reform of the electricity supply industry and the state government its only shareholder. Energyco was selected based on its theoretical significance (Yin, 2003; Ahrens and Dent, 1998) on three main grounds. First, Energyco demonstrated a Balanced Scorecard in accordance with that defined by Kaplan and Norton (1992, 2001). The BSC had been in place for three years which was considered a sufficient time to observe the impacts of its design and use on the balancing of objectives. Second, as a SOC, in contrast to a traditional private sector company, Energyco's objectives are defined by relevant legislation which explicates the equal importance of economic, social and environmental outcomes. The potential trade-offs between short term and long term objectives therein as well as the conflicts between broader social and environmental objectives with financial ones were immediately obvious (cf. Perera *et al.*, 2005). Finally, as the case can be considered a success story in general (cf. Malina & Selto, 2001, 2004; Malina *et al.*, 2007) – referring to the process of balancing and the achievement of at least 'satisfactory balance' – it is thought to provide a number of insights on the topic; this includes more general ones such as, the concept of balance, or which factors contribute to a successful BSC project (cf. Kasurinen, 2002).<sup>10</sup> Thus Energyco provided an appropriate setting in which to study the relationship between the BSC and the balancing of multiple and conflicting objectives (see Keating, 1995, for 'most-likely' research settings).

Three primary sources of data collection were used during field work: interviews, archival documentation review, and direct observation. Researchers were able to draw knowledge of the organization over a two and a half year period, and develop a deep level of understanding of culture and management styles within the organization.<sup>11</sup> The primary data collection method was semi-structured interviews. To ensure construct validity (McKinnon 1988) questions were designed to reflect the key theoretical constructs (Yin, 2003; Strauss and Corbin, 1998; Silverman, 1997; Patton, 2002): organizational objectives, conflicts and trade-offs, and the BSC (see Appendix 1). In accordance with standard practice of qualitative research the interview questions were refined during the fieldwork period based on responses of informants (Yin, 2003). In total 25 interviews were conducted (App. 2). The majority of interviews were conducted at the executive and senior management level. However, this is augmented by the researcher contact with a large number of employees (estimated at more than 100) at all levels of the organization, and in most regions of operation (see 'direct observation' below). Most interviews were recorded and transcribed. A separate report was written and presented to Energyco representatives to allow comments on the reliability, validity and overall credibility of the observations and conclusions (Patton, 2002). The feedback was very positive in this regard.

Second, the primary source of archival data was obtained from Energyco's BSC system. A selection of monthly and annual BSC reports was reviewed. Other documentation reviewed included board reports, organizational charts, training manuals, and policy and procedure documents. Publicly available information on Energyco was also obtained. Third, direct observation consisted of attending various meetings e.g. BSC business unit planning meeting, sitting in Energyco's offices one day per week during the data collection period, and conversing with employees. This method of data collection was particularly useful in understanding the cultural aspects of the organization. It should also be noted that one of the researchers previously had an association with Energyco. This work involved strategic risk assessment and business process analysis, hence adding to the internal validity of the study. The work allowed the researcher to develop a deep understanding of the business model, the objectives, and particularly the conflicts arising between them, and the processes within the organization in place to achieve these objectives. Specific processes reviewed included; capital expenditure, payroll, budgeting, network maintenance and reliability, credit control, security and environmental and safety management systems. Potential threats to reliability and validity (e.g. researcher biases) were controlled by following McKinnon's (1988) suggestions for field research strategies and tactics (McKinnon, 1988; McGrath 1982; Scandura and Williams 2000).<sup>12</sup>

Once the data had been collected, collated and transcribed, interview responses were (manually) coded using the key theoretical constructs (Miles and Huberman, 1994; Ahrens and Dent 1998) and patterns and exceptions in the coded data were identified (Miles and Huberman, 1994; Ahrens and Dent 1998). The patterns that emerged from the data were then compared to prior research on the BSC and stakeholder theory. The results were documented once this process was complete. A similar process of

pattern identification was undertaken for observational data and documents reviewed. This process is consistent with pattern matching described by Ahrens and Dent (1998).

## 4. Results

The case of Energyco presented empirical evidence on the balancing of multiple objectives with the BSC. First we will provide evidence of the existence of multiple and conflicting objectives and that these arise from the various stakeholders and their interests. Second, we outline the design of the BSC how the stakeholder interests are recognized, included in the perspectives and measures, and how the assumed cause and effect relationships between measures and perspectives enable a recognition of the interdependencies between the stakeholders and their interests. Then we discuss how Energyco's BSC enabled balancing both at a strategic decision level and in operational management. Finally we consider how the BSC interacts with other MCS.

### 4.1 Energyco's organisational objectives

#### *Background*

Energyco operates in the retail and distribution electricity markets and is located in rural and regional areas. As a Distribution Network Service Provider, Energyco owns and operates substations and the wires that transport electricity from distribution centres to end-use consumers. This part of their business is a monopoly and involves significant physical infrastructure. As an electricity retailer, Energyco is responsible for the sale of electricity to over 800,000 commercial, industrial and residential end users. Although it is heavily regulated, retail is a very competitive market. The organisation is managed by the executive, made up by the Managing Director and eight other senior managers, each responsible for a group of the organisation. There is a board of directors, responsible for the oversight of management. Board members are accountable to the shareholder in the manner set out in the relevant legislation. The organisation has 3,300 employees and has a decentralized structure with 140 offices located within the nine defined regional areas in which it operates. There are seven groups at Energyco, each headed by a Group General Manager. Of these groups three are responsible for the core operations of the business: one for retail services and two for network services and operations. The remaining four groups concentrate on providing corporate services. These include human resources, customer services, finance etc. Within each group there are several business units headed by General Managers. In total there are approximately 30 individual business units.

Energyco's key stakeholders are customers, the shareholder (state government), the communities in which they operate, employees, the environment, and regulators. These stakeholders were consistently referred to by informants throughout the interviews. The interests of each stakeholder group were identified to establish how and why potential conflicts may arise and how they translate into the corporate objectives. The *shareholder's* objectives are stated in the relevant legislation as 'operating as a successful business', 'providing financial returns', and 'being a responsible supplier of electricity with consideration for the environment, community, safety and regional development'. *Employee's* objectives include long term and secure employment, satisfactory remuneration levels, making a contribution, job satisfaction, and a safe work environment. *Customer* objectives focus on receiving affordable, safe, and reliable electricity. The objectives of the *community* are the development of the local economy through the provision of employment and critical infrastructure, investment into towns through sponsorship, community development programs, and minimal impact on the environment. *Regulators* are separate stakeholders to the shareholder and are primarily interested in ensuring competitive practices, quality and reliable services to customers, reinvestment in to infrastructure, encouragement of environmental sustainability, and stable regulatory environment. While the *environment* does not have a conscious identity, it is still considered a key stakeholder of Energyco and could be viewed as the operation of Energyco to the minimum detriment to the natural environment (see Phillips *et al.*, 2003).

#### *Reflection of stakeholder interests in corporate objectives*

Energyco's corporate objectives are stated on a one page strategy statement (see App. 3), which is located on walls in almost every office. The strategy statement describes the vision as "Energyco wants to be Australia's leading utility business". Following this statement the six supporting strategic objectives are identified: leader in safety, successful national retailer, valued part of the community, best network manager, employer of choice and responsible environment manager. The strategy statement also states the four broad measurement perspectives and links these to the objectives. The six high level objectives were described by all interviewees during the study, and all interviewees referred to the strategy statement when describing them.

