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**Managing Multiple Dimensions of Performance:
A Field Study of Balanced Scorecard Translation in the
Thai Financial Services Organisation**

by

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A thesis submitted in partial fulfilment of the requirements for the degree of
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Abbreviations

ABB	Activity-Based Budgeting
ABC	Activity-Based Costing
ABM	Activity-Based Management
AMC(s)	Agricultural Marketing Cooperative(s)
ANT	Actor-Network Theory
ATM(s)	Automatic Teller Machine(s)
BIBF	Bangkok International Banking Facilities
BIS	Bank for International Settlements
BSC	Balanced Scorecard
CFROI	Cash Flow Return on Investment
ERP	Enterprise Resource Planning
EVA [®]	Economic Value Added
EVC	Economic Value Created
GDP	Gross Domestic Products
GES	Good Enterprise System
IMF	International Monetary Fund
KPI(s)	Key Performance Indicator(s)
MACS(s)	Management Accounting and Control System(s)
NHS	National Health Service
NIS	New Institutional Sociology
OIE	Old Institutional Economic
OTOP	One Tambon One Product
PAS	Performance Agreement System
PMS	Performance Management System
REVA	Refined Economic Value Added
RI	Residual Income
ROI	Return on Investment
SET	Stock Exchange of Thailand
SFI(s)	Specialised Financial Institution(s)
TQM	Total Quality Management
TRIS	Thai Rating and Information Services
VBM	Value-Based Management

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Many people say that the PhD is a long and lonely process. I entirely agree that the PhD is a very long journey, of which the end of it is not even the 'real' end but merely the beginning of another even longer journey. Thankfully, however, my PhD journey has not been a lonely one. It has been a very pleasant journey, filled with laughs, joys and tears! It is one of the most rewarding, and of course, challenging, experiences of my life. Along this journey, I have been accompanied by a number of people whose support has been critical for completing this remarkable journey.

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Declaration

This is to declare that:

- I am responsible for the work submitted in this thesis.
- This work has been written by the author.
- All verbatim extracts have been distinguished and the sources specifically acknowledged.
- During the preparation of this thesis a number of papers were prepared as listed below.
The remaining parts of the thesis are unpublished.

1. Book Chapters:

2006 'Managing by Numbers: Past, Present and Future' in Komaratat, D. (Ed.) *New Dimensions of Performance Measurement*, Bangkok: Chulalongkorn University Press, pp. 115-170.

2. Conference Publications:

2007 *Management Accounting Change: A Field Study of the Balanced Scorecard Translation in the Thai Financial Services Organisation*, Asia Pacific Interdisciplinary Research in Accounting, Auckland, New Zealand.

2007 *Management Accounting Change: A Field Study of the Balanced Scorecard Translation in the Thai Financial Services Organisation*, European Academy of Management Annual Conference, Paris, France.

2007 *Management Accounting Change: A Field Study of the Balanced Scorecard Translation in the Thai Financial Services Organisation*, British Accounting Association Annual Conference, London, UK.

2006 *Management Accounting Change: A Field Study of the Balanced Scorecard Translation in the Thai Financial Services Organisation*, Interdisciplinary Perspectives on Accounting Conference, Cardiff, UK.

3. Seminar/Workshop Presentations:

2006 *Managing Multiple Dimensions of Performance: A Field Study of Balanced Scorecard Translation in the Thai Financial Services Organisation*, Emerging Scholars Colloquium, Interdisciplinary Perspectives on Accounting, Cardiff, UK.

2004 *Managing Multiple Dimensions of Performance: A Field Study of Balanced Scorecard Translation in the Thai Financial Services Organisation*, Emerging Scholars' Colloquium, Asia Pacific Interdisciplinary Research in Accounting, Singapore.

2004 *Managing Multiple Dimensions of Performance: A Field Study of Balanced Scorecard Translation in the Thai Financial Services Organisation*, Doctoral Workshop on Performance Management: Accounting, Organisation and Strategy, Bodø, Norway.

2003 *Managing Multiple Dimensions of Performance: Relationship between Total Quality Management and Management Accounting Systems*, Doctoral Colloquium, British Accounting Association, Manchester, UK.

- This work has not previously been submitted within a degree programme at this or any other institution.

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Abstract

This thesis examines the process of change in management accounting and control systems (MACSs) in a Thai financial services organisation. Specifically, it traces how a strategic performance measurement, the Balanced Scorecard (BSC), was introduced, constructed, modified and re-defined over a period of time and in different organisational units of the organisation. The major aim of the research is to achieve an understanding of how an innovative management control idea, the BSC, was made operable in a particular organisational context. This research is based on intensive field study which involved in-depth interviews, direct observations and documentation analysis. Drawing on actor-network theory (ANT), the research illustrates how the BSC idea was brought into the organisation. It describes the way in which various actors mobilised their interests and concerns to construct the BSC, shows how the BSC collided and was reconciled with other networks of performance measurement and management control, and illustrates the way in which the all-encompassing nature of the BSC affected the design and implementation process.

The study provides insights into how a global management idea like the BSC is introduced into an organisation and influences organisational practices while, at the same time, being localised and shaped by local practices. It sheds light on the process of change in performance measurement practices in an organisational context, as well as enhancing our understanding of the ways in which an integrated performance measurement system such as the BSC operates. In particular, the research illustrates how two key BSC concepts that are controversial in the existing literature – the notion of ‘balance’ and cause-and-effect relationships – were mobilised within the organisation. It shows that although these concepts are broad and abstract, creating complexities in designing the BSC, they can have a positive impact, generating discussions and solutions among organisational members. In addition, the study shows that the BSC construction process involves ongoing translations by heterogeneous actors – both local and global, human and non-human – who/which attempt to build networks of associations to support their own agenda and beliefs. The case study shows that resistance to the new system does not necessarily lead to a failure of system implementation; rather, it can be a positive force, providing opportunities for relevant actors to modify and appropriate the system. Moreover, the research shows how local BSC meanings and identities emerged via its interplays with these actors, and how the ongoing translations led the BSC to become something that it was not initially. However, this does not mean that the BSC and its implementation failed. Rather, it suggests the ability of the BSC to be shaped in different ways to make it work in specific situations. Arguably, it is this open nature of the BSC, which allows different actors to interpret, modify and construct their own versions of it, that makes it powerful.

Keywords: management accounting change, integrated performance measurement, Balanced Scorecard, actor-network theory, financial services

Chapter 1

Introduction

1.1. Research Rationale

During the past two decades, there have been considerable changes in the nature of management control and performance measurement practices, and an increasingly broad and challenging level of debate about them. At the level of everyday business reality, accounting numbers, which have long been used to monitor and manage performance at various levels within organisations, have been increasingly criticised for being detrimental to the competitiveness of contemporary organisations. At a more fundamental or theoretical level, the 'relevance' of MACSs has also been questioned (Johnson and Kaplan, 1987; cf. Bromwich and Bhimani, 1989; Ezzamel et al., 1990; Hopper, 1990; Hopper and Armstrong, 1991; Johnson, 1992, 1994; Hoskin and Macve, 1994). With increasing concern about technical and theoretical limitations of conventional MACSs, academics and consultants have broadened the horizons within which management accounting and control ideas are discussed and evaluated, and at the same time, a range of innovations has been developed to address some of the problems associated with traditional MACSs. Examples of these initiatives include activity-based costing and management, strategic management accounting, economic value measures, and integrated performance measurement.

In the light of these rapid changes in technologies and their deployment in an increasingly competitive environment, as well as a proliferation of management accounting and control initiatives, issues around accounting change have become one of the central issues of interest among accounting scholars. Particularly after Hopwood (1987, p. 207) argued that "...very little is known of the processes of accounting change", an increasing number

of scholars have examined the accounting change process from various perspectives. Empirical research on the accounting change process has shown that implementing a new MACS is a complex process which involves a number of technical, economic, organisational and institutional issues. The danger of constructing overly rational, efficiency explanations of the change process has been recognised, and broader, cross-disciplinary approaches have been brought into the accounting arena.

Within the management accounting and control initiatives, increasing emphasis on linkages between management accounting and strategy, and the integration between non-financial and financial performance measures, can be observed. Among these management accounting innovations, the BSC is one of the best-known models, and it has gained increasing popularity among business organisations. BSC dissemination began in Anglo-Saxon countries in the 1990s and since has developed into a global phenomenon (see results from survey studies, e.g. Silk, 1998; Kald and Nilsson, 2000; Anonymous, 2001; Rigby, 2001; Speckbacher et al., 2003).

While many of the management accounting and control innovations are initiated in the US or Europe, innovative management accounting ideas have now spread to emerging economies, including Thailand. In today's globalisation era, as communication technologies become more advanced and sophisticated, organisations in different countries have become more closely connected in increasingly diverse ways. Increasing numbers of organisations in Thailand have begun to adopt innovative western management ideas. Particularly following the financial crisis in 1997, many Thai organisations have adopted western management systems and concepts with the expectation that these 'modern' management systems will improve the efficiency of the

organisations and hence help both the public and investors regain confidence in them. Among western management accounting and control initiatives, the BSC has received considerable attention. A 2002 survey examining BSC usage among Thai listed companies showed that 26% of the respondents reported that they had implemented the BSC, while 47% were considering adopting it (Decharin, 2003). From a discussion with a senior officer of the Office of the Public Sector Development Commission, I learned that government agencies are also being encouraged to adopt the BSC, with many having already adopted it. Therefore, among Thai organisations, in both private and public sectors, the BSC has become one of the most popular performance management concepts today.

Despite the popularity of the BSC in business communities and increasing interest in accounting change among accounting scholars, there has as yet been relatively little research critically examining how the BSC is developed and used in an organisational context (Ittner and Larcker, 1998b, 2001; Otley, 1999, 2001; see also Luft and Shields, 2003; Neely, 2005). Also, such research has focussed in general on western organisations operating largely in developed world or global contexts, rather than on organisations in developing countries. Furthermore, to the best of my knowledge, there is no published research on the detailed process of implementation and use of the BSC in Thai organisations.

The BSC differs from most other management accounting and control concepts in at least two respects. Firstly, it contains a number of broad, open and abstract concepts which allow multiple interpretations (Nørreklit, 2003; Ax and Bjørnenak, 2005). Secondly, the BSC attempts to encompass many areas of management, from strategic to operations

management. However, when it is introduced into an organisation, the BSC inevitably encounters other management systems and practices. The open and all-encompassing nature of the BSC can make the process of constructing a BSC different from the process of constructing other management accounting and control technologies, even if there are many comparable management of change issues.

There have been attempts in the existing literature both to define and to list the characteristics of the BSC (see a discussion on the issue in Malmi, 2001; Luft and Shields, 2003; Speckbacher et al., 2003; see also Ahrens and Chapman, 2006b). This is of course valuable, but it remains problematic because of the BSC's open and evolving development. It is worth noting, in this regard, that even the BSC's creators, Kaplan and Norton, have redefined their BSC. Empirical findings from large-scale, primarily survey-based, studies confirm this problem by showing that the way the BSC is applied varies across organisations (see Hoque and James, 2000; Malmi, 2001; Speckbacher et al., 2003). Given this, it is perhaps not wholly surprising that research studies vary in their conclusions about the effectiveness of the BSC, with Ittner, Larcker and Randall (2003) failing to find statistical differences in the emphasis on non-financial measures between firms that claimed to have adopted the BSC and those that did not. Empirical evidence from studies such as these raises significant and continuing questions concerning the nature of the BSC (Ahrens and Chapman, 2006b).

While large-scale empirical research studies have shown that there are various versions of the BSC with varying effects, this type of study is less suited to exploring how and why the BSC has become used in a particular way in a specific organisation at a certain time. As the BSC is an open concept and encompasses wide areas of management, it is likely

that specific circumstances and conditions in which people in the organisation manage their performance will have an impact on how organisational participants interpret, design and use the BSC. Therefore, in order to understand how and why the BSC is used in a certain way, it is important to undertake studies that explore its use in detail in the contexts in which it is developed and used. An intensive field research study in an organisational setting enables the researcher to examine how local actors and specific circumstances may influence the process of constructing the BSC and give rise to different versions of the BSC in practice. In addition, it allows the researcher to examine and explain inter-relationships between the BSC and other control system elements (Otley, 1999).

Although we can observe emerging research which attempts to examine the process of BSC implementation and the use of the BSC in its organisational context (e.g. Malina and Selto, 2001; Kasurinen, 2002, 2003; Hansen and Mouritsen, 2005), there is still a need for further intensive field research to examine how the BSC is developed and used in its organisational context over a period of time. It is also important for the researcher to pay attention not only to the process of developing and implementing the BSC, but also to the nature, identity and meaning of the BSC as it is being constructed. As Ahrens and Chapman (2006b, p. 11) argue, "...we do want to know more about the nature of the BSC and the elements of organizational activity with which the BSC is supposed to interact." An intensive field research study which critically examines how the BSC is introduced and constructed in an organisational setting over a period of time, and examines how the BSC is shaped by local conditions and circumstances, will enhance our understanding of the process of management accounting change as well as the nature of the BSC. Additionally, a study investigating the BSC in a significantly different cultural setting,

and in a business context that is outside the western type of business culture generally studied to date, may throw particularly interesting light on the range of ways in which the BSC may be developed, and on some of the limits to those possibilities.

