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**Factors Influencing the Use of the Balanced Scorecard: Evidence from a Regional Context in Italy**

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**Abstract:** The balanced scorecard (BSC) has received considerable attention, by companies and researchers, for its potentiality in mitigating the limitations of traditional management accounting tools and supporting strategic management. Despite this interest, there is still little empirical evidence on the levels of BSC implementation and the contingency factors influencing it. This study explores whether company size and type of industry affect the BSC use and focuses on motivations of the BSC use (or non-use). A survey was conducted in a highly productive region, Northeast Italy, and quantitative analysis was carried out to assess the statistical significance of the association between the contingency factors and the BSC use. The results confirm prior studies showing that BSC use is biased towards larger companies. However, this holds in every industry except in manufacturing, where also small firms are prone to adopt it. A qualitative analysis integrates these results highlighting that the BSC is mainly used to align objectives and improve business processes and communication within organizations.

**Keywords:** Balanced Scorecard, Contingency Factors, Management Control, Performance, Northeast Italy

# Introduction

The balanced scorecard (BSC) is a strategic performance management tool introduced and developed during the nineties by Kaplan and Norton (1992, 1996), which has received worldwide recognition and utilization by companies and attracted considerable attention by the researchers and practitioners (Cooper et al., 2017). Through a comprehensive approach, the scorecard combines traditional financial measures providing the results of previously taken actions with non-financial measures involving three performance perspectives - customer, internal processes, and learning and growth - proposed as the drivers for creating long-term shareholder value. In this sense, the BSC was considered at the time of its introduction as a management accounting innovation, which can mitigate the limitations of traditional management accounting tools, such as financial performance measures, budget, variance analysis, or cost accounting, in a business scenario emphasising global competition, investments in advanced manufacturing technologies, products innovation and quality, delivery and flexibility to meet customer needs (Banker et al., 1993; Ax & Bjørnenak, 2005).

However, research work has documented that the enormous interest towards the BSC is not necessarily associated with high implementation levels and that the BSC is not familiar to all companies (Machado, 2013). Although researchers have examined company-level factors that may distinguish the BSC users from non-users under a contingency framework (Hoque & James, 2000; Hendricks et al., 2012), Hoque (2014), discussing the knowledge gaps, noted that “further research is needed to determine international variations in design and use of the balanced scorecard in organisations in both private and public sectors” (2014, p. 46). Further, there is still little empirical evidence on the levels of BSC implementation, the reasons for adoption or non-adoption, and BSC benefits in small- and medium-sized enterprises (Giannopoulos et al., 2013; Malagueño et al., 2018).

This study aims to address these gaps through a questionnaire survey of a sample of 98 companies operating in private sectors and located in the Northeast of Italy, a highly productive area with a significant orientation towards innovation and international markets (Carraro, 2019). Based on a congruence approach as a form of contingency fit (Gerdin & Greve, 2004), the purpose of the study is to investigate:

* *usage rate and perceived usefulness of the BSC;*
* *potential determinants and motivations for BSC use (or non-use).*

The study contributes to the body of literature on the BSC by providing new insights on factors influencing its use and possible benefits and drawbacks of its application. In particular, focusing on company industry as a contextual factor, it extends contingency-based hypotheses regarding the antecedents of BSC use.

The paper is organised as follows. The following section provides a literature review on the BSC and its use. Then, the research method is described, focusing on data collection and the variable measurement, whereas findings section presents the results through descriptive statistics, statistical tests and discussing some qualitative questionnaire responses. The final section includes the conclusions of the study.