*'As our strategy statement tells you [the corporate objectives], we've got a strategy in place such as the leader in safety and to be a successful national retailer, best network manager, responsible environmental manager, an employer of choice. We maintain the values that are important for the carriage of that, such as the safety and enthusiasm, teamwork, fun, accountability, excellence...'* (Manager, Customer Service)

*'There is negotiation with treasury for various financial targets. There is regulation which is heavily involved in terms of customer, network and complaints, there are all kind of regulatory and customer guarantees that we have to comply with. So I think our objectives are set by a number of other people'.* (General Manager, Regional Operations 1)

*'[Our objectives are] how we contribute to regional communities, how we improve services in regional communities, our customer satisfaction, stakeholder satisfaction, obviously delivering dividends as required to our shareholder the state government, our employee satisfaction'* (General Manager, Regional Operations 2)

Informants consistently stated that Energyco had multiple objectives, captured in the strategy statement, and these were a function of different stakeholders (see Fig. 1).<sup>13</sup>

[Insert figure 1 here]

#### *Potential conflicts between stakeholder interests*

While there was a consistent view that multiple objectives exist at Energyco and these were due to the multiple stakeholder interests which often overlap (see Figures 1 and 2), there were two commonly held views as to whether conflicts existed between these objectives. The first view held was that conflicts did indeed arise between the objectives. Examples included conflicts between customer service and safety, financial results and being a reliable network provider, as well as financial and safety outcomes:

*'People argue that safety and customer service [conflict]. When we first formed the focus on customer service people perceived that you have to do anything you can to get the power back on, but its not at the risk of safety. Yet in the field when I am out there talking to people and they will say "oh those are conflicting objectives" I can't meet the customers' needs and stay safe because I need to work on that line in a storm with lightning and thunder'. Our message is the customer will understand if you say "I can't fix it now – but I can fix it tomorrow or in two hours..."* (Executive Manager 1)

*'Well to be an environmentally responsible manager costs money. They don't conflict with each other – but they...like you could have the best network business in the world – but you would have to spend a hell of a lot of money. And it is nearly having a three dimensional cube saying cost, customer satisfaction and network provision – and they are in conflict all the time'.* (General Manager, Customer Services)

*'When we say that safety is our top priority it does not come at the expense of customers or business processes. They all have to coexist. As an example, an issue may come up around motor vehicles. The easy solution is to spend \$5mil and you may eliminate every accident that occurs. From a financial perspective that is just not practical. It is not that we are accepting the accident, we just need to look at alternatives for creating a safe environment other than spending \$5mil'.* (Executive Manager 2)

The second view held by informants was that no conflict existed between the objectives. Informants argued that the overarching objective was a balance between the objectives and that the overall objective was satisfactory outcomes within the constraints. For example:

*'Don't see any really conflicts [between the objectives]. Certainly the ones that service delivery is more interested in – are generally around network management, community satisfaction, and they are all sort of intertwined – I don't think there is a conflict'. (General Manager, Regional Operations 1)*

Although these views on the surface appeared divergent, what was common among all informants was that no single objective was considered more important than another. Overall, the interviews consistently suggested that the ultimate objective was to achieve a balance between the objectives. This is largely consistent with the definition of satisficing strategy (Simon, 1964).

*'The objective is balance. It is recognising all those balances. Yes we have a good network and infrastructure, then a national retail, our safety, our people our community. That balance. Basically – in my mind none of them are any more important than the other'. (Executive Manager 2)*

*'The dividend is extremely important, but customer satisfaction is equally as important, as is being the best network provider, because without the network provider, electricity goes out. If I had to rank them, I would say the best network provider, because at the end of the day customers want the electricity. But then equally important is safety – you can't have a network that is unsafe. I could not put them in an order because they are all equally interdependent on each other to make it a successful business. And that is what the BSC is all about'. (General Manager, Customer Services)*

*'All of these things have to be balanced up with a risk management approach' (Executive Manager 3)*

In addition, the case material reflects that the business model or strategy map is essentially not seen to be causal, but rather to represent finality relations (Malina *et al.*, 2007) between the objectives. So while they can be assumed to represent causal relations, most probably they are ones that are not expected to be statistically tested; it seems to be enough if the assumptions appear credible and follow common sense.

#### *Emerging theme of 'balancing'*

The level of consistency in the empirical evidence on the overall objective being that of balancing was somewhat surprising and provides a sharp contrast to the arguments put forward by Jensen (2001) that the financial outcome is always the sole first priority. Consistent with the discussions of rethinking balance as a verb the evidence suggested that the notion of optimization of one objective over another was not the desired end point at Energyco. Rather, the informants described a process of balancing and making appropriate trade-offs through a systematic process.

*'Now it has got to the point where everyone is quite in tuned into why we do what we do...the balance...we are an essential service to most of our customers and we have to balance those objectives with actually being profitable and actually servicing those customers. From a customer's perspective they have an entitlement to turn the lights on, and also we are a major employer in all those communities so we have a social responsibility to all those communities. And it's not just for being nice it actually makes sense to keep things open in those towns. We get better retention of employees, people like working for Energyco. If you centralized and did not have as many depots and did not do any of those things – you would not have the same outcomes – you would not have the same workforce. It creates challenges logistically, but it's that balancing'. (Executive Manager 1)*

*'Balance is the most important thing...sometimes you will let one of your objectives slip a little for the benefit of another...and it is that overall outcome...getting that overall outcome to be the best that you possibly can'. (General Manager, Regional Operations 2)*

When pressed to rank the objectives, informants continued to argue that the overarching objective was balancing and no one objective was more important than another. In presenting this argument they consistently described a process of balancing. These views of balance can be partially attributed to the

dual responsibilities of the state government in providing critical, safe and affordable infrastructure in addition to maintaining a financial going concern. The sections that follow explicate how the BSC enabled this process, starting with a description of the BSC design.

## 4.2 Design elements of Energyco's BSC

### *Background to the BSC at Energyco*

This section will outline how the multiple objectives were reflected in the design elements of the balanced scorecard to enable its facilitation in the balancing process, described in the preceding section. As argued earlier and based on our analysis three features seemed to be required in this case for the design of the BSC as a mechanism for trading off multiple and sometimes conflicting objectives: overt recognition of multiple stakeholders, inclusion of multiple perspectives and performance measures, and establishment of an assumed cause and effect relationship between various perspectives and measures.

Energyco adopted the BSC in 2002 around the same time as the company was formed. The previous companies which merged to form Energyco had a range of different management reporting systems, mainly focused around financial performance. At the time of formation there was an appetite for change. The new company, Energyco, faced pressure from the shareholders to improve performance of the electricity networks, as there had been significant dissatisfaction from the community and customers. Thus primary motivation for the adoption of the BSC was to streamline the reporting processes of the former merged entities, increase business efficiency and to transform stakeholder perceptions about its performance across a range of areas.

*'As you can imagine three companies which merged just had a whole range of different management reporting systems mainly focused around financial, which very very early on we recognised that was just an inherent flaw, just focusing on financial reporting systems. We found that was not the way we wanted to keep going because there was a whole range of other things we needed to get right in the business. And when we had a session early on from a strategic perspective – the executive were very comfortable with the approach that we too so it suited us straight away'. (Executive Manager 2)*

Early on in the development process alternatives to the BSC were considered, but ruled out.

*'We actually looked at a process of weighting them and we kind of got to a point where we had a specific weighting for each indicator, and then we had a score that came out of that. So if you had a target score of 50, it's made up of a weighting of all these things...but we moved away from that pretty quickly, as we could see all sorts of anomalies coming out of it – a whole lot of stuff. So we decided to step back from that and be a bit more flexible to allow a bit more scope. But we recognised that there were definite interdependencies between targets that needed to be sorted out from time to time, and we do that on a case by case basis, which we kind of lived successfully to. I think we were wise not to go down the other path – that would just have been ridiculous'. (Executive Manager 3)*

Inherent in the rationales provided by Energyco's senior executives on the choice of the BSC was the belief that it would through embedded logical and finality relations enable the balancing process as opposed to a weighting system which places objectives in causal hierarchies. The subsequent design of the BSC aimed to demonstrate the interdependencies between the different performance outcomes and drivers, and to give a holistic picture of all aspects of the business.

### *Structure of Energyco's BSC*

The BSC existed at three levels within Energyco: corporate level, group level and business unit level. The corporate level BSC is the highest level and is reviewed by the Executive Management Team and the Board of Directors. It contains approximately 30 key performance indicators across the whole of the business. These indicators are selected by the Executive and the Board and are drawn from the individual group and business unit BSCs. The next level down is the group level. There are seven BSCs at the group level, and they are reviewed by the head of each group, the Group General Manager, who is a member of

the Executive. The group level BSCs follow the same structure as the corporate BSC and they contained measures which feed up to the corporate scorecard. However, the number and nature of the indicators differ between groups to reflect the performance drivers in each group and to incorporate operational measures to enable the identification of specific actions. Similarly, the business unit BSCs follow the same structure as the corporate BSC, and the number and nature of indicators vary to reflect the nature of the business unit. Each business unit is headed by a General Manager, who reports to the Group General Manager. There are approximately 30 individual business unit BSCs. Finally, some business units have cascaded the BSC further down, and managers within the business unit have developed their own BSCs.