1.2. Research Questions and Research Objectives

The present research investigates how the BSC idea was introduced to the organisation, and examines how the BSC was localised and made operable in practice in the Thai financial services organisation. The study also explores the way in which the BSC is used and examines its significance for people within the organisation. The study is conducted in a Thai organisation in order to examine how global management ideas initiated in advanced economies are translated when they are placed in organisations in a developing country such as Thailand. A financial services organisation was chosen as the focus of this study primarily because in Thailand banking is one of the sectors currently undergoing significant change, both in terms of structure and management practices. Prior to the 1997 financial crisis, the sector was highly protected and organisations had many traditional ways of conducting business. However, since the crisis, the sector has become much more open, with many western management practices having been adopted. Thus, the banking sector is an interesting focus for exploring the dynamics and tensions between traditional and modern management practices.

The research study has three main objectives. The first objective is to critically examine the process of how an innovative management accounting and control idea, the BSC, is made operable in a particular organisational setting. The second objective is to examine changes in the Thai banking sector, and to investigate how changes in management control practices, particularly performance measurement practices, within the Thai

financial services organisation take place in the context of such a changing environment. The third objective is to provide critical analysis and discussion of the way in which the BSC is transformed through a detailed intensive field study. Also to be analysed is the way in which local conditions and circumstances play roles in shaping the identities and meanings of the global management accounting and control innovation, when the innovation is implemented in a context where there could be tensions between the new innovation and the existing strong traditional management practices. The study aims to enhance our understanding of the process of change in management accounting and control, as well as the nature, use and meanings of the BSC in practice.

The key research question of the study is: How is the American performance management concept, the BSC, translated into practice in a Thai financial services organisation? Sub-questions that were extrapolated from this main question include the following, although in the course of undertaking the research study, it was possible to answer some in more depth than others:

- What is the plausible range of reasons that the organisation adopted the BSC?
- What are the purposes of adopting the BSC and how far does the BSC achieve its purposes?
- How is the BSC made operable in a particular organisational setting?
- How do relevant actors play a role in constructing networks of support, in transforming or in resisting the BSC implementation and continued operation?
- How, and to what extent, is the BSC spread within the organisation? At which level(s) of the organisation is the BSC developed? If it is developed at more than one level, how are the BSCs developed and used at different levels related?

- How is the BSC reconciled with other measurement practices, particularly budgetary control?
- How does the integrative nature of the BSC impact on the implementation process?
- How are the notions of ‘balance’ and cause-and-effect relationships operationalised?
- Is the BSC linked to rewards? If so, how? How does the linkage (or lack of linkage) with rewards affect the implementation and utilisation of the BSC?
- How far has the BSC become institutionalised as a set of practices within the organisation?
- How does the BSC play a role in managing performance in the organisation?
What does the BSC mean to organisational members?
- What are the implications of BSC adoption?

In order to attempt to answer this extensive list of questions, an intensive field-based research approach was adopted. The analysis of the research is based upon a constructivist approach, in which the BSC is treated as a boundary object, an object which is “both plastic enough to adapt to local needs and the constraints of the several parties employing [it], yet robust enough to maintain a common identity across sites” (Star and Griesemer, 1989, p. 393). The conducting of a ‘performative’ study (i.e. a study that considers how the BSC is deployed and ‘performs’ in practice) enables the researcher to examine not only the process of how the BSC is constructed and translated into practice, but also the meaning, value and identity of the BSC technology itself.

1.3. The Scope of the Research

As just noted, the Thai banking industry has been considerably protected, and banks have operated as a cartel, with bankers, state bureaucrats, politicians and business organisations tightly connected and tending to cooperate closely. At the same time, the banking sector plays a major role in the Thai economy, as banks are the major providers of capital for businesses. Partly due to the unique political and historical circumstances within which capitalism developed in Thailand, Thai banks retain many strongly traditional ways of conducting business, as my field research confirms.

Nevertheless, in today's global capitalism era, advanced technologies have lessened boundaries between countries. Financial systems in different countries have become more closely connected. International financial institutions, such as The Bank for International Settlements (BIS) and The International Monetary Fund (IMF), have also played important roles in supervising the global financial system, making practices of financial institutions in different countries converge, and Thailand has not been outside this process.

Consequently, the Thai banking industry has become increasingly integrated with the global financial system since the late 1980s, when the Thai monetary authorities started to liberalise the Thai financial services industry and to widen the Thai capital market. In other words, significant change was taking place even before the 1997 financial crisis. However, in retrospect, that event clearly forced the industry to be more open to foreign competitors. After the crisis, the struggling banks were either taken into state ownership or merged and sold to foreign investors, who, consequently, have come to play an

increasingly significant role in the Thai banking industry, prompting alterations in the patterns of conducting business.

Within the context of this changing environment and the increasing number of foreign competitors, most, if not all, of the Thai financial services institutions have significantly changed their management practices and systems. Many of the new practices implemented are influenced by international practices and global financial systems. Management practices and systems popular in western countries have been adopted. Nevertheless, when the new systems have been brought into organisations with strongly traditional management practices, it is inevitable that the new systems have encountered some resistance. To make the new systems operable, organisations have had to find ways to translate the new systems so that they 'fit' with traditional management practices and systems. In many situations, the new systems have been modified and re-defined as they have been combined with existing practices and traditions. This research examines how the BSC was made operable in a Thai financial services organisation with strongly traditional ways of conducting business, which, at the same time, was attempting to become a more modern and global organisation.

1.4. Structure of the Thesis

This thesis is organised into 8 chapters. Chapter 1 has introduced the field and scope of the research thesis and specified in a preliminary way some of the key research problems and issues confronted in the thesis. It provides an overview of the research and describes the purposes and scope of the research.

Chapter 2 critically reviews the literature relevant to the study. It discusses the development of MACSs and the emergence of recent management accounting and control initiatives relevant to performance measurement. Particular attention is paid to the literature on the BSC, a performance measurement initiative which is the focus of this research. The literature on accounting change is also examined from various perspectives. Gaps in the existing literature are identified and research questions are raised and addressed.

In Chapter 3, the methodological and theoretical approach undertaken by the researcher to conduct the research is outlined. The philosophical assumptions underpinning the research are discussed, and the research methodology justified. Chapter 3 also describes the research design, explains how the research was conducted, and discusses the theoretical approach underlying the analysis of the research findings.

Chapters 4 to 6 present the body of empirical material gathered in undertaking this study. Chapter 4 describes the development of the Thai economy in general, and the development of the Thai banking sector in particular. It examines the historical contexts in which the case organisation is located, with emphasis on roles that the state and other institutions play in developing the sector. Changes in the sector during the past decade, particularly during and after the 1997 financial crisis, are also discussed.

In Chapter 5, the historical background and a development of the case organisation is provided. The chapter presents the structure and profile of the case organisation, and discusses recent initiatives within the organisation.

Chapter 6 examines more closely the way in which the BSC initiative was translated into practice in the case organisation over time. It discusses how the BSC idea was brought into the organisation, and describes how it was made operable. Emphasis is placed on the events and activities associated with the process of constructing and translating the BSC. It also describes how the BSC idea was localised when it travelled to different units within the organisation.

Chapters 7 and 8 are the analytical and reflective chapters. Chapter 7 provides a discussion of the key issues emerging from the research, and compares and contrasts the empirical findings of the study with existing literature. Chapter 8 presents the conclusions drawn from the research and highlights the theoretical contributions and managerial implications of the research. Some limitations of the study are also discussed, as are possible directions for future research.

Chapter 2

Literature Review

2.1. Introduction

The preceding chapter presented an overview of the current research. It introduced the research area and discussed the background of the research problems. In this chapter, the research problems are further investigated. The main objectives of the chapter are to critically review the literature on management accounting and control relevant to the current study (particularly in the field of performance management), to identify any gaps in the extant literature, and to determine how this research will help fill such gaps and hence contribute to the literature in the field.

Accounting numbers have long been used to monitor and manage performance at various levels within organisations. Nevertheless, during the past two decades, they have been widely and increasingly criticised for being detrimental to the competitiveness of contemporary organisations. Particularly after the publication of *Relevance Lost: The Rise and Fall of Management Accounting* (Johnson and Kaplan, 1987), the technical limitations of conventional MACSs have become a growing concern among both practitioners and academic researchers. Consequently, a number of innovative management accounting and control ideas have proliferated, both from within the practitioner and research communities. One of the key themes that has informed this drive for innovation has been a focus on increasing and improving the integration between non-financial and financial performance measures, and along with this seeking to improve the linkages between management accounting and strategy.

At the same time, while the technical dimensions of management accounting and control systems have continued to be a focus of many management accounting and control studies, the importance of the organisational and behavioural dimensions of accounting have been increasingly recognised and factored into research studies. Research with this focus has, whether explicitly or implicitly, acknowledged and sought to address the limitations in more rational-economic or positivist approaches to accounting research, and has frequently mobilised what Baxter and Chua describe as “more ‘critical’ frames which do not necessarily characterize management accounting as an invariable quest for efficiency and effectiveness” (Baxter and Chua, 2006, p. 43). A range of critical philosophical and sociological approaches have been brought into the accounting arena in this process. This chapter will argue that this ‘alternative’ set of approaches to accounting research has enhanced our understandings of management accounting practices in various ways.

To locate this study in this emergent research literature, this chapter critically reviews and discusses a range of research areas which are relevant to the study. It starts with a discussion on the early development of MACSs and outlines the debates around the problems of conventional MACSs, and the context in which recent innovative management accounting ideas emerge. Among the innovative management accounting ideas emerging from the debates on ‘relevance’ of MACSs is the BSC, the performance measurement framework which is the main focus of the current study. Thus, extant literature on the BSC is also reviewed. To provide a theoretical background on how the innovative management accounting ideas are implemented in practice, literature on management accounting change is also discussed.

The chapter is organised into 5 sections. Section 2.2 presents an overview of the development of MACSs, and introduces the context in which the BSC emerged. Section 2.3 explores existing literature on the BSC and addresses performance management issues that are particularly relevant to the BSC. Section 2.4 discusses previous studies which investigate changes in management accounting and control from various perspectives. Research examining management accounting change with an emphasis on the BSC is also reviewed. Finally, Section 2.5 discusses the implications of previous research on the current study and addresses the research questions.

2.2. Development of Management Accounting and Control Systems and the Emergence of Balanced Scorecard

In today's organisations, a management approach with an emphasis on numbers is pervasive. Quantitative performance measurements for all organisational levels are prevalent. The statement 'what gets measured, gets done' is widely known, particularly among practitioners, but whether the claim is true has been questioned in academic literature (Johnston et al., 2002).

Management practices with an emphasis on numbers are not a recent phenomenon. In the 1950s, Ridgway (1956, p. 240) noted, "There is today a strong tendency to state numerically as many as possible of the variables with which management must deal. The mounting interest in and application of tools such as operations research, linear programming, and statistical decision making, all of which require quantifiable variables, foster the idea that if progress toward goals can be measured, efforts and resources can be more rationally managed." Neely (2005, p. 1266) similarly notes that "the desire to

quantify and the unanticipated consequences of quantification” have long been recurring themes in management control, particularly performance measurement, research.

Scholars have offered explanations why a quantitative approach to management, of which accounting forms an important part, is appealing. Porter (1995), for example, suggests that a decision made by number, emphasising ‘facts’ and evidence has the appearance of being fair and impersonal. “Quantification is a way of making decisions without seeming to decide. Objectivity lends authority to officials who have very little of their own” (p. 8). Chua (1996, p. 140) also suggests that quantitative evidence has an image of ‘neutrality’, ‘objectivity’, and ‘independence’. As she puts it in her 1986 Accounting Review article, “Accounting information is particularly useful for the legitimization of activities because they appear to possess a neutral, technical rationality. Numbers are often perceived as being more precise and ‘scientific’ than qualitative evidence.” (Chua, 1986, p. 617)

Among the numbers that are used to manage, accounting figures constitute one of the most important sets, and one which has long been utilised to monitor and manage performance at various levels within organisations. Nevertheless, the issue of when MACSs first emerged is subject to debate among accounting historians. With different views on the motive for modern managerialism, accounting scholars have provided different accounts on the origin and the development of MACSs. This has also led to different views on the current problems of MACSs, as discussed briefly next.

While debate on the emergence of MACSs is still ongoing, the limitations of MACSs are increasingly recognised. In the 1960s, Caplan (1966) questioned the behavioural

assumptions of the traditional MACSs; the effectiveness of conventional MACSs has also been heavily criticised. In the debate on the problems of conventional MACSs, *Relevance Lost* (Johnson and Kaplan, 1987) is often referred to. It has been regarded as one of the major catalysts for changes in management accounting (Burns and Vaivio, 2001), as after its publication, a number of 'new' MACSs that aim to alleviate the problems of traditional MACSs have been developed.

Despite the popularity of the book *Relevance Lost*, its thesis is not without challenge, and has provoked great debate, both at theoretical and technical levels, among accounting scholars. At the fundamental, theoretical level, the approach Johnson and Kaplan took to analyse the development and current problems of MACSs has been criticised, and various scholars have offered alternative explanations for the development and 'relevance' problems of MACSs (See Loft, 1995; Roslender, 1996; MacDonald and Richardson, 2002 for a review). At the technical level, scholars and consultants have attempted to develop management accounting and control initiatives to address some of the technical limitations of the conventional MACSs. For Johnson and Kaplan, after criticising conventional MACSs and proposing remedies for MACSs in *Relevance Lost*, they later went in opposite directions in suggesting how MACSs could regain their 'relevance'. The former now advocates the total abandonment of MACSs, whereas the latter argues for the 'improvement' in the MACSs, and after having first promoted activity-based costing (ABC) and activity-based management, he moved on, in conjunction with David P. Norton, to developing the BSC.

