

Studies in Managerial and Financial Accounting
Volume 28

Performance Measurement and Management Control: Behavioral Implications and Human Actions

Antonio Davila
Marc J. Epstein
Jean-François Manzoni
Editors

STUDIES IN MANAGERIAL AND FINANCIAL
ACCOUNTING VOLUME 28

**PERFORMANCE
MEASUREMENT AND
MANAGEMENT
CONTROL: BEHAVIORAL
IMPLICATIONS AND
HUMAN ACTIONS**

EDITED BY

ANTONIO DAVILA

University of Navarra, Spain

MARC J. EPSTEIN

Rice University, TX, USA

JEAN-FRANÇOIS MANZONI

*INSEAD Chaired Professor of Leadership and Organisational
Development, Singapore*



United Kingdom – North America – Japan
India – Malaysia – China

Emerald Group Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2014

Copyright © 2014 Emerald Group Publishing Limited

Reprints and permission service

Contact: permissions@emeraldinsight.com

No part of this book may be reproduced, stored in a retrieval system, transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise without either the prior written permission of the publisher or a licence permitting restricted copying issued in the UK by The Copyright Licensing Agency and in the USA by The Copyright Clearance Center. Any opinions expressed in the chapters are those of the authors. Whilst Emerald makes every effort to ensure the quality and accuracy of its content, Emerald makes no representation implied or otherwise, as to the chapters' suitability and application and disclaims any warranties, express or implied, to their use.

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN: 978-1-78350-377-3

ISSN: 1479-3512 (Series)



ISOQAR certified
Management System,
awarded to Emerald
for adherence to
Environmental
standard
ISO 14001:2004.

Certificate Number 1985
ISO 14001



INVESTOR IN PEOPLE

LIST OF CONTRIBUTORS

<i>Luis Perera Aldama</i>	Managing Partner at Inversiones SILPA Ltd., Santiago de Chile
<i>Andreas Aschenbrücker</i>	International Performance Research Institute, Stuttgart, Germany
<i>Regino Banegas</i>	Department of Business Administration, University of Castilla-La Mancha, Spain
<i>Sebastian Berlin</i>	International Performance Research Institute, Stuttgart, Germany
<i>Debbie P. S. Chia</i>	The University of Western Australia, Perth, Australia
<i>Marc J. Epstein</i>	Jones Graduate School of Business, Rice University, Houston, TX, USA
<i>Isabelle Flachère</i>	ESCP Europe & Université Panthéon Sorbonne, Paris, France
<i>Mark L. Frigo</i>	Driehaus College of Business, DePaul University, Chicago, IL, USA
<i>Rebecca Geiger</i>	International Performance Research Institute, Stuttgart, Germany
<i>Laura Gómez-Ruiz</i>	Financial Economics and Accounting Department, Pablo de Olavide University, Seville, Spain
<i>Sanna Hildén</i>	Cost Management Center, Tampere University of Technology, Tampere, Finland
<i>Péter Horváth</i>	International Performance Research Institute, Stuttgart, Germany

<i>Sabina Klimentova</i>	Public Research Centre Henri Tudor, Luxembourg
<i>Chong M. Lau</i>	School of Accounting (CBS), Curtin University, Perth, Western Australia
<i>Montserrat Manzaneque</i>	Department of Business Administration, University of Castilla-La Mancha, Spain
<i>Elena Merino</i>	Department of Business Administration, University of Castilla-La Mancha, Spain
<i>David Naranjo-Gil</i>	Financial Economics and Accounting Department, Pablo de Olavide University, Seville, Spain
<i>Nadezda Nazarova</i>	Bodø Graduate School of Business, University of Nordland, Norway
<i>Belverd E. Needles, Jr.</i>	Driehaus College of Business, DePaul University, Chicago, IL, USA
<i>Sanna Pekkola</i>	Lappeenranta University of Technology, Lahti School of Innovation, Lahti, Finland
<i>Biljana Pesalj</i>	Rotterdam Business School, University of Applied Sciences in Rotterdam, The Netherlands
<i>Marian Powers</i>	Kellogg School of Management, Northwestern University, Evanston, IL, USA
<i>Judith M. Pütter</i>	International Performance Research Institute, Stuttgart, Germany
<i>Johanna Rämö</i>	Turku School of Economics, University of Turku, Finland
<i>Anton Shigaev</i>	Kazan (Volga Region) Federal University, Republic of Tatarstan, Kazan, Russian Federation