The BSC report is prepared on a monthly basis for each division at each level i.e. the business unit level, group level and the corporate level. The corporate BSC report is compiled based on the level 2 and 3 reports which feed up into it. The report itself is made up of a number of components: a strategy map, an executive summary, a one page summary of the trends of the status of each indicator over the last 12 months, measurement statistics summary, and a one page summary for each indicator.

#### *Overt recognition of multiple stakeholders*

The interests of key stakeholders described in section 4.1 were represented in the design of Energyco's BSC. Overall, there was consensus among interviewees who argued that the BSC reflected the objectives and the wide range of stakeholder interests that Energyco was trying to achieve and it presents a fair view of them.

*'And within our BSC we have indicators of safety, we have some key building blocks about being a national retailer performance indicator. And that is about being a valued part of the community. Being an employer of choice is about getting regular feedback from our people – just to find out whether they are happy at work. I know they are clichés but they are true. And they are reflected into the BSC'. (General Manager, Customer Services)*

*'The way we actually use our strategy statement, for example, we want to be a leading network provider...and from there the BSC comes down. And the BSC basically shows our objectives for the next year, what we are actually focusing on to get to that strategy'. (General Manager Business Operations 1)*

There is natural overlap between the interests and objectives of the different stakeholders. Figure 2 describes how the corporate objectives are reflected in the BSC perspectives.<sup>14</sup>

[Insert Figure 2 here]

For example, the interviewees indicated that in order to have (comprehensively) satisfied customers the company needs to secure safe operation, be financially successful, be seen as a valued part of the community, be the best network manager in the country and be a responsible environmental actor. Or, for example, in order to be effective in strategic terms the company needs to excel in all its customer service, network management and other business processes. The systematic and overt recognition of the different stakeholders and their objectives seems to be an essential first step in providing a mechanism by which stakeholder interests may be balanced. Appendix 4 provides an illustration of Energyco's BSC structure.

#### *Multiple perspectives and measures*

Balancing involves including a broad range of measures across four BSC perspectives, a balance between outcome and input measures therein, and that the scorecard reflects a firm's business model in an integrated causal system (Kaplan and Norton, 1996). Consistent with this view the structure of Energyco's BSC largely meets the prescriptions and criteria of broad based measures put forward by Kaplan and Norton (1992, 1996) and Malmi (2001). The BSC has four perspectives, which reflect both financial and non-financial indicators linked to strategy, and they are derived from the original Kaplan and Norton (1992, 1996a) perspectives. The four perspectives are split into two components: outcomes or lag indicators (financial performance and customer satisfaction) and enablers or lead indicators (business effectiveness and organizational health). Energyco's strategy map (embedded in the BSC, see App.4; cf. Kaplan and Norton, 2001c) reflects the hierarchy of objectives placing financial performance and customers at the top. These are the performance outcomes. The two perspectives business effectiveness and organizational health are considered the enablers.

*‘The major benefits are: it gives you a holistic view of the business and it gives you a balanced approach towards the business, as we covered before. Equally it links strategy back to the business unit performance that is required to meet the strategy. It eliminates the orphan activities that happen like ‘why are we doing project x – when it has no relationship back to the strategy’ – so it identifies that type of activity very quickly. I think it is also a very easy tool for managers to use to get a consolidated view of how the business is travelling. And then drive performance from there if you are willing to use it’.* (Executive Manager 2)

*‘But at the end of the day – it would be easy to lose sight of where we actually are, because you just get swamped with everyday things. So the BSC is a very good way to say you have not got a choice in this. You have to stop and you have to review it and are you where you thought you would be’.* (General Manager, Regional Operations 3)

The inclusion of multiple perspectives and measures structured into outcomes and enablers was consistently stated as a benefit of the BSC. As reflected in the quotes above, informants explained how this enabled systematic review of the whole business in one report.

*‘The key purpose of the BSC corporately is that as a management group it gives us the most important indicators. It is also the reporting tool that we use for the board. They are interested in more than just the financials, they want to know how a number of aspects of the business are going. It is an important tool in terms of getting an understanding of how we are performing across the board’.* (Executive Manager 3)

#### *Assumed cause and effect relationships between measures and perspectives*

The structure of Energyco’s BSC reflects the distinction between outcome goals and support goals, and suggests that the accomplishment of support goals feed into the accomplishment of outcome goals. It is important to note, however, that this is not suggesting that the latter would be more important here; balancing is the crucial issue. The ‘outcomes’ of Energyco are reflected in the two broad perspectives of ‘financial performance’ and ‘customer satisfaction’. The two are seen as equally important, however, the customer satisfaction perspective feeds into financial performance. This could also be interpreted as the cause and effect relationship defined by Kaplan and Norton (1996a). This illustrates at least a belief in this relation, even if it could not be statistically validated to be causal (cf. Malina *et al.*, 2007), depicting that this is how things are related; this is how they work according to experience and common sense. In line with this, it is also important to recognize that the arrows in the BSC were not thought to necessarily illustrate statistical cause-effect relations, but rather interdependencies in general. The BSC was not discussed in such terms that safety, for example, would causally affect business performance/effectiveness and employees development.

The ‘enablers’ (support goals/ constraints) are reflected by the two broad perspectives ‘business effectiveness’ and ‘organizational health’. These are the requirements that supposedly must be satisfied for acceptable outcomes and to sustain long term performance in the desired areas, again reflecting cause and effect type *thinking* among the managers.

*‘If you look at the customer service function – if we can get the whole process working and reduce the number of calls – and we constantly talk about the interdependencies on each other. And how that affects the rest of the business. And I think that is what the BSC does – it says that if the meter readers are not doing as good a job – then that reflects in billing – then if the billing teams are not doing a good job then that reflects in telephone calls. So the whole team needs to work as one team to ensure that we actually get a good result’.* (General Manager Customer Services)

*‘That is the beauty of the balanced scorecard – in that it forces you to take a balanced approach to the business – where in the past, I came from a banking background, there was primarily one driver – the financial return. And if your other KPIs or objectives weren’t met well – it was not that they weren’t important but they were not nearly on the same level as financial performance. So the balanced scorecard makes you look at all of those objectives and makes you balance them out’.* (General Manager, Regional Operations 3)

In sum, the interviewees seemed to systematically describe a belief, an assumed cause and effect type of relationship between the various aspects of the perspectives and measures. This logic or mode of

thinking was confirmed with a detailed review of the corporate and business unit scorecards, and perceptions related to them.

### 4.3 Energyco's BSC enabling balancing

The Balanced Scorecard was an important enabling device for systematically considering stakeholder interests when making trade-offs in strategic decisions, and in planning, monitoring and controlling activities at the operational levels. There were several reasons for this related to the design of the BSC, described in Section 4.2, the desire for a balance between objectives and the interaction of the BSC with complementary management control systems.

#### *Enabling balancing in strategic decision making*

The BSC implementation presented evidence of a significant shift in the senior executive and board decision making process. Informants described the pre and post BSC strategic decision process as one which moved from an ad hoc approach to one which identifies and deals with problem areas in a thorough and systematic process. Prior to the adoption of the BSC, the process of making decisions was described as ad hoc and fire fighting. This view was echoed by several senior executives.