2.2.1. The Emergence of Management Accounting and Control Systems

Standard costing and budgetary control can be considered one of the earliest forms of MACSs.¹ Accounting ratios which measure earnings in relation to investment, such as return on investment (ROI) and residual income (RI), were later developed, and it is claimed that these measures will encourage optimal investment selection by divisional managers, and help ensure that the performance of each division is harmonised with the owners' goal for the firm as a whole (Bromwich and Walker, 1998).

Although it is generally agreed that standard costing and budgetary control is the earliest form of MACSs (Fleischman and Tyson, 1996), the first use of accounting numbers in the management of organisations is controversial. Scholars from different perspectives have provided different accounts of the motive for the emergence of the MACSs, therefore offering different views with regard to when the MACSs emerged. Conventional business historians and economic-rationalists argue that MACSs were developed to improve control and enhance efficiency. In contrast, many critical accounting historians have contended, primarily based on the perspective of Foucault or Marxism, that MACSs were primarily used to de-skill, dis-empower, and control workers (Fleischman and Tyson, 1996).

2.2.1.1. Economic Rationalist Perspective

From the economic rationalist perspective, MACSs were driven by searches for economic efficiency and profit. MACSs development was seen an economic-rational response to the new business demands to improve control. From this perspective, the development of MACSs is, therefore, largely related to changes in the economic and technological

¹ Although standard costing and budgetary control are interrelated, the existence (or absence) of one technique does not imply the existence (or absence) of the other (Boyns, 1998).

environment as well as changes in the mode of organising the production and organisational structure.

This group of scholars has argued that the early cost and management accounting systems were developed around the 1850s in textile mills² (Johnson, 1972, 1981; Johnson and Kaplan, 1987) and railroads (Chandler, 1962, 1977; Chandler and Daems, 1979). The cost accounting and management practices within railroads were then transferred to mass production firms, including distribution and retailers and steel factories in the 1880s (Kaplan, 1984).

From this perspective, cost accounting systems arose as a result of a new kind of need, first recognised in the single economic activity firms which emerged as a consequence of the Industrial Revolution. Adopting cost accounting and control created and exploited the opportunity for firms to gain economies of scale by investing significant amounts of capital in their production process and employing workers on a long-term basis, rather than relying on the external markets to exchange their outputs and paying labour by piecework. When the firms began to conduct economic exchange internally instead of relying on direct economic exchange with external markets, market prices for intermediate products were absent. As a result, cost accounting information was needed “to identify the different costs for the intermediate and final products of the firm...to provide a benchmark to measure the efficiency of the conversion process...[and] to

² Johnson and Kaplan (1987) agree with Chandler (1977) that the textile mills were not considered the ‘modern’ enterprise. To qualify as a ‘modern’ enterprise, the firm must have many operating units and be managed by “a hierarchy of salaried executives” (Chandler, 1977, p. 1) rather than being managed by its owner. However, Johnson and Kaplan (1987, p. 44) argue that “conversion cost accounting, the earliest example of management accounting, appeared in textile factories even before the first railroads were built...[Railroads] were not the first economic enterprises that used cost accounting to rationalize internally coordinated processes”.

provide incentives for workers to achieve productivity goals” (Johnson and Kaplan, 1987, p. 8).

The analysis of the emergence of MACSs from the economic rationalist perspective has been criticised for neglecting the wider social, political and historical contexts of management accounting development (see Hopwood, 1987), and also arguably for not even being a particularly accurate history of the internal development of cost accounting practice as such (e.g. Hoskin and Macve, 2000). Therefore, accounting scholars from critical perspectives have suggested alternative explanations for the rise of modern managerialism and MACSs.

2.2.1.2. Foucauldian Perspective

One strand of criticism of the economic rationalists’ account of the emergence of MACSs draws on Michel Foucault’s concepts of disciplinary and power-knowledge relation. The Foucauldian perspective has been used in accounting research, particularly management accounting, since the 1980s to examine the ways in which management accounting ‘truths’ have emerged, and to explore the power relations embedded in the operation of MACSs (Baxter and Chua, 2006). The analysis of accounting history from the Foucauldian perspective has broadened the context within which the history of accounting was traditionally situated; it emphasises that historical, social, political and ideological contexts of accounting are no less important than economic or technical contexts (Stewart, 1992).

From a Foucauldian perspective, managerialism and MACSs are not seen as an economic rational response to the new business demand. Rather, it is either seen as a new form of

control resulting in the emergence of the 'governable person' (Miller and O'Leary, 1987), or "one particular expression of a new kind of knowledge-based 'disciplinary' power" (Hoskin and Macve, 1994, p. 5). From the Foucauldian perspective, the core element to consider when the modern management control began is to distinguish "between the development of engineering standards for materials and machine efficiency and the transfer of such performance measurements to human behaviour" (Fleischman et al., 1995, p. 162).

In their view, the conventional histories can be empirically or evidentially inaccurate because a search for the first event where financial accounts were used for cost calculation in order to identify the origin of management accounting can be misleading; this kind of cost calculation does not necessarily prove the implementation of a systematic, constant and continuous approach to cost identification and control, since as a form of calculation it was a feasible way of developing the information contained financial accounts once those accounts became meticulous and accurate records of transactions. As Ezzamel et al. (1990, p. 157) argue, "There is indeed no *a priori* reason why this event [i.e. simple cost calculation] should not have occurred at any point following the invention of double entry bookkeeping in the late 13th century". Widespread examples of cost calculation can be found in the historical record from the eighteenth century on, particularly in Britain after the emergence of the Industrial Revolution (e.g. Stone, 1973 in Charlton Mills; McKendrick, 1970 and Hopwood, 1987 in Wedgwood pottery; Jones, 1985 and Edwards, 1989 in South Wales).

From a Foucauldian perspective, it is important to identify the crucial discontinuities from previous accounting and management practices (Hoskin and Macve, 1988). For Hoskin

and Macve, the discontinuity that marks the beginning of a managerial system of cost accounting is the development of the modern business enterprise as described by Chandler in *The Visible Hand* (Chandler, 1977). However, they diverge at the level of accounting historical detail from the Chandler explanation which sees the new form of modern business as being largely the work of pioneering US businessmen. Instead, they see the men who make the breakthroughs to deploying managerial practices grounded in forms of accounting used to shape and control production and activity across and organisational setting as all being graduates of the United States Military Academy at West Point. The first development of a 'modern' form of managerialism is identified by Chandler as taking place at the US Armory at Springfield in the 1830s, which is the first single-unit enterprise to coordinate workforce activity through tracking output and the quality of worker performance simultaneously. Hoskin and Macve now identify a West Point graduate, Daniel Tyler, as the person who introduced at Springfield Armory what is seemingly the first system for tracking costs and worker activity simultaneously, thus, enabling a standard cost and time to be calculated for each activity involved in manufacturing and assembling a musket. Tyler developed this system through undertaking in 1832 what is seemingly the first recorded 'time and motion study' to set the norm of what the good worker could and should achieve, and to determine the piece rates (Ezzamel et al., 1990; Hoskin and Macve, 1994).

Hoskin and Macve (1988) demonstrate that the review of Springfield's labour practices conducted by Daniel Tyler led to a new system which involved "a requirement to work a 'full-day' and based on measures of time spent in the manufacture of various parts – a full accounting for labour productivity" (p. 38). This is, from their Foucauldian perspective, the point at which modern managerialism emerged, with the practices of accounting

playing “a central and crucial role, by enabling the establishment of the historically new principle that humans are numerically accountable to objective norms of performance” (Hoskin and Macve, 1994, p. 6).

2.2.1.3. Marxist and Labour Process Perspective

Another major strand of criticism of the traditional and economic rationalists’ account of the emergence and development of MACSs comes from the Marxist and labour process perspective. Accounting literature from this perspective has demonstrated how management accounting is implicated in the creation of an unequal society (Baxter and Chua, 2003). It enables us to appreciate the contradictory role of management accounting in contemporary organisations, that is, accounting as a set of technologies which stabilise and manage local conflict, while at the same time, promoting underlying differences that sustain enduring societal conflicts (Baxter and Chua, 2006).

Studies of management accounting history based on the Marxist and labour process perspective do not focus their discussion on the time of the origin of MACSs; rather, they argue that analysis based on neoclassical economics can offer only a partial explanation of the emergence and development of MACSs. Hopper and Armstrong (1991, p. 405) argue that “accounting controls were not a consequence of economic or technological imperatives, but rather were rooted in struggles as firms attempted to control labour processes in various epochs of capitalistic development.”

One of the insights emerging from the critical perspectives of the history of accounting is the view that accounting is not a neutral and objective process and its development is not a natural evolution of administrative technologies. On the contrary, accounting

technologies are historically and culturally contingent phenomena (Baxter and Chua, 2006). Accounting is seen as “an important part of a network of power relations which are built into the very fabric of organisational and social life” (Miller and O’Leary, 1987, p. 240). Accounting history is viewed as “the formation of one particular complex of rationalities and modes of intervention among many, a complex that has itself been formed out of diverse materials and in relation to a heterogeneous range of issues and events” (Miller et al., 1991, p. 396).

With different views on how MACSs emerged and developed, accounting scholars have provided different opinions on the problems of MACSs. Scholars from a conventional and economic rationalist perspective view the problems of MACSs as the result of their failure to evolve in order to keep pace with the changing technological and economic environment. On the other hand, scholars from a Foucauldian perspective argue that MACSs were bound to be problematic from the outset, while labour process theorists argue that the ‘relevance’ of MACSs should not be evaluated by the accuracy of the information the systems provide.

2.2.2. Managing by the Numbers – ‘Relevance’ Debate

Although accounting numbers have been pervasively used to measure and manage performance in organisations for more than a century, some scholars argue that ‘managing by the numbers’ – where managers rely on financial numbers to run their firms – is a recent phenomenon (e.g. Johnson, 1994; Johnson and Kaplan, 1987). Johnson (1994) argues that ‘managing by the numbers’ arose in the US after World War II. He blames a spread of the multidivisional form of business organisation after the war and business education in the US after the 1950s for the rise of this type of management.

2.2.2.1. Failure of Management Accounting and Control Systems to Evolve – Johnson and Kaplan’s Analysis of ‘Relevance’ Lost

In the book *Relevance Lost*, Johnson and Kaplan argue that managers started to believe that they could run their firms by financial numbers when MACSs ceased to develop to keep pace with the increasing complexities in production technologies. From Johnson and Kaplan’s perspective, the failure of MACSs to evolve in response to new business demands has led to a loss in ‘relevance’ of the MACSs. Moreover, in their view, this loss in ‘relevance’ is one of the reasons for a decline in the competitiveness of American businesses.

Johnson and Kaplan (1987) argue that “today’s management accounting information...is too late, too aggregated, and too distorted to be relevant for managers’ planning and control decisions” (p. 1). They contend that management accounting reports do not help organisations to reduce costs or improve productivity; management accounting systems fail to provide accurate product costs, and may also lead to myopic behaviour, as management accounting focuses on the short-term monthly profit and loss statement (p. 1-3).

In their view, management accounting served its purpose well when it first emerged, but lost its relevance partly due to a failure to evolve in response to major changes in business technology and environment. As Kaplan (1984, p. 390) argues, “Virtually all of the practices employed by firms today and explicated in leading cost accounting textbooks had been developed by 1925. Despite considerable change in the nature of organizations and the dimensions of competition during the past 60 years, there has been little

innovation in the design and implementation of cost accounting and management control systems.”

As discussed in the preceding section, economic rationalists, including Johnson and Kaplan, view MACSs development as an economic rational response to new business demands in order to improve control. Therefore, when MACSs fail to develop in response to changes in competitive environment, in their view, MACSs have lost their ‘relevance’.

In addition to MACSs’ failure to evolve, Johnson and Kaplan (1987) blame business education and an increase in demand, from the stock markets, for audited financial statements, leading to the dominance of the external financial accounting statements, for the loss in ‘relevance’ of MACSs. To regain this ‘relevance’, Johnson and Kaplan (1987) propose a separation between the costing systems for process control and those for product costing. They also suggest a more extensive use of non-financial performance measures, which can highlight key areas such as manufacturing, marketing, and research and development success.

The book *Relevance Lost* has drawn considerable attention from accounting scholars, and has led to a great attempt to ‘improve’ conventional MACSs. It has provoked debate on the issues around the ‘relevance’ of MACSs, including what is meant by ‘relevance’, why management accounting lost its ‘relevance’, and how to make them ‘relevant’ once again. Nevertheless, Johnson and Kaplan’s analysis has been criticised in respect of their proposed theoretical approach, their historical analysis and their suggested remedies.

From a managerialist perspective, Bromwich and Bhimani (1989) argue that Johnson and Kaplan's claims are not sufficiently supported by empirical evidence. In addition, the arguments based on examples of American firms may not be applicable to firms in other countries, such as the UK, as firms in different countries may have unique historical, economic, industrial and institutional development circumstances. The issues of whether the remedies proposed can be operationalised have also been raised (see Noreen, 1987). From a critical perspective, the transaction cost theory adopted by Johnson and Kaplan to explain the genesis and development of MACSs is criticised, as discussed in Section 2.2.1. Alternative accounts of the history of MACSs development are provided, and different interpretations for the 'relevance' of the MACSs are offered. Even Johnson later developed a criticism of his own analysis of the problems of MACSs and the remedies he and Kaplan had proposed in *Relevance Lost*.