Dietmar Sternad

School of Management, Carinthia
University of Applied Sciences, Villach,
Austria

Sharon L. C. Tan

SP Business School, Singapore Polytechnic,
Singapore

Adrián Zicari

Essec Business School, Paris

PREFACE

In 2001, we gathered a group of researchers in Nice, France, to focus discussion on performance measurement and management control. Following the success of that conference, we held subsequent conferences in 2003, 2005, 2007, 2009, 2011, and 2013. This volume contains some of the exemplary papers that were presented at the most recent conference, this time in Barcelona. The conference has grown in number of participants, quality of presentations, and reputation and this year attracted leading researchers in the field from North America, South America, Europe, Asia, Australia, and Africa.

Though the conference has been generally focused on performance measurement and management control and has included presentations on many facets of the topic, each year we have also focused on a particular theme of current interest. This year's theme was directed at behavioral implications and human actions from the use of performance measurement and management control systems. It includes empirical, analytical, and experimental research.

There were two plenary sessions at this conference by Marc J. Epstein and Jean-François Manzoni. The chapter by Marc is included here. In addition to the plenary sessions, this volume also includes some of the other excellent papers presented at the conference. The call for papers drew a wonderful response of 250 submissions so the competition to make a presentation at the conference was quite high. Further, given the space limitations in this book, another competitive selection was required. The contents of this book represent a collection of leading research in management control and performance measurement and provide a significant contribution to the growing literature in the area. This collection of papers also covers a representative set of topics, research settings, and research methods.

From the first year, the conference has relied heavily on EIASM and Graziella Michelante for organization and management and their enthusiastic participation and excellent work has been critical to the conference success. The two conference chairpersons, Antonio Davila and Eric Cauvin, provided excellent intellectual and administrative leadership of

the conference. We thank them and all of the speakers and participants at the conference. Their attendance and enthusiastic participation made the conference an enjoyable learning experience. We are hopeful that this book will continue the search for additional understanding and development in performance measurement and management control, and provide guidance for both academic researchers and managers as they work toward improving organizations.

Antonio Davila
Marc J. Epstein
Jean-François Manzoni
Editors

CONTENTS

LIST OF CONTRIBUTORS *ix*

PREFACE *xiii*

PART I: RELEVANCE OF PERFORMANCE MEASUREMENT AND MANAGEMENT CONTROL TO SOCIAL ISSUES

USING MANAGEMENT CONTROL AND
PERFORMANCE MEASUREMENT TO SOLVE
GLOBAL SOCIETAL CHALLENGES: RESEARCH
PROGRESS AND OPPORTUNITIES