*'Rather than whoever put an agenda item up to talk about an issue, now we have at least one page of what is going on in other areas of the business. Like what are call centre response times, what has happened with network outages, financials...all in one place. In the past someone came to the exec meeting with an issue which may have been a negative...but it was just one thing in a suite of twenty things that we should be worrying about. So everyone would say...'well this is unacceptable we have to do something about it' and everyone would make a judgment about how you are going. Now we say 'well that is one thing we need to work on, but we have no other areas that are causing that grief at the moment', so it is a more of a balanced discussion around what is going on and issues as they come up. It probably had the risk of being more knee jerk before. Now when we discuss issues – there is more balance'. (Executive Manager 1)*

And by another:

*'In the board meeting, we have a BSC session. We go through the indicators and at the start of the year...we go through a process where they approve the indicators...so that is not only the financial targets, but the non-financial targets. And we go through and say 'why is your call centre target different?'...so they do get involved at that level. And once they are approved they want to know how you are going with them. So there is a good discussion every month'. (Executive Manager 3)*

The BSC enabled this balancing process for two main reasons. First the inclusion of multiple aspects of performance in one single management report was considered as playing a significant role in enabling problems to be identified early on and trade-offs to be made in a more considered and systematic manner. Previously issues arose only at the point that they were part of an outcome measure, a point at which they required immediate, significant and reactionary management attention, pushing other important issues down the management agenda. By including both lead and lag indicators issues could be identified early on and addressed with substantial time to prevent or minimise the impact on outcome measures. An example of this was a problem of predicted employee shortages in the next five years as ageing senior employees retire and there is a skills gap between them and the newly employed apprentices. Similar to this issue five key strategic issues were identified in the year of the study and Energyco had planned five strategic initiatives to address them. The scorecard enabled identification of this issue and where it would impact other parts of the business at different stages which is unlikely to have been picked up and acted upon under the prior management approach.

A second core element of the scorecard's design was the overt recognition of multiple stakeholders. This arguably placed other stakeholders in the mind of senior executives who previously would have been focused only on the relevant stakeholders to their part of the business. This plays a role in enabling the balancing process because the cognitive framework of managers is broadened when considering their own immediate or long term business imperatives.

### *Enabling balancing in operational management*

There was also strong empirical evidence that the BSC was used for operational management at the divisional levels. Informants described the management process at the divisional level pre and post BSC implementation and similar to evidence observed at the executive level of the organisation divisional managers also appeared to be using the BSC for 'balancing'. The BSC was used to structure monthly team brief meetings, as a reporting tool, for performance evaluation, to align business unit objectives to the corporate level and to demonstrate the interdependencies between business units.

The BSC enabled a balancing process by presenting the team with a full view of all indicators relevant to their business unit and how these impacted corporate indicators. The scorecard was systematically reviewed at monthly team meetings to discuss in the impact of decisions on other areas of performance and to evaluate how and why the division was performing on their indicators. This theme emerged consistently through informants' descriptions.

*'When you came in before I was actually on the phone to my boss explaining why [a particular indicator] has gone into the red. In the past, we would say "oh...its just dropped off". We measured it, but would not take it very seriously. But now it is taken very very seriously...what we have discovered is that it is trending south, and now it has hit red because of the tolerance levels. We worked out that we are having issues with our distribution channels and that we are losing a lot of customers, that our termination fees were incorrect, and that we don't seem to be having customer loyalty and that brand equity is not so good. So it has actually driven a lot of our decisions'* (General Manager, Business Operations 1)

*'In terms of its philosophy it is a reporting tool but then the next phase of that is actually as a management tool – if something is going wrong – the BSC provides an indicator to say well – what can be fixed. And as the BSC goes down from corporate to my level, down to my next level – I have a billing indicator – which has 12 components – now I have broken that out and I see the 12 components in the next BSC. I have a trend graph coming through every month for each of those components'*. (General Manager, Customer Services)

*'First, there is the way we operate in this region, we communicate fairly heavily through the BSC – we have our management meetings, the BSC is not filled in by one person in a corner who just puts down their achievements for the month. All the regional managers, the level 2 managers all sit down to discuss the BSC – and work very effectively at putting in the information and drawing the conclusions and discussing the way forward from that point in time, depending on what we observe, what the KPIs are telling us and what we need to do to correct.'* (General Manager, Regional Operations 1)

Overall, the BSC was used to a large extent in the daily operations and in a consistent manner to how it was used at the corporate level. Meeting minutes were also reviewed to corroborate these responses and there was evidence of this systematic use spoken about by informants. This finding was fairly surprising as evidence of a decoupling between the strategic and operational activities is often presented in extant literature (Fernandez-Revuelta Perez and Robson, 1999; Nor-Aziah and Scapens, 2007).

### *Interaction with complementary management control systems*

In reality management control systems such as the BSC do not operate in isolation. Rather the controls sit with an entity or a package of control that work together to deliver certain outcomes (Otley 1980, Abernathy and Chua 1996, Alvesson and Kärreman, 2004). Whilst the empirical evidence suggested that the design and use of BSC was responsible to a large extent for enabling a 'balancing' of stakeholder objectives, it is important to acknowledge the role that other MCS played to enable the BSC to perform it's role. The existence and form of other management control systems combined with the BSC appears to play an influential role in balancing objectives. Other control systems which were considered particularly important in this case were the strategy statement, organisational structure, compensation systems and organisational culture.

First and closely linked to the BSC, was the development and distribution of the strategy statement. It has been instrumental in creating a common understanding of what the organisation is trying to achieve and

has helped to embed Energyco's objectives, priorities and values into both management decisions and organisational behaviour. As such there is an inherent move towards balance, rather than a focus on just one aspect of performance. The second is the organisational structure. Energyco operates with a decentralised structure. Because it operates over a large geographic area and network management issues are very specific to the local areas, the delegation of decision making to more local areas has allowed a closer link to stakeholders both within and external to Energyco. In doing so it has meant that stakeholder interests at the local level can be better understood, balanced and satisfied. The BSC has assisted in aligning the interests of the decentralised units to each other and the overall organisational objective by using consistent measures of performance and by communicating what the organisation wants to achieve and thus it is the combination of the two which has been effective.

There are both formal and informal consequences to performance against indicator targets. From a formal point of view, there are no specific or direct financial rewards, such as bonuses, for performance against targets. Performance against the BSC indicators is, however, considered in the formal employee performance reviews, and this may result in promotion and pay reviews. The performance review procedures document states '...refer to the prior year BSC to review achievement of individual performance objectives for the period...and refer to the next year BSC to set objectives and KPI's...all objectives, KPI's targets and initiatives must align with the divisional BSC'. This is an important feature linking the personal goals of employees to those of the organisation. The management of Energyco has considered formally linking remuneration to BSC performance indicators – although there are significant concerns about the effects of this, and it was a fairly consistent view among interviewees that remuneration should not be tied to performance (see Tuomela, 2005, for similar results). From an informal viewpoint, it was commented by many interviewees that there was a culture in many parts of the organisation of wanting to achieve targets and 'green'. There was a mix of reasons given for this, ranging from strong leadership, peer pressure and intrinsic rewards (cf. Alvesson & Kärreman, 2004).

There appeared to be consistency between the shared meanings and values of employees and what the organisation was trying to achieve, thus creating an informal alignment between personal goals and organisational objectives. One manager described this as '*people are passionate about their own patch and will go to extraordinary lengths to make sure the customer is happy*'. The attitude 'we work and live in the community' was portrayed in the majority of interviews, and the researchers' prior experience with Energyco is consistent with this. Because the underlying belief systems with Energyco support the satisfaction of stakeholder interests it follows that the BSC has acted as an enabling tool, rather than the driving force (cf. Free, 2006; Wouters & Wilderom, 2008).

#### 4.4. Summary

The case of Energyco presented substantial and consistent empirical evidence on the existence of multiple and conflicting objectives arising from various stakeholder groups. In addition, there was a very clear message that no single objective was more important than another and that 'balancing' the objectives given the constraints was the objective. There were clear links between these objectives and the design of the BSC, and its use to enable balancing. When asked to describe Energyco's objectives one senior manager stated:

*'Probably by the things that we are measured by – financial performance and business effectiveness are things that you keep a very close eye on – but customer satisfaction is also important, stakeholders' opinions and stakeholder management as well as organisational health. It is a balance as I said before, just depending on which you consider to be the highest priority when you are dealing with a particular task or a particular project – there is one you tend to weight the most. It is not nicely clear cut...otherwise a gorilla could do the job'*. (General Manager, Regional Operations 2)

We argue that this is precisely the point of 'balancing'. At different points in time and in different decisions each objective or stakeholder may be equally important. For example, when making a decision about fixing a network in a storm, safety is prioritized over customer service, provided this is communicated to the customer. In contrast, when making a decision about the level of expenditure on

safety equipment on every pole and wire, financial aspects may be considered as important because the risk of safety incidents on remote parts of the network are unlikely and not worth the spend. This consideration of safety is also a good example to illustrate the difference between the shareholder and the stakeholder perspectives and how they are reflected in the BSC design and use. Safety could be approached from the perspective of how it is reflected in insurance costs and, say, lost billable time (cf. Malina *et al.*, 2007, p. 945). In the case of energyco, a different approach emerged. Safety was simply seen as something that must be secured because the company does not want anybody to die at work. The approach is thus more fundamental and comprehensive, emphasizing the human perspective, and thus reflecting in its part the stakeholder management style applied in the company.