2.2.2.2. Problems Embedded in the Genesis of Management Accounting and Control Systems – an Alternative View of 'Relevance' from a Foucauldian Perspective

Whereas Johnson and Kaplan (1987) argue that management accounting's 'relevance' lost is a recent phenomenon, accounting scholars from the Foucauldian perspective contend that the problems of using accounting for human accountability are embedded in the genesis of the systems. As Ezzamel et al. (1990) argue, "cost management based upon accounting was problematic – and bound to be problematic – from its outset" (p. 157). They suggest that "[a]ccounting's 'problem' is inherently related to its power in performance measurement and in the creation of accountability. The 'problem' has been there from the beginning and it is as accounting's power in making performance visible has grown that the inherent problem has also become more visible" (p. 164).

From a Foucauldian perspective, the development of MACSs is not seen as technical progress to meet new business and organisational needs; rather, it is regarded as a more complex process closely connected to social movements at the time (Hoskin and Macve, 1994). In line with this approach, Miller and O’Leary develop the thesis that it is MACSs which create a ‘governable person’, embracing the individuals and making them accountable by reference to pre-determined performance standards (Miller and O’Leary, 1987). MACSs create “a new way of seeing each individual worker in terms of norms and deviations from the norm” (Ezzamel et al., 1990, p. 159).

Ezzamel et al. (1990) argue that what western organisations have ignored is the fact that “persons rendered calculable do not passively accept this new reality: they sooner or later begin to calculate their own self-interest” (p. 163). Ezzamel et al. (1990) suggest that to ‘improve’ MACSs, focus should be placed on behavioural and organisational contexts in which MACSs operate, rather than on the technical issues of cost calculation and identification. They suggest, “[W]e should be thinking systematically about the underlying accounting problem that has been there from the outset. How best can we make the accounting numbers work within the overall system of control so that they become really effective complementary and interlocking ways of both describing and driving real-world performance while being aware of and responsive to the ways that a population of calculable persons changes and evolves” (p. 165).

2.2.2.3. ‘Relevance Being Refocused’ – Another Explanation from the Labour Process Perspective

Whereas scholars from the Foucauldian perspective have argued that a development of MACSs should not be seen as evolutionary progress, and have suggested a greater

consideration of the behavioural and organisational contexts of MACSs, labour process theorists offer an alternative negation of Johnson and Kaplan's (1987) thesis. Drawing on labour process theory (Braverman, 1974), Hopper (1990) and Hopper and Armstrong (1991) argue that the transaction cost framework, underpinning Johnson and Kaplan's analysis, excludes social and political issues from the analysis. They argue for a broader and more critical institutional analysis around capitalistic development.

Hopper and Armstrong (1991) argue that transaction cost theory views management as a search for process efficiency; thus, from the transaction cost perspective, 'relevance' of management accounting depends on the timeliness, accuracy and relevance of information. Nevertheless, from the labour process perspective, management is seen as an intensification of control over the labour process. Accounting controls are viewed as an attempt to control the labour process in various eras of capitalistic development. Therefore, from this perspective, the 'relevance' of management accounting is judged by the results it achieves, rather than the accuracy of the information. As they argue, "the accuracy of budgets and internal attributions of cost might be regarded as irrelevant, so long as they serve to focus managerial effort in the directions desired by those who control the organisation" (Hopper and Armstrong, 1991, p. 410). From the labour process perspective, the stagnation of management accounting development during the 1920s, when the power of labour increased remarkably, is 'relevance being refocused' rather than 'relevance lost' (Roslender, 1996).

Despite controversies over Johnson and Kaplan's analysis, a number of management accounting and control initiatives have emerged during the past two decades. While attempts to reform MACSs are prevalent, Johnson (1992, 1994) has shifted his position

from calling for the management accounting reform proposed in the *Relevance Lost* to suggesting a replacement of management accounting with total quality management (TQM)-based performance measures.

2.2.2.4. Total Abandonment of Management Accounting and Control Systems – Johnson’s Self-Critique

In his paper in *Critical Perspectives on Accounting*, published in 1994, Johnson questions the analysis of management accounting problems and the remedies he and Kaplan proposed in 1987. In 1987, Johnson and Kaplan attributed the post-war decline in the competitiveness of American businesses to a failure to develop MACSs in response to changes in needs of modern businesses. In contrast, Johnson now suggests that management accounting has always been problematic.

In his book (1992) and paper (1994), Johnson contends that American businesses have lost their competitiveness, particularly relative to Japanese counterparts, largely because of the way in which American companies are managed. He argues, “*Relevance was not lost by using improper accounting to manage; it was lost by improperly using accounting information to manage*” (Johnson, 1994, p. 262 italics in original). He argues that prior to World War II, accounting information was also distorted, too aggregated and too late to control operations. However, in his view, at that time accounting systems were not used to control the operations processes; rather, they were used to report operating results. In his view, whereas American managers today focus on achieving financial results, Japanese managers pay considerably greater attention to process, quality and customer satisfaction, which are critical for contemporary businesses.

To resume their competitiveness in today's global economy, Johnson advises American businesses to replace their MACSs, a top-down control focusing on results, with TQM, a bottom-up approach, emphasising employee empowerment, customers and processes. He argues, "Accounting-based control information motivates the work force to *manipulate* processes for financial ends. Global competition requires companies to use bottom-up information that empowers the work force to *control* processes for customer satisfaction" (Johnson, 1992, p. 1). In his view, TQM adoption will help enhance the competitiveness of American, and other western, businesses.

Johnson's analysis of the causes of a decline in American competitiveness and the remedies proposed have been criticised by various accounting scholars. Williams et al. (1994), and Yuthas and Tinker (1994) argue that Johnson neglected structural variables, such as wage costs and domestic market success/failure in his analysis. They argue that the post-war malaise of American competitiveness was rooted in structural conditions, rather than management calculation problems. They also question Johnson's assumption of the superiority of Japanese business performance over that of American counterparts.

Johnson's emphasis on TQM as a solution to the problem has also been questioned. Williams et al. (1994) cast doubt on Johnson's assumption that TQM will satisfy the interests of all different stakeholders. In addition, Ezzamel (1994) argues that Johnson did not fully investigate the less beneficial aspects of TQM practices; neither did he consider the social and organisational dimensions of TQM implementation.

A number of scholars (e.g. Sewell and Wilkinson, 1992; Boje and Winsor, 1993; Parker and Slaughter, 1993; Munro, 1995) have criticised TQM as merely an attempt by

management to intensify their control over employees. The 'hard' aspects of TQM, which involve top-down techniques of measurement, monitoring and control, may not engender any significant differences from management accounting control (Ezzamel, 1994). Ezzamel (1994, p. 275) argues, "The very notion of quality is curiously reduced to measures of quantity. What is initially presented as a conscious policy of employee empowerment on closer examination turns out to be yet another manifestation of top-down managerialism; the rhetoric of empowerment runs into the reality of hierarchical control."

In addition, Ezzamel (1994) argues that Johnson ignores the positive consequences that accounting's constitutive role can have. He argues that the replacement of MACSs with TQM-based performance measures may neither resolve the problems of performance management, nor enhance the competitiveness of firms. To resist the power effects of accounting, Ezzamel (1994) suggests that we should transform accounting practices into socialising forms of accountability by using accounting "in a manner that would reflect and enact a sense of self which, while confirming the individual attributes of the self, promotes the interdependence of self and other" (p. 277). In his view, this will help shift attention from focusing on accounts to a focus on "...processes of accountability which emphasize interdependence in relations between self and the other" (p. 277).

Within the debates on the emergence and 'relevance' of MACSs at the fundamental, theoretical level, broader social theories have been brought into the accounting arena. Accounting technologies are seen as social and institutional phenomena which are historically and culturally contingent rather than purely technical tools for efficiency and effectiveness (Baxter and Chua, 2006). While this group of scholars focus their debates

on the theoretical level of the issues, other groups of academics and consultants have engaged in a discussion at a more technical level, and have attempted to develop 'new' management accounting and control models which address some of the problems of the traditional MACSs.

2.2.3. Recent Management Accounting and Control Initiatives

Following heavy criticism of the effectiveness and appropriateness of the MACSs for management control in contemporary organisations, a number of management accounting and control initiatives have been developed with the aim of solving, or at least alleviating, problems associated with conventional MACSs. These 'advanced' MACSs are usually associated with catchy acronyms, for instance, activity-based costing (ABC), activity-based management (ABM), activity-based budgeting (ABB), value-based management (VBM), and balanced scorecard (BSC). Otley (2001) suggests that the emphases of recent MACSs initiatives have changed from those of conventional MACSs in several ways – from historic to forward-looking; from control to planning; from internal to external; from cost to value; and from production to marketing.

For MACSs used for performance measurement and management in particular, two major strands of development emerged – economic value metrics and integrated performance measurement frameworks. Economic value metrics proponents focus on arriving at a single financial measure that will incentivise managers and employees to maximise shareholder value. On the other hand, integrated performance measurement frameworks advocates argue for a 'balanced' set of performance measures, comprising financial and non-financial indicators.

Debate on the strengths and weaknesses of the use of single and multiple performance measures can be found as early as the 1950s (see, for example, Drucker, 1954; Ridgway, 1956). In the 1990s, this debate still continued, particularly among consultancy firms which attempted to battle over the supremacy of their version of the performance measurement system. As Otley (2001, p. 246) notes, in the mid-1990s proponents of the Economic Value Added[®] (EVA[®]), one of the well-known versions of economic value metrics, accused the BSC approach of being a mechanism that distracted line managers, who, thus, “took their eye off the ball”, while BSC advocates claimed that BSC was clearly designed to generate shareholder value, and was not a stakeholder model as others might have suggested.

Nevertheless, Otley (2001) suggests that some changes in this battle can be observed in recent years. The two streams of development are not mutually exclusive, although they are fundamentally different in some respects. The importance of using multidimensional performance measures for lower management and shop floor employees is recognised by economic value metrics proponents (Otley, 2001), while financial performance still remains one of the important dimensions in all multidimensional performance measurement frameworks. In addition, many organisations supplement non-financial performance measures with economic value metrics (Cooper et al., 2001).

2.2.3.1. Economic Value Metrics

During the past two decades, the issue of how to create value for shareholders has dominated debates among business organisations. Cooper et al. (2001) argue that the focus on maximising shareholder value is plausibly a result of the strong influence of stock markets and the dominance of shareholders over other stakeholders, particularly in

the US and UK. Within management accounting and performance measurement literature, a concern that traditional accounting ratios do not reflect the economic value of the firms has been raised. For instance, Rappaport (1998) argues that accounting measures are not consistent with economic value as accounting measures are affected by accounting choices; they do not take into account of the time value of money, and thus cannot capture the contribution from intangible assets which are critical for organisations operating in knowledge economies. Following the criticisms of accounting ratios, Rappaport proposes the use of shareholder value added, which is fundamentally based on the net present value concept. He argues that by creating value for shareholders, all other stakeholders will also benefit as, in his view, "...to continue to serve all stakeholders, companies must be competitive if they are to survive...a company's long-term destiny depends on a financial relationship with each stakeholder that has an interest in the company...all stakeholders are vulnerable when management fails to create shareholder value." (Rappaport, 1998, p. 7)

While Rappaport (1998) argues for the use of the net present value technique, which is fundamentally different from accounting measures in several respects, many other economic value measures are based on the concept of conventional accounting ratios, such as RI and ROI, but with some adjustments to alleviate the problems of traditional measures. Among the economic value metrics, EVA[®], developed by Stern Stewart & Co. is one of the most well-known versions. It is based on the concept of RI, a conventional accounting-based performance measure. EVA[®] is defined as adjusted operating income after tax minus a capital charge. Stern Stewart & Co. recommends up to 160 adjustments to operating income in EVA[®] calculation in order to eliminate distortions created by external accounting rules.

Stewart (1991) claims that EVA[®] is superior to the traditional RI, and will promote efficient use of capital. However, empirical evidence supporting this claim is limited (Ittner and Larcker, 1998b; see Ittner and Larcker, 2001 for a review). Chen and Dodd (1997) argue that some conventional accounting measures, such as RI, can also motivate managers to use capital efficiently. In addition, the EVA[®] calculation is relatively more complicated and the implementation of EVA[®] is more costly. Empirical evidence exhibits no major difference between the correlation of EVA[®] and stock return, and the correlation of RI and stock return. Thus, Chen and Dodd (1997) argue that the use of EVA[®] may be less beneficial to the organisation, compared to the use of traditional RI.

Whereas some scholars regard EVA[®] as simply an adapted version of RI, Otley (2001) argues that EVA[®] gains its value from incorporating the measure into a wider philosophy of performance management (cf. Mouritsen, 1998). In addition, O'Hanlon and Peasnell (1998) suggest that Stern Stewart recognises the problems related to the use of RI as a single-period performance indicator, and attempts to alleviate the problems as reflected in a series of adjustments to generally accepted accounting principles in determining EVA[®], the use of the non-zero EVA[®] benchmark, and the 'bonus bank' concept.