Marc J. Epstein *3*

PART II: IMPLEMENTING PERFORMANCE MEASUREMENT AND MANAGEMENT CONTROL FOR IMPROVED PERFORMANCE

OPERATING CHARACTERISTICS OF HIGH
PERFORMANCE COMPANIES: STRATEGIC
DIRECTION FOR MANAGEMENT

Belverd E. Needles, Jr., Marian Powers, *25*
Mark L. Frigo and Anton Shigaev

ENVIRONMENTAL MANAGEMENT CONTROL
SYSTEMS IN SMEs – AN IMPLEMENTATION
SCHEDULE

Péter Horváth, Sebastian Berlin *53*
and Judith M. Pütter

MANAGEMENT ACCOUNTING TOOLS AS MEDIATORS OF A NEW ORGANISATIONAL CONSTRUCTION: A STUDY OF THE INTERACTION BETWEEN TOOLS AND 'PHYSICIAN-MANAGERS' IN A FRENCH PUBLIC HOSPITAL <i>Isabelle Flachère</i>	81
CULTURE AS A RECOUPLING MECHANISM: RATIONALES FOR CONSTRUCTION OF BUDGETARY SLACK IN LOGISTICS <i>Nadezda Nazarova</i>	105
PERFORMANCE EFFECTS OF PERFORMANCE MEASUREMENT SYSTEMS – EVIDENCE FROM A TRANSITION ECONOMY <i>Biljana Pesalj</i>	127
 PART III: BEHAVIORAL IMPLICATIONS OF PERFORMANCE MEASUREMENT AND MANAGEMENT CONTROL	
THE EFFECTS OF INTERACTIVE CONTROL SYSTEM AND TEAM IDENTITY ON TEAM PERFORMANCE: AN EXPERIMENTAL STUDY <i>Laura Gómez-Ruiz and David Naranjo-Gil</i>	155
MEASURING REFLECTIVENESS AS INNOVATION POTENTIAL – DO WE EVER STOP TO THINK AROUND HERE? <i>Sanna Hildén, Sanna Pekkola and Johanna Rämö</i>	177
THE RELATIONSHIPS BETWEEN PERFORMANCE MEASURES AND EMPLOYEE OUTCOMES: THE MEDIATING ROLES OF PROCEDURAL FAIRNESS AND TRUST <i>Debbie P. S. Chia, Chong M. Lau and Sharon L. C. Tan</i>	203

PART IV: COMPENSATION

GUIDING MANAGERIAL BEHAVIOR TOWARD THE LONG TERM: THE ROLE OF PERFORMANCE MEASUREMENT AND COMPENSATION SYSTEMS <i>Dietmar Sternad</i>	235
--	-----

THE ROLE OF TRANSPARENCY AND VOLUNTARY DISCLOSURE ON THE CONTROL OF DIRECTORS' COMPENSATION <i>Montserrat Manzanegue, Elena Merino and Regino Banegas</i>	257
--	-----

PART V: PERFORMANCE MEASUREMENT AND MANAGEMENT CONTROL IN GOVERNMENTAL AND NONPROFIT ORGANIZATIONS

INNOVATION IN THE PUBLIC SECTOR: IS IT MEASURABLE? <i>Sabina Klimentova</i>	289
---	-----

VALUE DISTRIBUTION IN STATE-OWNED FIRMS: THE CASE OF TWO COMPANIES IN URUGUAY <i>Adrián Zicari and Luis Perera Aldama</i>	317
---	-----

PERFORMANCE MEASUREMENT AND MANAGEMENT IN GERMAN UNIVERSITIES <i>Rebecca Geiger and Andreas Aschenbrücker</i>	337
---	-----

PART I
RELEVANCE OF PERFORMANCE
MEASUREMENT AND
MANAGEMENT CONTROL TO
SOCIAL ISSUES

USING MANAGEMENT CONTROL AND PERFORMANCE MEASUREMENT TO SOLVE GLOBAL SOCIETAL CHALLENGES: RESEARCH PROGRESS AND OPPORTUNITIES

Marc J. Epstein

ABSTRACT

Purpose — While management control and performance measurement research and practices have advanced significantly in the last decades, the research and applications to social impacts and social purpose organizations are underdeveloped. This chapter reports on three research studies that have important implications for future research and practice in the use of management control and performance measurement to solve global societal challenges.

Approach — This chapter provides new frameworks and performance measurement approaches used in three recent series of research projects. It also provides the results of this extensive research in using existing

Performance Measurement and Management Control: Behavioral Implications and Human Actions
Studies in Managerial and Financial Accounting, Volume 28, 3–21

Copyright © 2014 by Emerald Group Publishing Limited

All rights of reproduction in any form reserved

ISSN: 1479-3512/doi:10.1108/S1479-351220140000028006

theories and managerial practices to improve success and the measurement of success in for-profit and nonprofit organizations that are focused on increasing their positive social impacts.

Findings — This research that spans more than 20 years and includes numerous projects and research methods in many countries has discovered a prior lack of application of existing theories, approaches, tools, and measures that are fundamental to management control and performance measurement. It found that much work is still needed in both academic research and managerial practices to apply them effectively in social purpose organizations and suggests areas for future research.

Originality — By reviewing the literature comprehensively and doing a series of related research projects, this analysis provides a foundation for future research in the applicability of management control and performance measurement approaches to the measurement and improvement of the social impacts of both for-profit and nonprofit organizations.