Overall it is argued here that the BSC led to a ‘balancing process’ when making decisions, not to an absolute balance, because it makes managers aware of the relevant conflicts so they may be systematically considered. This means that rather than narrowly focusing on the outcomes, the process considered multiple and linked objectives systematically. This appears to be its strength in overcoming the conflict between multiple objectives. The BSC has mobilized this formally by providing the framework for Board and Executive level discussions, and by presenting the information in a way which shows the potential impact of decisions on all strategic objectives. It has also played an informal role as it has in a sense engrained the values of the organization in the minds of those decision makers, and as such has helped to overcome the ‘silo’ effect at the highest level, leading to a more balanced personal approach.

## **5. Discussion**

The observations made during the research allowed us to draw two main conclusions about the balancing of multiple objectives and their connection to the BSC. The first relates to the achievement of a balance between objectives and the second to the role that the BSC plays in achieving it. Regarding these two issues vis-à-vis other elements of the MCS entity two key questions arise. First, is a balance between objectives logically conceivable and practically achievable? The second question which follows is: why? Based on the answers to these questions we can start to think about what has been learned in this case organization that could be transferred to assist with the management and achievement of multiple and conflicting objectives in other organizations.

### **5.1 Balance: outcome, process or myth?**

Based on theoretical arguments about the nature of organizations and their objectives, and the empirical observations from the case organization, it is argued in this paper that a balance between objectives is not only logically conceivable; it is in fact practically achievable. Theoretically a balance between multiple and conflicting objectives is conceivable when a stakeholder model is applied to understand the nature of the organization and its purpose for existence. Under this model at least a temporal balance is achieved when the interests of all stakeholders are met to some *satisfactory* level. Because of limited resources of the organization it is inconceivable that all objectives can be maximized simultaneously. According to stakeholder theory it is also not the optimal outcome when one stakeholder objective (e.g. the shareholder) is maximally satisfied in the short term to the detriment of others.

There are difficulties in knowing at exactly which point a balance has been achieved, and whether all stakeholders are satisfied to some minimum level. For instance, there does not appear to be a single objective measure to indicate balance, and nor can we obtain the perceptions of every individual stakeholder as to whether an appropriate balance has been achieved. In addition, there is tendency to define a balance in terms of the outcome when actually it would be more appropriate to consider balance in terms of the process undertaken to achieve outcomes (cf. Unerman and Bennett, 2004). The distinction between procedural and distributive justice is useful as it recognizes that balance can be conceived of as both an outcome and a process. Procedural justice is concerned with making and implementing decisions according to fair processes (Lind and Tyler, 1988; Phillips 2003). Conversely distributive justice is concerned with fairness in the distribution of rights or resources (Lind and Tyler, 1988; Phillips 2003).

We argue that based on empirical evidence, a balance (a temporal stabilized constellation) between the multiple objectives has been achieved within the case organization. Essentially, this balance needs to be understood as a continuous balancing (verb) process as well as an outcome: there may be more balance in one point of time than in others. Balance needs maintenance and continuous effort. This argument is based on certain key observations: the explanation of the overarching objectives, management perceptions of the decision making process, organizational behavior, and the reflection of multiple objectives in the various elements of the MCS entity.

The first observation which suggests a balance has been achieved – or, at the very least, there is now more balance than what there used to be – is the explanation of the objectives given by interviewees. In describing the organizational objectives, executive team members and managers consistently outlined the six strategic objectives (from the strategy statement) and argued that the overall objective was to achieve a balance between them. When asked to rank the importance of objectives managers would start this process and then consistently rethink their answer arguing that it was impossible to rank them – they are interrelated and the overall success of the organization requires consideration of all objectives. Despite continuous questioning and probing the response was consistent, that is, the overarching objective is to balance the objectives.

The second observation relates to the balancing process in making high level decisions. Again it was argued time and again by the executive team members that consideration must be given to all strategic objectives when making strategic decisions about the allocation of resources, future activities, etc. In making these arguments executive team members made comparisons both to the decision making process in other organizations in which they had worked and to the process in which decisions had been made at Energyco prior to the implementation of the BSC. They noted considerable differences in the approach taken and stated that a more systematic approach was taken to consider the objectives. This meant that they assessed performance in each aspect of business performance, the interconnectedness of these areas, and the future implications of decisions in each aspect. They also noted that objectives had different priorities at different times. Therefore, it would be difficult to judge ‘balance’ in terms of outcomes achieved – rather than the balancing process taken.

Finally, the design of the BSC and elements of the MCS entity reflected the six strategic objectives of Energyco. Although there were some issues with the design of specific indicators, the BSC reflected to a large extent all objectives and illustrated an assumed cause and effect relationship between them. The design of the BSC indicated that performance is defined both in terms of outcomes and process. The fact that measures were not weighted and rolled into a single index was consistent with the balancing approach described by management that good performance in all areas is desired – the areas of performance are interrelated and all important to achieve (cf. the contrary arguments by Jensen, 2001). It was also consistent with the description that priorities can change depending on the decision being made.

## **5.2 Why: what factors are associated with the balance?**

This paper establishes that the overarching objective of the case organization is to achieve a balance between the six strategic objectives. It now focuses on explaining why a balance has been achieved, based on empirical observations. The key factors associated with the balance of objectives appear to be that a strong desire for balance existed, the organization operates in an environment where key stakeholders can exert pressure, and the design and role of the BSC.

Energyco had made a number of changes in its approach to MCS including the adoption of the BSC in the preceding 3 years. There were a number of reasons for this largely stemming from significant complaints about the reliability of electricity and some structural changes in the industry. Energyco was formed from several predecessor companies in response to these changes. While the amalgamation meant Energyco could be more competitive and spread its costs over a larger asset base, it also meant that it inherited several different management, accounting, and cultural systems. The organization had to develop a standard and unified approach to managing the different systems and culture to eventually

develop a unique identity for Energyco. One of the statements that resonated during the research was that ‘there was an appetite for change’ – and it was further explained that management had the desire to create a balance between the objectives because it saw long term sustainability of the organization as relying on satisfactory performance in all aspects of the organization from safety to environmental management to customer services to financial returns.

Following on from the previous point, some of the desire for change came from pressure placed upon the management team from key stakeholders. Because Energyco operates in an environment where stakeholders are able to exert pressure (both directly and indirectly) the imperative of achieving a balance becomes higher. Energyco operates what is considered critical infrastructure and as a result there is a close connection between the satisfaction of the shareholders and that of customers and the community. Significant dissatisfaction can effectively play a role in the political outcomes of elections. As such the stakeholders have an interest in ensuring that stakeholder objectives are considered in the management process, and that they are balanced against other objectives. A valid question of this study then is: are the objectives in balance simply because the organization is owned by the state? There is no doubt that the state ownership has a significant impact, but if this factor was solely responsible for the objectives, and performance against them then why aren’t all state owned corporations operating to the satisfaction of various stakeholders? Comparisons can be made to similar organizations within the industry, or to other industries such as telecommunications, water utilities and transportation. Recent examples within the electricity industry show that there has been widespread community dissatisfaction as SOCs have focused solely on financial performance at the expense of long term network investment.<sup>15</sup> The telecommunications industry and transportation industries have received similar criticisms as they fail to make the appropriate long term investments. Such comparisons demonstrate that state ownership itself does not automatically lead to a balance of objectives and appropriate management decisions.