In 1997, Bacidore et al. raised the question of the correlation between a single-period EVA[®] and shareholder wealth, and developed another economic value measure – refined economic value added (REVA). REVA is defined as the difference between net operating profit after tax and the cost of capital on the market value of the firm. The distinction between REVA and EVA[®] is that REVA assesses its capital charge for the

period t on the market value of the firm at the end of period $t-1$, rather than on the book value of assets at the end of period $t-1$.

Bacidore et al. (1997) assert that REVA is a superior measure for top management, as it reflects the opportunity cost to the owners of the unrecorded goodwill component of value. They also claim that REVA outperforms EVA[®] in predicting shareholder value creation. Nevertheless, O'Hanlon and Peasnell (1998) develop the critique that REVA violates the clean surplus definition of RI, whereas the clean surplus is vital for the long-run linkage between RI and economic value. Thus, O'Hanlon and Peasnell (1998) argue that REVA may not be an appropriate alternative to EVA[®].

Another economic value metric that has received considerable attention is Cash Flow Return on Investment (CFROI), developed by the Boston Consulting Group. CFROI is calculated by dividing inflation-adjusted cash flow by the inflation-adjusted cash investment. CFROI advocates claim that CFROI is noticeably superior to conventional accounting measures and EVA[®]. A partner at HOLT Value Associates claims that "CFROIs are ideally suited to displaying long-term track records, whereas a Stern Stewart-type EVA is in millions of dollars, heavily influenced by asset size, and unadjusted for inflation-induced biases." (Meyer, 1996, p. 41) G. Bennett Stewart III responds, "CFROI is literally a consultant's concoction. It was quite an imaginative development by a consulting firm, but it is not well grounded in the basic elements of corporate finance theory. CFROI attempts to measure shareholder wealth – which is not clearly related to maximizing shareholder wealth." (Meyer, 1996, pp. 41-42)

In 2002, O'Hanlon and Peasnell proposed an excess value created (EVC) measure, which includes a backward-looking articulation between past accounting numbers and the value created during a multi-period interval to a well-recognised residual income-based valuation relationship. By combining the backward-looking and forward-looking parts, the EVC will hold, regardless of accounting conservatism or a change of accounting measurement method, because periodic errors will simply alter the balance between the realised and expected residual income, and the sum will be the same.

Despite considerable interest among accounting academics in economic value metrics and the battle among consultant firms over the supremacy of their versions of economic value metrics, little is known about the relative internal benefits of employing different economic value measures and traditional accounting measures as the key internal performance measure (Ittner and Larcker, 1998b, 2001). CFROI critics argue that the measure is too complex for managers to understand (Meyer, 1996). Some companies that have implemented EVA[®], such as AT&T, have also abandoned the measure in favour of conventional accounting measures (Ittner and Larcker, 1998b). AT&T indicated that EVA[®] is too complex for most employees to understand, and total shareholder return between December 1992 and December 1996 was negative, even though internal EVA[®] was positive. Malmi and Ikäheimo (2003) find that none of the organisations they studied applied the concept in a comprehensive manner as the normative literature has argued. In particular, the use of EVA[®] based bonuses was seriously challenged.

2.2.3.2. Integrated Performance Measurement Frameworks

While some scholars and consultants focus on developing a single financial measure that can reflect shareholder value, another group of scholars and consultants attempt to

develop performance measurement frameworks which integrate strategically-orientated non-financial indicators with financial performance measures. This group of scholars and consultants have argued that financial performance may not be able to reflect the capability of organisations to perform in the future. In addition, other stakeholders are increasingly involved in the operations of today's organisations. Thus, in their view, a supplement of non-financial indicators, to capture interests of other stakeholders, is necessary.

Since the late 1980s, there have been a number of calls for the integration of non-financial and financial performance measures (e.g. Johnson and Kaplan, 1987; Eccles, 1991). Although the call for a 'balanced' set of performance measures is not completely new (see Drucker, 1954, for example), Eccles (1991) argued that there were only few organisations which gave equal attention to non-financial measures in determining strategy, bonuses and other rewards. Advocates for integrated performance measurement frameworks claim that performance measurement systems with a 'balanced' set of performance indicators can better capture the link between operational actions and an organisation's strategy (Nanni et al., 1992; Kaplan and Norton, 1996b).

In today's organisations, integrated performance measurement systems are prevalent. Various scholars have offered plausible explanations for the widespread adoption of non-financial performance measures. From a technical perspective, limitations of financial measures can be one of the reasons. Financial performance indicators have been heavily criticised for encouraging myopic short-term decisions, as they do not provide a clear link between short-term actions and long-term strategy. In addition, financial measures have been criticised for being characteristically historical and backward-looking; they are

considered results of past actions, rather than the drivers for future value (Hemmer, 1996; Ittner and Larcker, 1998b). Moreover, financial measures have been criticised for not being able to capture the value of some critical intangible assets, such as human resources and research and development (Johnson and Kaplan, 1987). The integration of the strategically-orientated non-financial performance indicators found in the integrated performance measurement models is often perceived as a technical improvement to conventional accounting-based performance measurement systems. The adoption of non-financial performance measures is perceived as one of the ways that will help improve efficiency and organisational performance.

Scholars from the contingency perspective have argued that changes in the competitive environment and business strategies can also explain the adoption of integrated performance measurement systems. From the contingency perspective, organisations adopt non-financial performance indicators to match organisational characteristics and the competitive environment. Scholars from this perspective have investigated relationships between the use of non-financial performance measures and various contextual variables, for instance, strategy, organisational structure, size and culture (See Langfield-Smith, 1997; Chenhall, 2003, 2006, for a review).

Empirical studies have found associations between organisations' strategy and their choice of performance indicators. Chenhall and Langfield-Smith (1998b), and Perera et al. (1997) find that firms employing a customer-focused strategy rely more on non-financial, customer-related performance indicators. Other scholars have also found an association between quality- and customer-focused production technologies, such as flexible manufacturing, TQM, and Just-in-Time, and a focus on non-financial

performance measures (e.g. Daniel and Reitsperger, 1991; Banker et al., 1993; Abernethy and Lillis, 1995; Ittner and Larcker, 1995, 1997; Chenhall, 1997; Fullerton and McWatters, 2002).

Relationships between organisational structure and non-financial performance measures have also been established. As Scott and Tiessen (1999) find, the involvement of inter- and intra-departmental teams is positively associated with the use of multidimensional performance measures.

While scholars from the contingency perspective focus their analysis on the competitive environment, scholars from the institutional perspective argue that a wider set of institutional factors and the relative power among different stakeholder groups can also influence performance measure choice. For example, Brignall and Modell (2000) argue, based on empirical observations in the UK and the Scandinavian public sector, that interrelationships (i.e. power, conflicts and interests) between key stakeholders play a significant role in determining dimensions of performance incorporated in the performance measurement systems of the organisation. In a study of a Norwegian health care sector, Modell (2001) finds that organisational legitimacy is no less important than improving efficiency in developing a multidimensional performance measurement system. Hussain and Hoque (2002) also find that, in the four Japanese banks studied, several institutional factors drove these banks to adopt non-financial performance measures, although they argue that economic constraints seem to have been the most forceful factor.

While reasons for non-financial performance measurement are still debated among accounting scholars, a number of other integrated performance measurement frameworks have been developed in addition to the BSC. This is important to bear in mind since some of the issues addressed here in relation to BSC implementation may be of relevance in undertaking research into other similar frameworks.

For instance, Keegan et al. (1989) develop a 'performance matrix', which recognises the importance of cost/non-cost and internal/external dimensions of performance measures. In 1991, Fitzgerald et al. developed the 'results-determinants' framework, which highlights the linkages between past business actions (determinants or leading indicators) and results (lagging indicators). The results-determinants framework is tailored for service organisations. It comprises four sets of leading measures – quality of service, flexibility, resource utilisation, and innovation – and two sets of lagging indicators – competitive and financial performance. A mix of measures along the six dimensions may vary across the three different generic service types.

In the same year, Lynch and Cross proposed the 'performance pyramid', which promotes the monitoring of different aspects of performance at three different levels of the organisation – business unit, process, and department. Lynch and Cross (1991) claim that the performance pyramid will help maintain the link between strategy and operations, as strategic objectives will be translated from the top at corporate level down to the operational level, and the operations will be measured from the bottom to the upper level. The performance pyramid also emphasises the link between measures for internal efficiency and those for external effectiveness within each organisational level.

The BSC was therefore developed in a context of re-thinking performance measurement systems more generally. After criticising and proposing 'performance measurement systems for the future' in *Relevance Lost*, Kaplan, together with David P. Norton, put forward the BSC in the *Harvard Business Review* in 1992. BSC supplements the traditional financial performance measures with three dimensions of non-financial performance – customer, internal business process, and innovation and learning. BSC also emphasises the relationships among the four dimensions of performance and the link between performance measures and strategy.

Innovation has not stopped there. In 2001, Neely et al. developed the 'performance prism', which focuses on the diverse needs and desires of different stakeholders. Five aspects of performance – stakeholder satisfaction, strategies, process, capability, and stakeholder contribution – are measured under the system. Stakeholder contribution can be considered one of the unique characteristics of the framework.

Although each multidimensional performance measurement framework suggests different sets of performance indicators, some of them overlap. They also share a number of commonalities. For example, performance dimensions in most of the frameworks reflect the concern of both internal and external stakeholders. In addition, financial performance, which is an object of interest to shareholders, remains crucial in these frameworks, and for most models, financial performance is described as the ultimate goal of organisations. Moreover, the link between strategies and performance measures is emphasised in all frameworks.

Despite the widespread of integrated performance measurement systems, relatively little light has as yet been shed empirically on the question of how the adoption of non-financial measures benefits organisations (Ittner and Larcker, 1998b). Scholars from the contingency perspective have argued that firms that adopt integrated performance measurement systems to 'match' their contextual variables, such as strategy, technology and structure, should have superior performance. Nevertheless, empirical studies have yielded mixed results (see Chenhall, 2003, 2006 for a review).

While Chenhall (1997), and Sim and Killough (1998) find that the combination of TQM and/or Just-in-Time and the use of non-financial performance measures is associated with higher performance, Perera et al. (1997) do not find a link of customer-focused strategy and the use of non-financial performance measures, and organisational performance. One of the major differences between Perera et al.'s study and those by Chenhall and Sim and Killough is that Perera et al. did not examine whether the performance measures were linked to pay and promotion for the managers, whereas Chenhall and Sim and Killough incorporated incentive compensation into their analysis. This may plausibly account for the divergent results.

Although academics cannot yet reach a conclusion as to whether the adoption of non-financial performance measures or integrated performance measurement systems will lead to better performance, integrated performance measurement systems are popular among practitioners. A number of organisations have implemented, or are considering implementing one of the integrated performance measurement frameworks, and some organisations have attempted to develop their own framework.

2.3. The Balanced Scorecard

Among the integrated performance measurement frameworks, BSC is arguably the most well-known. It has attracted tremendous interest and has been adopted by numerous organisations worldwide. BSC dissemination began in Anglo-Saxon countries and has later become a global phenomenon. Silk (1998) suggests that approximately 60 percent of the US *Fortune 1000* companies have either implemented or have been experimenting with a BSC. From the article published in *Management Services*, in the UK in 2001, 57% of the companies surveyed reported using BSC, while 56% of the current non-users planned to adopt it in the following year (Anonymous, 2001). In continental Europe, BSC has also been pervasively adopted (see Kald and Nilsson, 2000; Malmi, 2001; Speckbacher et al., 2003; Ax and Bjørnenak, 2005). The BSC has also been dispersed to emerging economies, including Thailand. As disclosed in a survey examining BSC usage among the Thai listed companies conducted in 2002, 26% of the respondents reported that they had implemented BSC, while 47% were considering adopting it (Decharin, 2003). Among business communities, BSC has become one of the most popular performance measurement concepts today.

BSC has become widely known since 1992, when Kaplan and Norton published their article, 'The Balanced Scorecard – Measures that Drive Performance' in *Harvard Business Review*. However, the history of BSC has not been without dispute. While Kaplan and Norton (1992) claim that the BSC was developed from a year-long study in 12 leading American companies, Arthur M. Schneiderman contends that the first BSC was created in 1987 at Analog Devices, where he was working as a vice president of quality improvement and productivity at the time. Schneiderman argues that he was the process owner for non-financial performance measurement and the BSC. In his website,

he describes the BSC and its evolution at Analog Devices. He also provides information on how Kaplan became connected with Analog Devices and offers the evidence of Kaplan's reference to Analog Devices in Kaplan and Norton's papers/books. (www.schneiderman.com)

While Schneiderman disputes the provenance of the original of the BSC, many scholars have questioned the novelty of the idea at a more general level. A similar performance measurement tool, *Tableau de Bord*, has been commonly used in France since the 1930s (Epstein and Manzoni, 1998; Bessire and Baker, 2005). In addition, the integration of financial and non-financial performance indicators and the emphasis on linkages between strategy and performance indicators are not unique to the BSC. As discussed in Section 2.2.3.2, many other performance measurement frameworks which also incorporate non-financial performance measures into the models and emphasise relationships between strategies and performance measures were developed prior to the Kaplan and Norton BSC and were in development independently of the Analog Devices version.

As BSC has gained in popularity among practitioners, research into its various aspects has started to emerge. Some studies focus on technical aspects of the BSC, including BSC design and consequences of BSC adoption, whereas others place more emphasis on the dissemination and implementation process.