# Literature Review

**The Balanced Scorecard: An Overview**

In the last decades, accounting scholars have given increasing attention to the importance of performance measurement systems including both non-financial and financial measures to alleviate problems arising from the use of financial measures, such as the transaction-based, backward-looking orientation and the widely discussed managerial myopia. The BSC is one of the management control models that integrates financial and non-financial measures (Merchant and Van & Stede, 2017). The scorecard provided an entirely innovative, comprehensive approach to the performance measurement issues, presenting four major characteristics (Kaplan & Norton, 1993): (1) the company’s mission and strategy are highlighted in a top-down reflection, differently from the traditional bottom-up measures; (2) the BSC has a forward-looking orientation, addressing current and future success of a company instead of simply concentrating on the last reporting period with no indication of performance improvement; (3) the BSC integrates external and internal measures, enabling management to analyse where previous trade-offs between performance measures have been made and contributing to ensure that this does not occur in the future; (4) the BSC helps companies to focus on appropriate performance areas, as it attracts managers’ attention exclusively

on the measures that are most critical for the company, without overloading them with far more measures than necessary.

Further, the BSC differs from other performance measurement systems “in that it contains outcome measures and the performance drivers of outcomes, linked together in cause-and-effect relationships” (Nørreklit, 2000, p. 67). The BSC considers short-term and long-term concerns, has the purpose to provide the information needed in preventive action and feedforward control, and tackles with sub-optimization, by forcing senior managers to evaluate all the major measures together, in order to make sure that improvement in one area is not achieved at the expense of another (Merchant & Stede, 2017). The use of the BSC has been frequently recommended for facilitating strategy implementation and improving organizational performance (Franco-Santos et al., 2012).

The BSC retains the emphasis on financial measures as the ultimate outcome measures for company success, but supplements these with metrics from three additional perspectives, such as customer, internal process, and learning and growth. While financial measures deliver the results of previously taken actions, the other three perspectives consist of nonfinancial indicators that enable companies to monitor progresses in developing the capabilities and the intangible assets required for future growth and financial performance (Kaplan & Norton, 1996). The financial perspective assesses the degree to which company strategy implementation is contributing to its goals in terms of profitability, growth, and shareholder value. The customer perspective determines how the company wishes to be viewed by its customers (Nørreklit, 2000). Customer measures are necessary in the view that the only route to long-term financial success is to deliver the products and services demanded by customers. The internal process perspective regards the business processes, such as internal operations, competencies and technologies, which enable the company to reach the objectives targeted for its shareholders and customers. Finally, the fourth perspective involves improvements in people, system and process capabilities to meet the objectives of the other three perspectives over the long term.

For each perspective, the use of the BSC involves the definition of the objectives, the selection of appropriate measures, setting targets and undertaking congruent actions to meet the targets. The number of performance measures used for each perspective is limited to those that are most critical for the organization. Every company can construct its own BSC in order to reflect its strategy and to clarify, simplify and operationalize the vision at the top of the organization, focusing on a short list of leading indicators of current and future performance. The BSC appears suitable for use by all types and sizes of companies (De Geuser et al., 2009; Malagueño et al., 2018) and may satisfy multiple managerial and information needs by presenting in single report apparently disparate elements of the competitive agendas, such as profitability measures, cash flow, customer satisfaction, response time, quality, teamwork, lead-time reduction and long-term management. Finally, the balanced approach among the four perspectives enables a more holistic presentation of the business and be beneficial in the context of external communication in terms of financial and non-financial information to disclose (Firk et al., 2020).

# Findings

**The Use of the Balanced Scorecard**

The descriptive statistics on the responding companies are presented in table 1. In terms of industry, 6.1% of the companies included in the sample operate in the agricultural industry, 13.3% provide support service activities, 49.0% are manufacturing companies, 31.6% operate in the wholesale and retail trade. With respect to the company size, which is measured considering the number of employees, 46.9% of surveyed companies are small companies (0-100 employees), 22.5% are medium companies (101-500 employees), and 30.6% are large (more than 500 employees).