The design and use of the BSC appeared to play a significant role in the reflection of Energyco’s objectives and the achievement of balance between them. This included the recognition and then reflection of the stakeholders interests in the BSC design, and the enabling balancing between these interests with the recognition of interdependencies through the assumed cause and effect design. This also translated through the organizational structure enabling balance to be reflected throughout the organization. Because it operates over a large geographic area and network management issues are very specific to the local areas, the delegation of decision making to more local areas has allowed a closer link to stakeholders both within and external to Energyco. In doing so it has meant that stakeholder interests at the local level can be better understood, balanced and satisfied. The BSC has assisted in aligning the interests of the decentralized units to each other and the overall organizational objective by using consistent measures of performance and by communicating what the organization wants to achieve.

## **6. Conclusions and issues of future research**

The objective of this study was to investigate the use of the BSC to achieve a balance between multiple and conflicting objectives. The paper was motivated by the growing pressures on organizations to address the interests of various stakeholders and the lack of practical guidance and research on the actual use of integrated performance measurement systems in balancing multiple and conflicting objectives in decision making and control. The study provides some important insights into this contemporary problem through an exploratory case study of a state owned electricity corporation, which provided a most-likely setting for examining the research topic. The examined case can be deemed as a success story in general, regarding its endeavor towards a balance of objectives. As such, it should be thought of as having potential to provide important lessons; ones that may imply much more general contribution than only with regard to its rather unique operating environment.

There are a number of findings from the study that make a contribution First is that the organization systematically identified who are their stakeholders and what interests they have. Furthermore, it would seem that there was a acknowledgement of the need and desire to balance these stakeholder objectives. Moreover, a major finding of the study is that when analyzing multiple objectives and balanced strategic management overall, it seems important not to consider balance only in terms of outcomes but essentially

in terms of the process undertaken to achieve the outcomes. In this way there is a need to reconceive the idea of organizational objectives not as an endpoint but the tradeoffs or balancing of objectives. The noun balance when it comes to the objectives is the temporal constellation of the verb balancing of the objectives in an ongoing process; consequently there are continual points of balance.

Second is that the balancing of objectives fed into the design of the performance measurement system; the BSC. This was through overt incorporation of these objectives in the BSC. Furthermore, measures and targets were associated with these objectives in a single document, therefore the range of interests and what was requirements to satisfice them were recognized. In addition, managers spent a lot of time incorporating the linear/logical cause and effect characteristic in the BSC which enabled a clearer understanding of the process and impacts of balancing. Related to this is that it seems that managers thought about the MCS in a different way to what is typically the case. Rather than viewing it in a linear cause and effect, diagnostic way; they thought about it as an enabling mechanisms that makes clear the ex ante enabling of behavior control in a dynamic on going verb based way.

Third is that the study also concludes that at least under certain circumstances – as identified in the case analysis – a BSC building on the stakeholder perspective can act as a “strategy Balanced Scorecard”, and as a consequence Kaplan and Norton’s (2001a) argument that stakeholder and strategy scorecards are mutually exclusive seems to be questionable.

Fourth, it is clear that the BSC has been an influential factor at Energyco in facilitating a balanced decision making process including trade-offs between objectives, but the BSC did not operate in isolation. This is an issue seldom addressed in the BSC literature. It was crucial that the BSC aligned with other elements of the management control system entity in the case organization, ranging from management style to corporate culture and further to other formal control systems. In addition to providing empirical evidence for the general idea of the importance of examining the relations between different control system elements (Otley 1980, Abernathy and Chua 1996, Alvesson and Kärreman, 2004), this study is similarly in line with Malina *et al.* (2007) in that a performance measurement model must align with or support what they call the climate of control, including issues from agreed values (in their case heavily tied to financial results oriented culture) to organizational perceptions regarding fairness and legitimacy.

Finally, the study supports findings that have demonstrated the enabling role of various MCS (Ahrens & Chapman, 2004; Free, 2006; Wouters & Wilderom, 2008). In line with these studies the current study results in emphasizing the role of the BSC in enabling people to understand how their own work relates to the value chain of the organization. In this study, more important than the technical details of the BSC have thus been its communicative and learning aspects.

There are several limitations to this study, and the case study should be read with acknowledgement of these. The methodological limitations include the difficulties in removing the personal bias of both the researchers and interviewees, the extent of the study in terms of the number of interviewees and the unit of analysis, and the length of study . However, these potential threats to reliability and validity have been acknowledged along the study, and the researchers have done their best to minimize them by following the research strategies and tactics suggested by McKinnon (1988). Despite this, we acknowledge that the study is limited in providing empirical evidence for understanding the use and impact of the BSC for aligning organizational behavior at the lower levels of the organization. The focus in this exploratory study has been on top level decision making, and it should be broadened in future research in this regard.

Indeed, this study opens a number of opportunities for future research. First, methodological improvement may be made in a similar setting by increasing the length of study and the unit of analysis. To investigate the management control elements of the BSC, data could be collected at lower levels and more widely across the organization. To better understand the achievement of balanced objectives it would be interesting to also obtain the views and perceptions of a variety of stakeholders. A second approach to extending this study is to investigate the use of the BSC in specific strategic decisions. Further research may take a more narrow approach and investigate how objectives are balanced using the BSC in particular types of capital expenditure and operating expenditure decisions. Further research

could also conduct both single and multi-case studies in different settings where the hierarchy of objectives is likely to differ from a state owned corporation. The findings from this case study may then be compared to other settings and thus provide interesting insights regarding the contingent variables contributing to the balancing of objectives. Such settings may include non-profit organizations, government agencies and departments, and the private sector.

The focus of research could also be further extended to involve an in-depth analysis of the power and politics aspects of implementing and using strategic management tools. In essence, this necessitates a comprehensive process view on attempts to achieve balance of objectives (Pettigrew, 1987). Such analysis could address in more detail the institutional pressures contemporary organizations face, and the political aspects in and around organizations that may prevent the desire and achievement of balance. The results would also help us to better understand how and why organizations do things that exceed institutional demands (Abernethy and Chua, 1996), and what kind of role the BSC may play in integrating elements of organizational culture. This study provides some answers to these questions, and further research could continue identifying the conditions (e.g. highly institutionalized environment or not) under which different organizational responses are feasible. Finally, more theoretical and empirically informed discussion is called for regarding '(im)balance' to develop the theoretical concerns surrounding the issue globally, to enable balanced management practice in general. This could also include aspects of BSC logic regarding cause-effect assumptions, and push further the analysis by Malina *et al.* (2007) beyond performance measures to the relations between different objectives and sub-objectives.

Indeed, also in more general terms many questions are still open in this regard. The relations assumed to exist between objectives and measures – that were never tested statistically – represented in this study logical and finality relations, rather than causal. Extending Malina *et al.* (2007), we argue that we need to separate between statistical cause-effect relations as such and a belief among organizational actors in it. Although there may not be a statistical causal relation, people may believe that there is one, and the MCS is built on that premise. It is a social construction. We may not know whether people know or care to know if the assumptions are statistically correct. So, even a belief is enough for a BSC and related mechanisms to work, but if this belief fades away, the basis for management control crumbles down. Future analyses should investigate this issue further: what is the relation between actual, verifiable causality and belief in causal relations within the BSC, or any other MCS.

Finally, if researchers focus more on to thinking about, studying and writing about organizations with the language of verbs rather than nouns and adjectives, we may get richer understandings of organizational life, the activities that occur in organizations, and better theory on how to tackle contemporary organizational problems. This may lead to richer management accounting theory feeding back to practice.

## Appendix 1

### List of interview questions

This appendix provides the list of interview questions asked during interviews. Interviews were semi-structured, as such a set of general questions were prepared to start and focus the interview. However, questions were adapted based on responses. The questions in bold are those asked in all interviews, the non-bold questions are those covered, but adapted.

#### 1. Your role

- **Could you please describe your role in the organisation?**
  - What is your role in strategic planning for Energyco?

#### 2. Strategy

- **How do you think about the concept of strategy?**
- **Can you tell me about the strategy of Energyco?**
  - How is this strategy communicated throughout the Energyco?