2.3.1. The Balanced Scorecard Concept and Its Evolution

Within the extant BSC literature, what constitutes BSC is a subject of debate. Various versions of BSC are found in organisations that claim to have adopted BSC (see Malmi, 2001; Speckbacher et al., 2003). Even Kaplan and Norton have redefined their BSC.

BSC was originally described as a performance measurement system which overcomes the limitations of the systems that rely exclusively on financial performance indicators (Kaplan and Norton, 1992). BSC complements traditional financial indicators with three additional sets of non-financial performance indicators – customer, internal process, and innovative and learning. Kaplan and Norton (1992) argue that BSC will help provide answers to four basic questions of organisations: (1) How do customers see us? (2) What must we excel at? (3) Can we continue to improve and create value? (4) How do we look to shareholders? In their 1992 paper, they also claim that BSC helps to minimise information overload and forces managers to focus on a manageable set of the most critical performance measures.

In 1993, Kaplan and Norton argued that BSC is “[m]uch more than a measurement exercise, the balanced scorecard is a management system that can motivate breakthrough improvements...” (p. 134). They also claimed that “...the balanced scorecard is most successful when it is used to drive the process of change” (p. 142).

Later in 1996, they claimed that “we have seen some companies move beyond our early vision for the scorecard to discover its value as the cornerstone of a new strategic management system” (Kaplan and Norton, 1996b, p. 75). Since 1996, Kaplan and Norton have presented their BSC as a strategic management system which translates vision and strategy into key performance measures (Kaplan and Norton, 1996a, 1996b, 2001a, 2001b, 2001c, 2004).

Kaplan and Norton (1996a, pp. 29-30) argue that “the best Balanced Scorecards are more than a collection of critical indicators or key success factors. The multiple measures on a

properly constructed Balanced Scorecard should consist of a linked series of objectives and measures that are both consistent and mutually reinforcing.” They further argue that the BSC “is more than a new measurement system. Innovative companies use the scorecard as the central, organizing framework for their management processes.” (pp. 18-19) Kaplan and Norton (1996b) propose four management processes which they claim help link long-term strategic objectives with short-term actions. The four processes include (1) translating vision; (2) communicating and linking; (3) business planning; and (4) feedback and learning (p. 77).

To communicate corporate strategies to organisational members, Kaplan and Norton propose a ‘strategy map’, which illustrates the relationships of strategic objectives that are organised into four perspectives (see Figure 2.1). Kaplan and Norton (2001b) claim that the ‘strategy map’ is a general framework for describing and implementing strategy that will help an organisation to create a common understanding of strategy among organisational units and employees.

While Kaplan and Norton still uphold their claim that the BSC is a strategic management system, in recent years, they have further emphasised the notion of ‘alignment’, which in their view, will help create value for organisations. In their 2004 article, emphasis is placed on the alignment between intangible assets (i.e. human capital, information capital, and organisation capital) and the strategy of the organisation. In their 2006 book, the focus is on the alignment of corporate, business units, support units, external partners (i.e. customers, suppliers and other alliance partners), boards and shareholders with strategy. While in the previous books, Kaplan and Norton emphasise the development of the

strategy map at strategic business unit level, in the 2006 book, they focus on integrating business units to create value at corporate level.

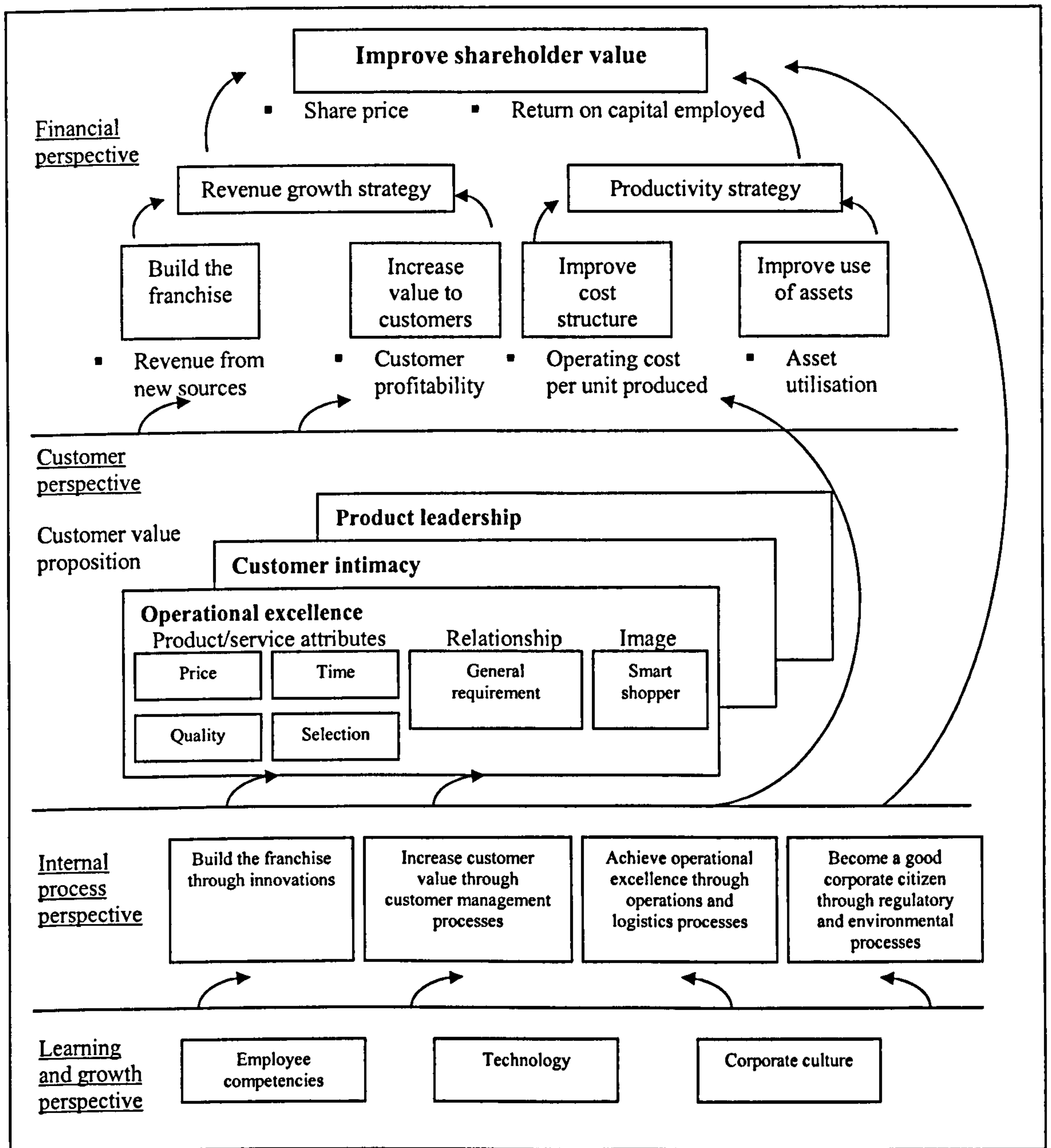


Figure 2.1: Example of the BSC strategy map (Kaplan and Norton, 2000, p. 168)

It can be seen that the BSC concept, as proposed by Kaplan and Norton, has changed from a multidimensional performance measurement which supplements financial

indicators with non-financial ones to a form of strategic management which is integrated into the centre of the organisation's management systems. They argue, "The balanced scorecard, since its introduction in 1992, has evolved into the centerpiece of a sophisticated system to manage the execution of strategy." (Kaplan and Norton, 2006, p. 259) With changes in the BSC concepts, as proposed by Kaplan and Norton, many scholars have attempted to define what BSC is.

Within the academic BSC literature, one group of scholars has attempted to distinguish BSC from other integrated performance measurement models by focusing on the set of techniques proposed in the BSC concept. Malmi (2001), for example, suggests that for a measurement system to be qualified as a BSC, (1) it should contain financial and non-financial performance indicators; (2) performance indicators should be derived from strategy; and (3) the system should contain perspectives of performance which are derived from the original four perspectives of the BSC framework, although the name of the perspectives might be different, or there might be more or fewer than the original four perspectives. In his view, a measurement system without a cause-and-effect logic can also be qualified as a BSC; otherwise most of the early BSCs would not be considered BSCs at all.

Whereas Malmi (2001) argues that causal chain logic is not necessary for the systems to be qualified as BSC, other scholars argue that a causal chain is an essential element. Nørreklit (2000, p. 70) argues that "[t]he cause-and-effect chain is central to the balanced scorecard. The chain distinguishes the model from other approaches." Hoque and James (2000, p. 3) also put forward a similar argument that "[t]he use of a BSC does not mean

just “using more measures”; it means putting a handful of strategically critical measures together in a single report, in a way that makes cause-and-effect relations transparent...”

Speckbacher et al. (2003) argue that it might be useful to classify BSC into three types: (1) BSC as a specific multidimensional performance measurement framework that combines financial and strategically-orientated non-financial measures; (2) Type 1 BSC, which additionally describes strategy by using cause-and-effect relationships; and (3) Type 2 BSC, which also implements strategy by defining objectives, action plans, results and connecting incentives with BSC (p. 363).

While debate on what constitutes BSC is ongoing in the academic community, various versions of the BSC can be found empirically. Speckbacher et al. (2003) find from a survey study of large firms in German-speaking countries that out of 42 companies which claimed to adopt a BSC, only 21 firms employed a cause-and-effect relationship. Moreover, 12 firms out of the 21 that employed a cause-and-effect relationship linked their BSC measures to incentives. Similarly, Ittner, Larcker and Randall (2003) find from a survey study of American financial services firms that 76.9 percent of the firms that claimed to use BSC placed little or no reliance on the cause-and-effect relationships.

In contrast to scholars who have attempted to define BSC by looking at its technical properties, Hansen and Mouritsen (2005) argue that what BSC is cannot be determined a priori. In their view, “the BSC is given content and identity via the relations it entertains with other entities in practice” (p. 129). Based on empirical research in four different organisations, they argue that identities and meanings of the BSC emerged through the translation process, and that it is internal organisational problems, rather than external

environment, that conceptualise what strategy, corporate value and BSC are. They offer an analysis of the BSC as a boundary object (Star and Griesemer, 1989), as the BSC is “plastic enough to appeal distinctly to a local situation where its identity is moulded through the specific network of affairs that make it up...[but] also plastic enough to keep an identity that traverses between the contexts of its applications” (Hansen and Mouritsen, 2005, p. 148). From this perspective, in order to understand what BSC is, it is important to put BSC in the contexts in which it is developed and mobilised.

While the BSC idea may have changed and it is difficult clearly to define the nature of it if it is taken out of the contexts in which it is used, the BSC has some underlying issues which are important for organisations that attempt to develop and utilise it.

2.3.2. Dimensions of Performance and Performance Indicators

As discussed in the previous section, BSC supplements financial performance measures with three sets of non-financial indicators. Kaplan and Norton (1996a) suggest that the four perspectives proposed should be considered as a template, rather than a rigid framework, and what perspectives to measure should depend on the industry circumstances and strategy of business units. Nevertheless, they also claim that “[t]he four perspectives of the Balanced Scorecard have been found to be robust across a wide variety of companies and industries” (Kaplan and Norton, 1996a, p. 34). In this respect, empirical research has shown that the BSCs of different organisations may contain different aspects of performance, and in many cases, it contains more or less than four performance perspectives (see Malina and Selto, 2001; Malmi, 2001, for example). As Ahrens and Chapman (2006b, p. 16) have noted, “Even the idea that a BSC would

comprise four families of measures has proven not to act as a definitional boundary in terms of what people will attach the label to.”

Kaplan and Norton (1996a, pp. 10-11) claim that BSC reflects a ‘balance’ between internal and external measures, between driver and outcome measures, and between objectively quantified outcome and subjectively judgemental driver measures. However, many scholars have cast doubt on whether the BSC is ‘balanced’. Otley (1999) argues that Kaplan and Norton’s 1992 version of the BSC preserves the ‘balanced’ nature of the scorecard better than the 1996 version, where they suggest a linear causal chain from innovation and learning to financial performance. In his view, in the 1992 version, for the organisation to be successful, all objectives need to be achieved. However, in the 1996 version, financial performance is presented as an ultimate aim of the organisation. As Kaplan and Norton (1996a, p. 150) argue, “A Balanced Scorecard must retain a strong emphasis on outcomes, especially financial ones like return-on-capital-employed or economic value added. Many managers fail to link programs, such as total quality management, cycle time reduction, reengineering, and employee empowerment, to outcomes that directly influence customers and that deliver future financial performance. In such organizations, the improvement programs have *incorrectly* been taken as the ultimate objective” (emphasis added).

Another group of scholars argue that the BSC is not ‘balanced’ because it neglects some key organisational stakeholders, such as suppliers, public authorities and community (Nørreklit, 2000; Brignall, 2002; see also Malmi, 2001). Brignall (2002) argues that operations of business organisations can have a significant impact on society and environment, and organisations should be held accountable for their action. Nevertheless,

the managerialist approach adopted by Kaplan and Norton in designing the BSC largely ignores these wider societal and environmental matters.