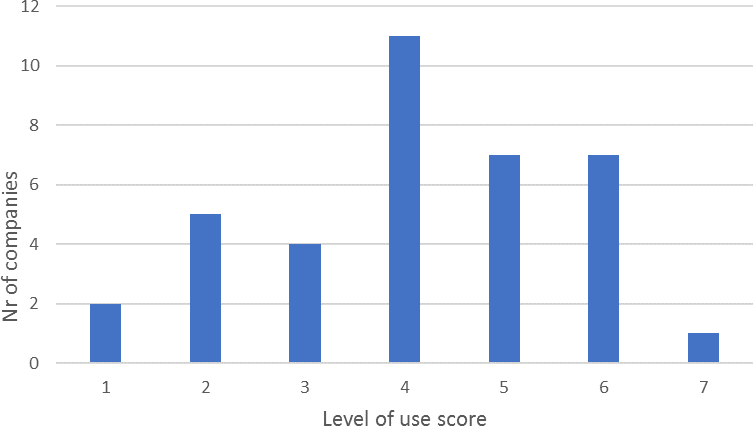
The survey has revealed that 35.7% of the companies use the BSC.

# Table 1: Descriptive statistics

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| --- | --- | --- | --- | --- |
|  | **n.** | **%** | **Mean (SD)** | **Median** |
| Companies | 98 |  |  |  |
| Size (nr. of employees) 0-100  101-500  500+ | 46  22  30 | 46.9%  22.5%  30.6% |  |  |
| Industry  Agriculture  Support service activities Manufacturing  Wholesale and retail trade | 6  13  48  31 | 6.1%  13.3%  49.0%  31.6% |  |  |
| BSC Use Yes No | 35  63 | 35.7%  64.3% |  |  |
| Level of BSC use [0-7] |  |  | 4.10  (1.5) | 4 |
| BSC usefulness [0-7] |  |  | 5.43  (1.5) | 6 |
| Difference level of use vs usefulness [-3–  6] |  |  | 1.78  (1.7) | 2 |

The level of BSC use, which refers to the intensity and not to the frequency of use, shows an average score equal to 4.10, which is near to the midpoint of the measurement scale. This is in line with the results from Cravens and Guilding (2001) in the U.S., while Cescon et al. (2019) in Italy report a higher level of use. Figure 1 depicts the distribution of companies using the BSC based on score assigned to the level of use.

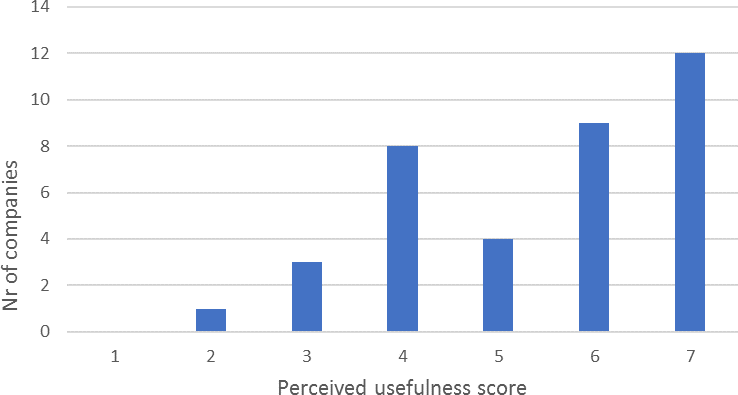
# Figure 1: Distribution of companies by level of BSC use



Further, users were required to indicate, on a Likert scale ranging from 1 (not at all) to (extensively), the perceived usefulness they attributed to the BSC. The distribution of the answers is displayed in

Figure 2. In comparison to the moderate levels of use, companies stated a higher perceived usefulness of the BSC, with 60% of the respondents delivering positive and extremely positive responses (with a score equal to 6 or 7).

# Figure 2: Distribution of companies by perceived usefulness of the BSC



When asked about the main motivations for using the BSC in their business processes, the surveyed companies have provided responses that are reported as follows: to align objectives and strategies; to improve the value of the internal processes, share objectives and align them in the short and long term; monitor different areas of the organization; to improve the comprehension of overall performance; to focus on a clearer image of the entire organization; to improve relations with customers; to facilitate strategy alignment through all the organizational levels; to involve and motivate employees at the different organizational level.

The users have documented the following benefits deriving from the BSC use: a concise strategic overview of the business areas involved; general improvement in business communication; general improvement in internal processes; improved alignment of objectives; greater information flow about business activities; more effective communication and understanding of business objectives and strategies at every organizational level; enhanced view of overall company performance.

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