#### 3. Organisational, group and business unit objectives

- **Could you tell me about the objectives of Energyco?**
  - Is there a hierarchy of objectives, if so – can you describe it?
  - What do you think the most important outcome Energyco is trying to achieve is?
  - What are the objectives of your group and/or business unit?
  - How do they tie into the overall objectives of Energyco?
- **Do you think conflicts exist with the objectives just discussed?**
  - Within your group or business unit? What are the conflicts?
  - Between your group and other groups of Energyco? What are the conflicts?
  - What trade-offs are required to meet the groups objectives and to meet Energyco's objectives? Can you provide some examples?
- **What happens if your group's objectives are not met?**
  - What is motivating you to achieve these objectives?
  - Probe: performance review, promotion, compensation?

#### 4. Using the BSC

- **Could you please tell me about your experiences with the BSC?**
  - What role do you think the BSC plays in managing your group?
  - Probe: do you use it for information, performance measurement and evaluation, planning, communication, alignment of objectives?
- **How do you think the BSC reflects Energyco's objectives?**
- **How does it help with the making the trade-offs already discussed?**
- **What other management systems do you use to manage the areas you are responsible for?**
  - Probe: budgets, employee performance reviews, organisational culture, operations reports, team briefs.

#### 5. Major challenges and improvements

- **What are the major benefits and challenges of using the BSC?**
  - How could its use be improved?

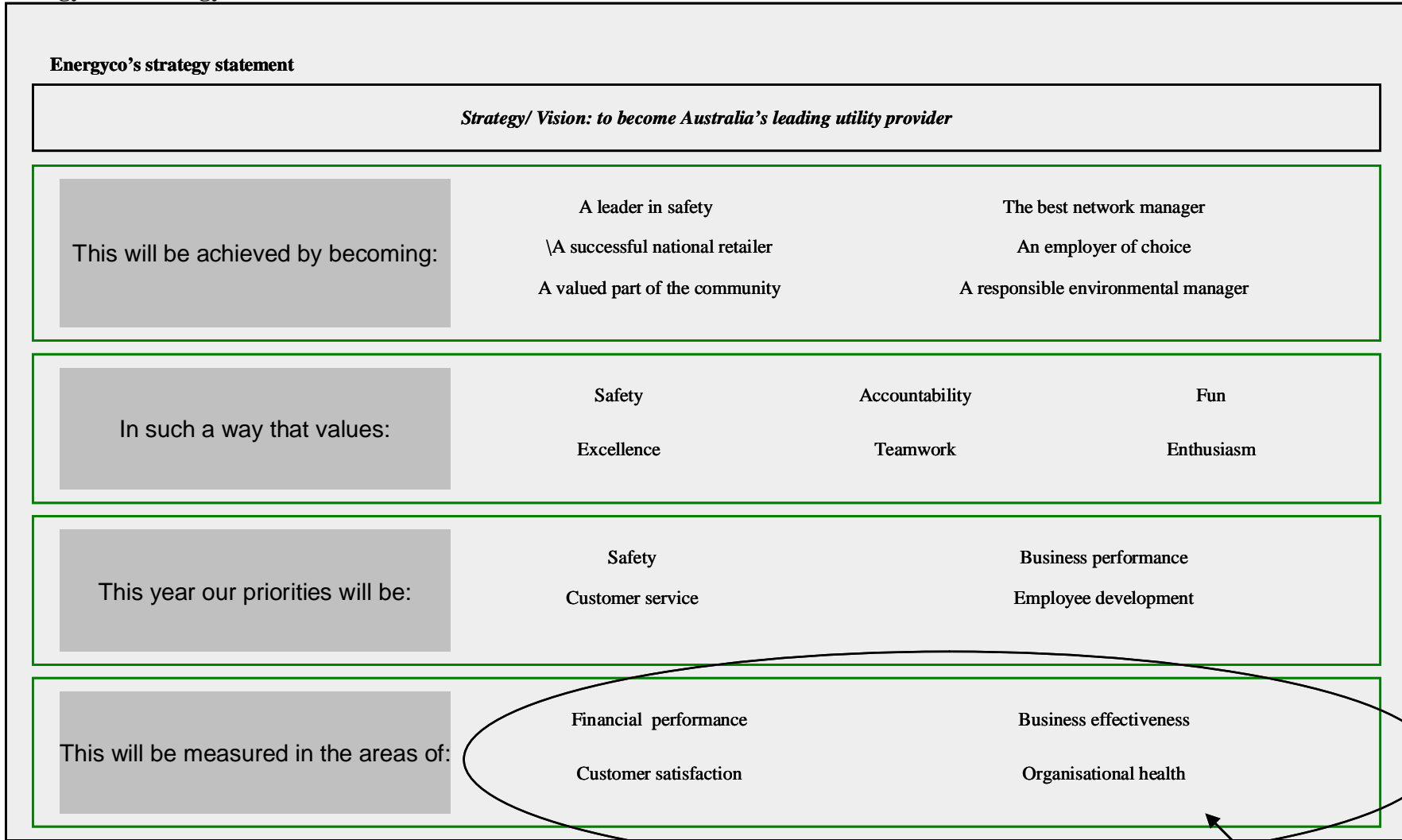
## Appendix

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### List of interviews conducted

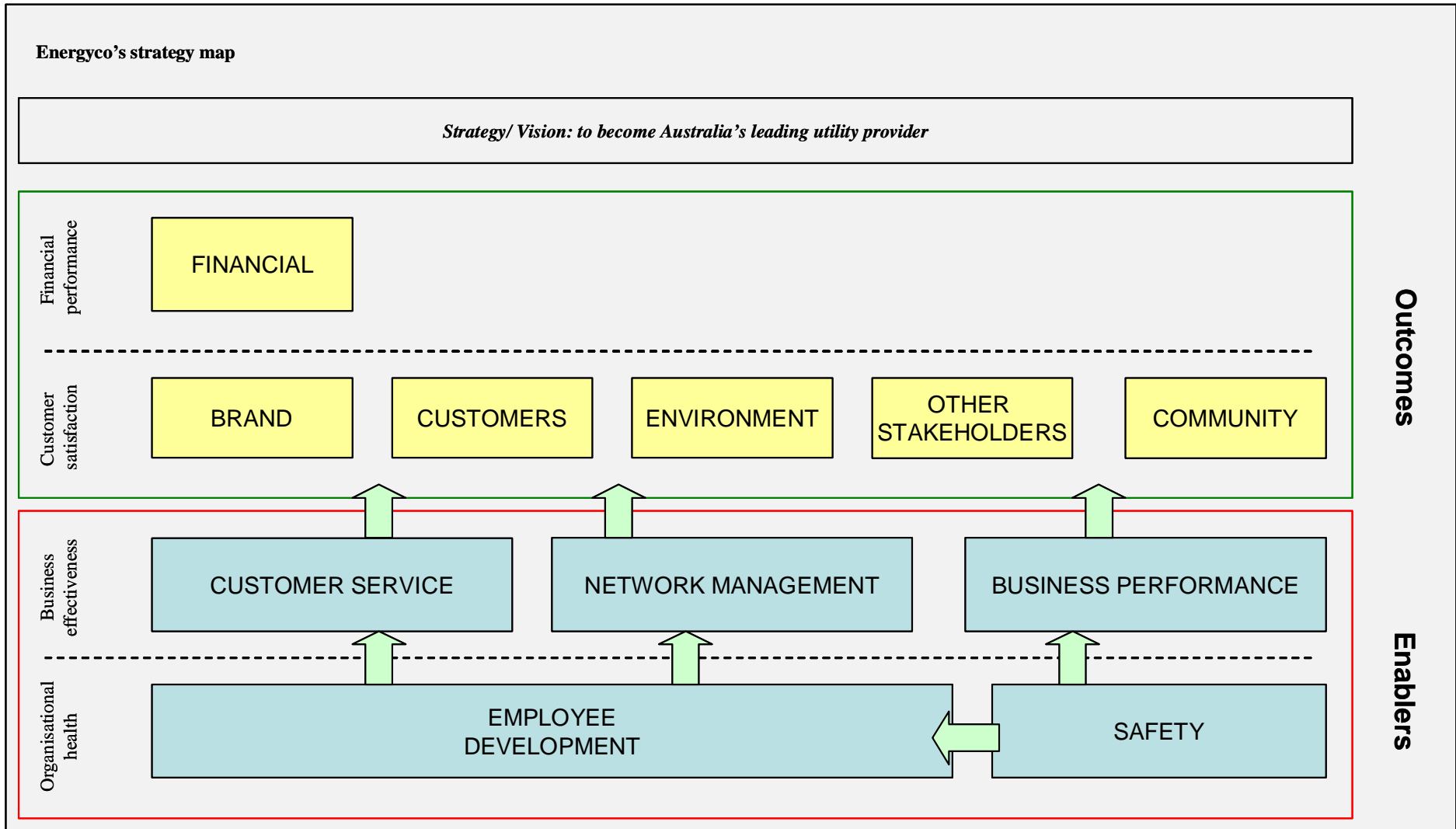
No	Position	Date	Duration	Method of recording
1	General Manager, Corporate Strategy and Marketing	18/05/05	1hr	Notes
2	General Manager, Corporate Strategy and Marketing	1/06/05	0.5 hr	Notes
3	General Manager, Corporate Strategy and Marketing	15/06/05	1hr	Notes
4	General Manager, Corporate Strategy and Marketing	28/07/05	0.25 hr	Notes
5	Business planning and co-ordinator	18/05/05	1hr	Notes
6	Group GM, Finance and Business Development	23/06/05	0.75 hr	Transcription
7	General Manager, Retail Sales	15/08/05	1hr	Transcription
8	Manager, Environmental Operations	15/08/05	1hr	Transcription
9	General Manager, Customer Services	15/08/05	1hr	Transcription
10	Manager, Community Relations 1	15/08/05	0.5 hr	Transcription
11	General Manager, Network Services	15/08/05	0.5 hr	Transcription
12	Group GM, Corporate Operations	16/08/05	1hr	Transcription
13	Group Manager, Business Operations	16/08/05	1hr	Transcription
14	Regional General Manager 1	16/08/05	0.5 hr	Transcription
15	Group General Manager, Corporate Services	18/08/05	1hr	Transcription
16	Culture, Learning and Development Manager	18/08/05	1hr	Transcription
17	Human Resources Manager	18/08/05	0.5 hr	Transcription
18	Regional General Manager 2	18/08/05	1hr	Transcription
19	Manager, Customer and Stakeholder Relations	18/08/05	1hr	Transcription
20	Manager, Community Relations 2	18/08/05	0.25 hr	Transcription
21	Chief Safety Officer	22/08/05	1hr	Transcription
22	General Manager, Finance	23/08/05	1hr	Transcription
23	Regional General Manager 3	23/08/05	1hr	Transcription
24	Group Manager, Retail Marketing	25/08/05	0.5 hr	Transcription
25	Manager, Community Relations 3	29/08/05	0.5 hr	Notes