With regard to the issue of other stakeholders, Kaplan and Norton (1996a) argue that interests of any groups of stakeholder can be addressed in the BSC, as long as these measures reflect critical aspects of performance that will create competitive advantage for the organisation. They argue, “we don’t think all stakeholders are automatically entitled to a position on a business unit’s scorecard. The scorecard outcomes and performance drivers should measure those factors that create competitive advantage and breakthroughs for an organization” (p. 35). For Kaplan and Norton, the BSC is not a stakeholder approach to measure organisational performance, but a tool for enhancing shareholder value (Kaplan and Norton, 2001b). Although Kaplan and Norton (1996a) claim that more perspectives can be added to the scorecard, they do not offer a suggestion as to whether and how the additional perspective should be placed in the causal chains (Nørreklit, 2000).

While there is debate on what is meant by ‘balance’ and whether the BSC is ‘balanced’, empirical research has shown that companies tend to focus and place higher weight on financial indicators, which are outcome measures. Non-financial, driver performance indicators tend to receive only limited attention from organisations that claim to employ the BSC. A survey of 60 BSC firms conducted by Towers Perrin in 1996 found that these firms placed, on average, 56 percent of relative weight on financial indicators in their scorecard (Ittner and Larcker, 1998b). Ittner, Larcker and Meyer (2003) also find that in the financial services firm studied, financial performance became the primary determinant of bonuses. In many cases, financial measures have received increasing weight over the

years (Malina and Selto, 2001). Difficulties in measuring non-financial performance may help explain why non-financial indicators receive relatively less attention over time. As Malina and Selto (2004) find from their study of one US *Fortune 500* company, the company dropped some performance indicators when their experience showed that these indicators could not be measured inexpensively, accurately and objectively.

2.3.3. Cause-and-Effect Relationships

Another issue fundamental to the BSC concept is related to causal relationships between dimensions of performance. A cause-and-effect relationship is one of the important elements of the current version of the BSC. As Kaplan and Norton (1996a, p. 149) argue, *“Every measure selected for a Balanced Scorecard should be an element of a chain of cause-and-effect relationships that communicates the meaning of the business unit’s strategy to the organization.”* (emphasis in original) Kaplan and Norton suggest a linear causal relationship among aspects of performance; that is, improvement in learning and growth performance will lead to improvement in internal business process, which will, in turn, enhance customer performance and eventually lead to better financial performance. In their view, strategy is “a set of hypotheses about cause and effect” which “can be expressed by a sequence of if-then statements” (p. 149). They cite the following example:

If we increase employee training about products, then they will become more knowledgeable about the full range of products they can sell; if employees are more knowledgeable about products, then their sales effectiveness will improve. If their sales effectiveness improves, then the average margins of the products they sell will increase.

(Kaplan and Norton, 1996a, p. 149)

Kaplan and Norton (1996a, p. 149) argue that “[t]he measurement system should make the relationships (hypotheses) among objectives (and measures) in the various perspectives explicit so that they can be managed and validated.”

Whereas Kaplan and Norton emphasise a close relationship between strategy and performance measures, empirical evidence suggests that in practice, it is difficult for organisational members to clearly define and reach consensus on strategy (Epstein and Manzoni, 1997; Kasurinen, 2002; see also Malmi, 2001). Organisations also find it difficult to identify a cause-and-effect relationship between dimensions of performance. As Ittner and Larcker (1998b) observe, from a survey sent to vice presidents of quality for major US firms, less than 55 percent of the respondents could directly relate their quality initiatives to operational, productivity, or revenue improvements. Only 29 percent of the respondents could relate them to accounting returns, and only 12 percent to stock returns. In addition, only 28 percent could relate customer satisfaction measures to accounting returns.

The assumed unidirectional cause-and-effect relationship among dimensions of performance has also been criticised. As Nørreklit (2000) and Brignall (2002)³ have argued, financial performance which is normally seen as outcome or result can also act as a leading indicator driving other dimensions of performance. In turn, operational measures which are normally assumed as drivers can also be results. It is plausible that the improvement in business processes and quality can lead to greater customer satisfaction, which may sometimes lead to better financial performance. However, in

³ BSC is not the only integrated performance measurement framework Brignall (2002) criticises for the assumed cause-and-effect relationship. He also develops a critique of the ‘performance pyramid’ and ‘results-determinants’, other integrated performance measurement frameworks which also emphasise the linkages between driver and outcome performance.

order to improve business processes and quality, organisations may need capital for their investments; they, thus, need satisfactory financial performance beforehand. In this respect, financial performance can be considered the driver of business process, quality and customer performance.

In addition to the debate on the assumed unidirectional cause-and-effect relationship, the existence of causal chains between non-financial and financial measures has been questioned. Nørreklit (2000) argues that the causal chain idea proposed by Kaplan and Norton is a logical relationship rather than a cause-and-effect relationship, and as such, it cannot be determined and validated empirically. She also argues that the BSC does not capture the time dimension, which is problematic if one attempts to verify the cause-and-effect relationship because there could be a time lag between cause and effect.

A number of scholars have attempted to examine empirically relationships between non-financial and financial performance, particularly the associations between customer satisfaction and financial performance. However, these studies have yielded divergent results. Banker et al. (2000), and Behn and Riley (1999) find positive associations between customer satisfaction and future accounting performance in the hotel and airline industries respectively. Anderson et al. (1994) also find a positive association between customer satisfaction and contemporaneous accounting return on investment from a study of 77 Swedish firms. However, Anderson et al. (1997) find a positive relationship between customer satisfaction and contemporaneous accounting return on investment only in the manufacturing sector; in the services sector, the associations are either weaker or negative. Ittner and Larcker (1998a) find that customer satisfaction measures are leading indicators of customer purchase behaviour, accounting performance and current market

value, but the relation between customer satisfaction and future performance is non-linear; and in similar vein to the results from Anderson et al. (1997), at firm level, results vary by industry. Foster and Gupta (1997) find positive, negative, or insignificant relationships between customer satisfaction and future customer profitability, depending on the questions included in the satisfaction measures.

While many scholars still attempt to verify relationships between non-financial and financial performance, empirical evidence suggests that many BSC adopters place little or no emphasis on the business model or cause-and-effect relationships (Ittner, Larcker and Randall, 2003; Speckbacher et al., 2003). In many cases, a generic strategy map and causal chains are developed by consultants. Only small numbers of firms actually use the business model for management purposes or attempt to validate the causal chains established (Ittner, Larcker and Randall, 2003).

While the debates on cause-and-effect relationships are still ongoing among accounting scholars, Mouritsen (2005) has recently developed the proposition that causality does not necessarily imply statistical relations as may tend in practice to be the case conventionally. Rather, causality can be mobilised in different ways. He argues that causality concept of the BSC approach can be seen as logical relations – “something that makes good sense” which reflect “ambitions how an entity is supposed to function” or “inductive experiences about how an entity functions”. Or it could also be viewed as “managerial agendas – something to which supplementary actions have to be added.” (p. 107) From Mouritsen’s (2005) argument, it can be inferred that in order to understand what causality may mean and how organisations interpret and use the concept, it is not

sufficient to simply ask managers whether their BSC contains causal chains. Rather, it is important to observe how the causality concept is mobilised in a specific situation.

2.3.4. Balanced Scorecard in a Wider Context of Management Control Systems

While dimensions of performance and causal chain relationship are fundamental concepts underlying the BSC, which are important for organisations wishing to adopt the BSC, another crucial issue is the relationship between BSC and other management control systems. BSC is a performance measurement system that attempts to incorporate many management areas, from strategic to operations management, into one system. It links information from different systems, some of which have not traditionally been considered accounting systems, into one set of reports (Bjørnenark and Olson, 1999). Seal (2001) suggests that the development of the BSC reflects the diffusion of general management concepts, rather than management accounting per se. With the ambition to embrace many management areas, BSC inevitably encounters other management control systems that are in place.

Empirical evidence suggests that despite the adoption of 'advanced' MACSs including the BSC, traditional MACSs, particularly budgetary control, still play an important role in managing performance in contemporary organisations (Hartmann, 2000; Burns and Vaivio, 2001). In addition, there are many other non-accounting management controls which attempt to monitor performance from various perspectives. While some of these systems may have been recently developed and implemented, others may have long been embedded in organisational practices. These management technologies have different focuses and define 'performance' differently (Hansen and Mouritsen, 1999), although

there might be some overlaps. One of the questions raised is how BSC is implicated in a wider set of management control systems (Burns and Vaivio, 2001; Otley, 2001).

2.3.4.1. Balanced Scorecard and Budgetary Control

Scholars and consultants have provided some normative suggestions as to how BSC could be placed in relation to other management control systems. With regard to the relation between the BSC and conventional MACS, budgeting, Kaplan and Norton (1996a) argue that organisations should place BSC at the centre of the corporate management system and incorporate a budgeting process to support BSC (See Figure 2.2). In Kaplan and Norton's view, traditional budgeting creates barriers to strategic implementation (see Figure 2.3). Kaplan (1996b, 2001c) claims that BSC emphasises the relationships between strategy and performance measures; thus, by linking budgeting process to support BSC, companies can ensure that their budgets support their strategies.

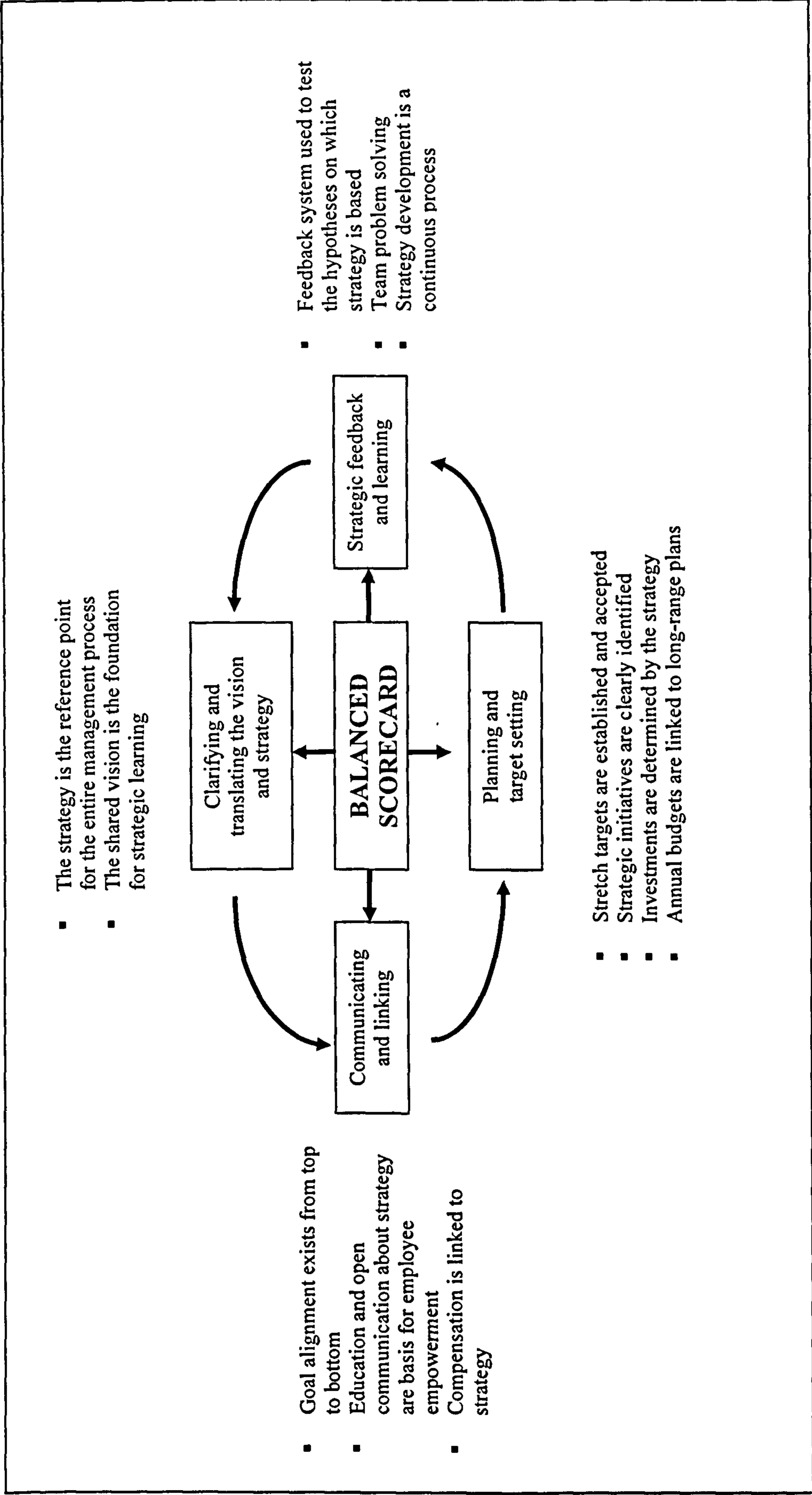


Figure 2.2: BSC as the centre of a management system (Kaplan and Norton, 1996a, p. 197)