Keywords: Management control; performance measurement; social impact; corporate social responsibility; poverty; nonprofit organizations

INTRODUCTION

For much of my career I have focused on using approaches to management control and performance measurement to improve society. From my days as a graduate student, I was interested in the role of business (and business principles) to improve society. In some cases that was labeled corporate social responsibility (CSR) and philanthropy and focused on specific and targeted programs that were meant to improve corporate social impacts (or reduce negative externalities). In others it was broadened to examine the intended and unintended impacts that are created by organizations on present and future generations and a broad spectrum of stakeholders.

Though these areas of study and practice have evolved, and advancements in both academic research and management practices have been made, some fundamental challenges remain. These are, at their core, challenges of management control and performance measurement. Significant needs remain for additional research, design, and implementation that can

make advancements in both theory and practice. This provides an opportunity for researchers to use the fields' theories, practices, tools, and techniques to make significant improvements in organizational financial performance and social performance simultaneously.

Over the past 20 years, I have conducted (often with coauthors) numerous extensive field research projects to address these issues and answer some critical research questions. I have supplemented some of these field research projects with additional research that involved large existing data bases and new survey research. The research projects included organizations that range from very large to very small, global and local, for-profit and not-for-profit, and in a broad spectrum of industries. They have been conducted in North America, Europe, Africa, Asia, and South America. A selected list of articles and books that describe these research projects and their results can be found in the Further Reading section at the end of this chapter.

Some of this prior research has been related to management control and the implementation of strategy. Some has been more related to the development of performance measures for the inputs, processes, outputs, outcomes, and impacts. It has included investigations of strategy, structures, systems, culture, performance measures, and rewards in areas including social, environmental, economic, and governance performance and in many cases included the effects on financial performance. In some of the books and articles cited, sample metrics are provided for both the individual elements of the logic model or causal linkage model and for the various areas of focus.

As the research evolved, we discovered solutions to at least some of the questions and were able to provide guidance to managers with new models, approaches, tools, and measures. We were also able to provide some evidence that contributed to the research base in the field. But numerous questions remained. And, though many managers found the new approaches helpful, the translation and implementation of the approaches and measurement systems into improved management practices proved particularly challenging to many.

Some of my newest research (along with others) was designed to integrate both the previous research findings and the work with managers in corporations and nonprofit organizations alike. This has enabled us to place the prior projects into perspective and provide some recommendations for both academic research and managerial practice in the future design and implementation of management control and performance measurement approaches.

In the newest project, Kristi Yuthas and I were working with some leading nonprofits and foundations around the world. Among the most fundamental challenges for them was the creation of a logic model (the language used in the nonprofit sector to describe the strategy maps or causal linkage models used in the for-profit sector.) Without having a clear articulation of what an organization is trying to achieve (including outcomes and impacts) and the related actions (including inputs and processes), the development of useful performance measures was usually unsuccessful. Though this is not new, and we often find this in even the best for-profit organizations also, the lack of clarity and rigor around these issues has been startling. Thus, in academic research and in providing guidance for managerial practice, it is critical that more effort must be spent on the rigorous analysis and the careful articulation of the causal relationships in the logic model well before performance measures are developed. Few organizations (even leading ones) have developed the processes to do this effectively.

A DESCRIPTION OF THE THREE RESEARCH STUDIES

This discussion, though integrating various works by me and others over the last several decades, is primarily based on three large research studies that included many individual projects including field research that spans almost 20 years. These projects focused on:

- (1) *New Solutions for Global Health and Poverty* — This research focused on the use of business approaches (including management control and performance measurement) to more effectively address challenges in global health and poverty. The research began with work in business' role in alleviating global poverty and projects related to whether micro-finance works at alleviating poverty. It then included the investigation of existing measures of success and the development of new approaches to identifying and measuring the causal relationships that lead to success and the evaluation of results of projects in developing countries. It continued with extensive work and more than 20 visits to developing countries on research projects that included microfinance, microentrepreneurship, education for children and adults, and health. It continued with MBA classes to work on the implementation and measurement of new approaches to improving global health, global education, and reducing global poverty. This research developed a new model that includes innovative and entrepreneurial approaches to dramatically