# Appendix Energyco's Strategy Statement



Energyco's BSC perspectives

**Appendix**  
**Overview of Energyco's BSC perspectives**



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	A leader in safety	A successful national retailer	A valued part of the community	The best network manager	An employer of choice	A responsible environmental manager
Shareholders	✓	✓	✓	✓	✓	✓
Employees	✓	✓	✓	✓	✓	✓
Community	✓		✓	✓	✓	✓
Regulators	✓	✓		✓	✓	✓

**Figure 1. Reflection of stakeholder interests in the corporate objectives**

	A leader in safety	A successful national retailer	A valued part of the community	The best network manager	An employer of choice	A responsible environmental manager
Financial performance		✓		✓		
Customer satisfaction	✓	✓	✓	✓		✓
Business effectiveness	✓	✓	✓	✓	✓	✓
Organisational health	✓				✓	

**Figure 2. Reflection of corporate objectives in the BSC perspectives**

## Notes

- <sup>1</sup> A number of institutions and initiatives have been established in an attempt to assist the business community to tackle these complex issues. For example: the United National Environmental Program Financial Initiative; Innovest, World Economic Forum Climate Change Registry; and the World Business Council for Sustainable Development. Similar organizations exist in Australia, for example: the Australian Greenhouse Office, the Sustainable Energy Development Authority; the Australian Ethical Investment Association, the UTS Sustainable Business Forum; and the Australian Corporate Citizen Alliance. Professional organizations such as CPAA and the Institute for Chartered Accounts are also providing comments and guidance on how to address these issues.
- <sup>2</sup> See ample analysis on this by Malina *et al.* (2007). We will return to their arguments regarding causal, logical and finality relations later on, also in the empirical analysis section.
- <sup>3</sup> Stakeholder equality is also not a necessary assumption of stakeholder theory, and can be confused with balancing stakeholder interests (Freeman 1984; Phillips 2003).
- <sup>4</sup> Goals are the value premises that can serve as inputs to decisions, motives are the causes that lead individuals to select some goals rather than others as premises for their decisions, and constraints are the bounds of operation or the minimum acceptable standards which must be satisfied in achieving goals.
- <sup>5</sup> Outcome goals are those which the organization is trying to move towards, and the support goals are those which must be met to maintain the current state of the organization.
- <sup>6</sup> This is not at odds with Jensen (2001) who is somewhat critical of the BSC as he argues that it gives no score – i.e. no single value to measure performance. In any case, the single strategic objective of a firm as defined by both authors is financial performance, which results in increasing of shareholders' wealth.
- <sup>7</sup> Some authors have explicitly criticized Kaplan and Norton's writings claiming that their discussion and assumptions of cause and effect are simplistic or flawed (Nørreklit 2000; see also Malina *et al.*, 2007), that the underlying arguments for the need of the BSC represent persuasive rhetoric rather than convincing theory (Nørreklit 2003), or that the BSC reflects ideological assumptions embedded in the US business life and it thus does not consider cultural differences in management practice (Bourguignon *et al.* 2004). While acknowledging the important concerns raised by such studies, the view adopted in this study is more practical in the sense that we perceive all MCS problematic or challenging to implement and use in some respect. We are not concerned whether, for example, the BSC literature represents persuasive rhetoric if the suggested construct can potentially facilitate attempts to make organizations better off.
- <sup>8</sup> See e.g. Ahrens and Chapman (2006) for the premises and potential of this method in producing genuine contribution in management accounting research.
- <sup>9</sup> As a condition of participation in the study, the organization wished to remain anonymous. Therefore, in order to protect the identity of the organization a detailed description of their size, location and operations cannot be disclosed and the organization will be referred to as Energyco.
- <sup>10</sup> On the other hand, if the case appeared as a failure, it would have provided interesting findings in other terms; for example, it would have provided a basis to critically evaluate some of Kaplan and Norton's assertions, or a basis to analyze the reasons for implementation failure. However, this is not to say the practices observed at Energyco would be free of problems and conflicts at/between different locales of the organization.
- <sup>11</sup> Thus although the majority of data was collected during a formal period in 2005 the longitudinal nature of the contact with the organisation adds to the internal validity of study (Scandura and Williams, 2000).
- <sup>12</sup> Field research strategies and tactics (McKinnon 1988; McGrath, 1982; Scandura and Williams, 2000) included the used of a field work protocol, longitudinal data collection period, the use of multiple data sources, a research team, and the establishment of a systematic method for data recording, collection and analysis.
- <sup>13</sup> This matrix illustrates how the interests of major stakeholder groups are reflected in the six strategic corporate objectives. This figure was derived from interview and observational data on the organisational objectives, and the industry experience of the researchers. Researchers identified the major stakeholder groups and their interests and analysed how these interests were then reflected by the corporate objectives. To some extent this is subjective; however, debate among the researchers was held to justify each connection.
- <sup>14</sup> This matrix was derived from the BSC design, the strategy statement and Energyco's own strategy map showing the linkages between objectives, perspectives and specific indicators and targets.
- <sup>15</sup> For example, a recent independent report to parliament in late 2004 (Sommerville, 2004) noted that there is a risk that electricity distributors focus too much on financial results at the expense of measures such as network reliability. The report found that one state power company (a SOC) had placed too much focus on producing

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financial results, at the expense of capital re-investment. The report also noted that the internal processes and systems for the allocation of capital expenditure gave priority to financial measures over reliability measures. The report raises some interesting and important issues as to how performance is measured within SOCs to assist in the achievement of strategic objectives. See also Perera *et al.* (2005) for an analysis of the evolution of stakeholder concerns within the sector from 1970 to 2000.