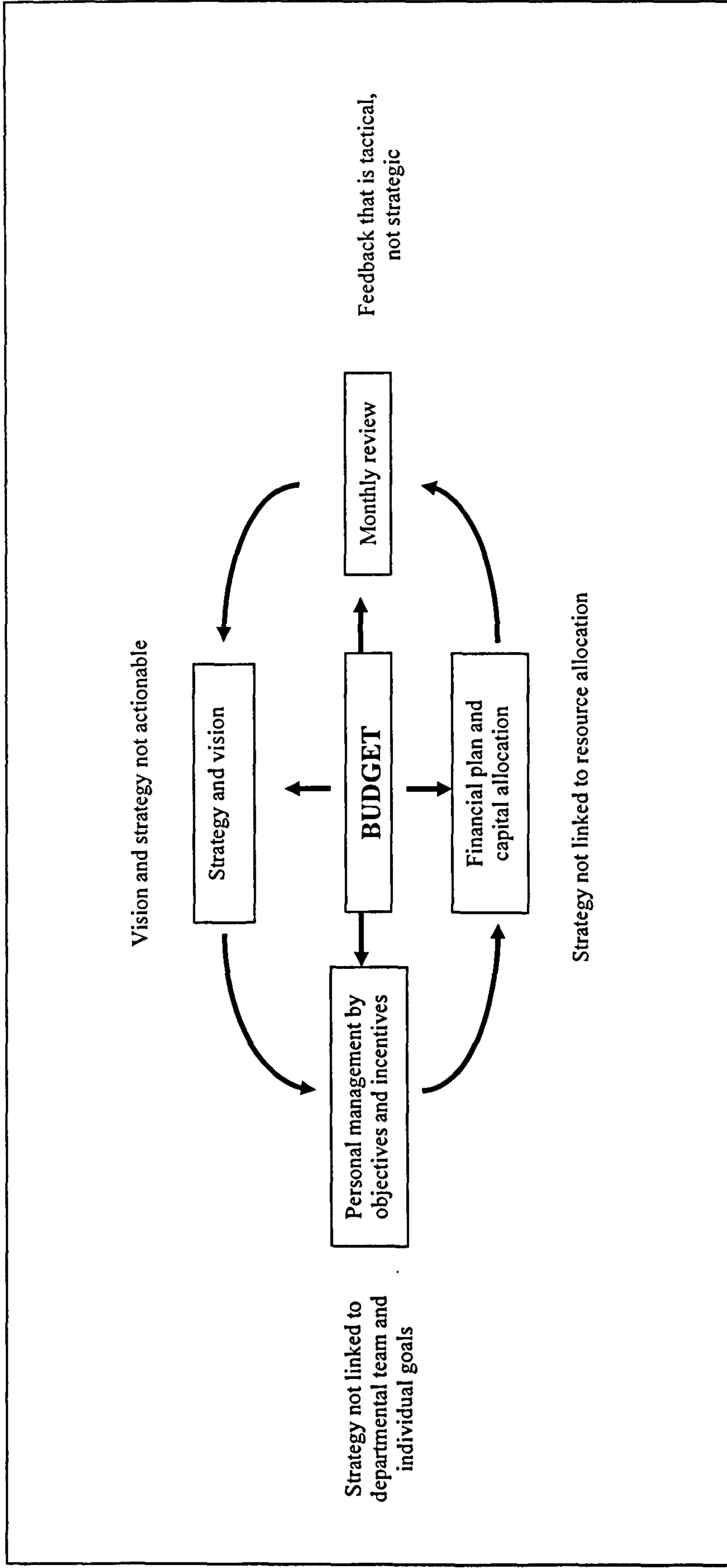


Figure 2.3: Traditional budgetary control as a barrier to strategic implementation (Kaplan and Norton, 1996a, p. 192)

While Kaplan and Norton (1996a) argue for the integration of budgeting into the BSC process, some normative literature has argued for a replacement of budgeting with the BSC in organisational planning and control. This line of argument is commonly found in Scandinavian countries, where non-budget management, or 'beyond budgeting', is one of the key management fashions. As Wallander (1999, p. 419) has argued,

[Traditional budgeting] is a cumbersome way of reaching conclusions which are either commonplace or wrong...if you believe in your budget it might hinder you from adapting to new situations. If you do not believe in it, there is no point in making it...I have tried to explain the general principles that I think should form the basis for constructing an alternative controlling and steering system...Modern companies already have myriads of operational, financial and physical measures. The problem is to choose a limited number of them...The now popular concept of the "balanced scorecard" is a useful tool to help you clarify your thinking.

Similarly, Ax and Bjørnenak (2005) observe that in one of the best selling BSC books in Sweden, that by Olve et al. (1997), the idea of the integration of BSC and non-budgeting management is discussed in several places, and there is also a section entitled, "The balanced scorecard as a substitute for the budget". Ax and Bjørnenak (2005) also observe that in Sweden the question of 'budget or balanced scorecard?' is one of the hot topics of discussion among leading consultancy firms.

Whereas the normative literature has suggested different ways to integrate the BSC with budgeting, empirical research on the issue is limited. Malmi (2001) finds that most of the companies he studied developed BSC independently from the budgeting process, with the exception of two companies which changed their control systems (i.e. target setting and performance measurement) to be based on BSC instead of budget. Although Malmi

(2001) may have provided some evidence as to how the BSC and budgeting process are related, our understandings on the issue are limited. Malmi (2001) does not provide an in-depth view of how organisations in which the BSCs have been developed independently of the budgeting process use their BSC in relations to budgetary control. There is also limited empirical evidence from organisations outside Scandinavian countries. Otley (1999) suggests that as it is unlikely that organisations will abandon budgeting and replace it with BSC, it is important to investigate how the BSC operates in relation to budgetary control.

While little empirical research has examined the relationships between BSC and budgeting, the issue of how the BSC is implicated in a wider set of management control systems is also largely unexplored. Kaplan and Norton (1996a) argue for a connection between BSC and various types of management systems, including strategic management process, budgeting and resource allocation, human resource management, and operations management systems. Otley (1999) suggests that organisations may use BSC as an interactive control system while handling others as diagnostic control in order to focus management attention on the BSC. Despite some normative suggestions, limited empirical research has investigated how the BSC is used in relation to other control systems (Otley, 2001). Although Tuomela (2005) has examined how the organisation uses a strategic performance measurement system similar to the BSC interactively, the issue of how BSC is operated in relation to other management control systems is left unexamined.

2.3.4.2. Relationships between Balanced Scorecard and Reward Systems

Incentive and compensation, both financial and non-financial, is one of the key issues in performance management. A number of empirical studies have investigated the impact of performance-based incentive plans on performance at various levels (e.g. Banker et al., 1996, 2000, 2001; Ittner et al., 1997; see Ittner and Larcker, 2001 and Luft and Shields, 2003 for a review). In the normative literature, an allocation of targets at the personal level and a link between BSC and reward systems are recommended (see Kaplan and Norton, 1996a, 1996b, 2001a, 2001c; Atkinson, 1998, for example).

Among the empirical studies, Speckbacher et al. (2003) find that 71 percent of the companies which had adopted BSC in their study tied their incentives, either directly or indirectly, to BSC measures. Nevertheless, Tuomela (2005) does not find tight connections between the BSC and managerial bonuses in the organisation under investigation. Malmi (2001) finds that organisations link BSC to reward systems in various ways. Among the thirteen organisations studied that have bonus programmes, four of them do not link BSC to the existing bonus programme. However, three organisations tie bonuses to some or all of the BSC measures but to no other measures outside BSC, whereas six organisations link part of the bonus to achievement of BSC targets and part of the bonus to other measures.

Although these studies may have shed some light on whether and how organisations tie their BSC to incentives, a number of issues related to relationships between BSC and reward systems are left unexamined. As Otley (1999) has argued, little is understood with regard to how BSC can be linked to incentive systems. In his view, this is a very important issue, as reward structures “have the potential to destroy the impact of an

otherwise well-designed scorecard” (p. 376). He also argues that in order to understand how the BSC is linked to rewards and how it might impact behaviour and performance, it is important to examine the issue in the contexts in which the BSC is operated, as from his perspective, culture, particularly national culture, can have a significant impact on how organisational members react to performance-based incentive systems (cf. Merchant et al., 1995; Awasthi et al., 2001).

2.3.5. Consequences of Balanced Scorecard Adoption

In spite of the popularity of the BSC, little empirical evidence suggests that performance of organisations is improved with the use of BSC (Ittner and Larcker, 2001). Limited empirical research has investigated whether BSC adoption and usage has enhanced performance, and the studies examining the issue have yielded, at best, mixed results. Hoque and James (2000) conducted a survey-based contingency study of 66 Australian manufacturing companies, finding a positive relationship between BSC usage and perceived improved organisational performance, measured by ROI, sales margin, capacity utilisation, customer satisfaction and customer quality. Similarly, Davis and Albright (2004) have more recently conducted a quasi-experiment, comparing performance of branches in an American bank which have and have not implemented BSC. They find that branches that have implemented BSC outperform branches that have not.

In contrast, from a survey of 140 Australian manufacturing firms, Chenhall and Langfield-Smith (1998a) find that firms only perceive moderate benefits from using BSC,⁴ and BSC is ranked 22 out of the 42 management accounting practices surveyed in terms of perceived benefits received by organisations. In an intensive survey study of

⁴ BSC was given a score of 4.17 out of 7 (Chenall and Langfield-Smith, 1998a).

American financial services firms, Ittner, Larcker and Randall (2003) do not find a significant relationship between BSC usage and the economic performance of the organisations, although they do find a positive relationship between BSC usage and system satisfaction.

Whereas some scholars focus their analysis on the financial performance consequences of BSC adoption, others place their emphasis on BSC's role as a strategic management tool. Kaplan and Norton (1996a, 1996b, 2001a) have claimed that BSC users have benefited from using BSC as a strategic management system, as it helps translate vision and strategy into key performance indicators (KPIs), communicate strategy to employees at lower levels, and make strategy everybody's everyday job. Nevertheless, Nørreklit (2000) questions whether BSC would be able to perform its function as a strategic management tool, as it is essentially a hierarchical and top-down approach to management control. In Nørreklit's (2000) view, the top-down approach will create external commitment from employees and managers, rather than internal commitment; that is, employees will try to find ways to achieve results in the areas that are measured, although this may be achieved at the expense of other critical areas. She also argues that the hierarchical top-down approach will make it difficult for the BSC to be rooted in a dynamic environment in which contemporary organisations are situated. Moreover, employing a top-down approach to strategic management and control may also imply that insofar as organisations succeed via emergent strategy rather than top-down rational planning strategies (Mintzberg, 1987), strategic success cannot be generated or captured by the BSC.

In terms of empirical research in this area, Malina and Selto (2001) have attempted to examine the effectiveness of using BSC as a strategic communication and management control tool in a particular organisation. They found that the effective management control attributes of the BSC led indirectly to positive outcomes through strategy alignment and effective motivation. Nevertheless, in that organisation, the BSC did not possess or demonstrate the attributes of effective strategic communication; therefore, they were not able to examine whether the effective strategic communication attributes of the BSC could increase motivation and lead to positive outcomes. Ittner, Larcker and Meyer (2003) studied this issue in a retail bank, and conclude that in that setting, the implementation of a BSC compensation plan did not bring any significant changes in branch managers' understandings of strategic goals.

Although research on benefits of BSC adoption has yielded inconclusive results, BSC has nevertheless been adopted by organisations worldwide. Many organisations have sought and implemented MACSs, which, in their view, will benefit them from both an economic or legitimacy perspective. With the widespread adoption of management accounting and control initiatives, including the BSC, issues around changes in management accounting and control have become one of the significant research strands among accounting academics.

2.4. Management Accounting Change

With rapid changes in business environment and the proliferation of a number of innovative MACSs during the past two decades, accounting change has become one of the central issues of focus among many accounting scholars. Various issues relating to change have been investigated. Some scholars focus their analysis on antecedents, pre-

conditions or reasons for changes. Studies which focus on the change process have also proliferated, particularly since Hopwood (1987, p. 207) argued that “very little is known of the processes of accounting change”. Issues relating to consequences of change have also been examined, and various perspectives have been employed to examine the issues.

2.4.1. Management Accounting Change from Various Perspectives

2.4.1.1. The Factor-Based Approach to Examining Management Accounting Change

One stream of research on management accounting change focuses the analysis on factors influencing change and/or the change process. These studies have often tended to focus on identifying factors that advance or hinder the change process with an aim to develop a general model of change. A factor-focused approach has been employed to examine the implementation of various accounting technologies, for example, ABC (e.g. Shields, 1995; Anderson, 1995; Anderson and Young, 1999), performance measurement (e.g. Vaivio, 1999b; Kasurinen, 2002; Cavalluzzo and Ittner, 2004), and management accounting reports (Cobb et al., 1995; Helliard et al., 2002). Many of the factor-based studies are influenced by contingency arguments (e.g. Anderson and Young, 1999; Baines and Langfield-Smith, 2003), but some others are influenced by institutional theory (e.g. Vaivio, 1999b).

Although factor-based studies may have shed some light on general factors that may influence the change process, there are several limitations. This type of study tends to remain largely ahistorical, acontextual and aprocessual (cf. Pettigrew, 1985).⁵ In addition, these studies often consider each factor separately, interrelationships between

⁵ Vaivio (1999b) is among few exceptions that focus on process and capture contexts in which change is taking place in the analysis.

factors being largely neglected (Granlund, 2001). Moreover, there is seemingly virtually no limit to the number of possible factors affecting the implementation process and outcome (Malmi, 1997); thus, researchers could come up with an endless list of factors.

2.4.1.2. Management Accounting Change from an Institutional Perspective

In addition to factor-based studies, management accounting change has been examined from an institutional perspective. This stream of research places emphasis on the influence of institutions and the institutional environment on management accounting change. Major strands of institutional theory commonly used to explain accounting change process include new institutional sociology (NIS) (Meyer and Rowan, 1977; DiMaggio and Powell, 1983, 1991), and old institutional economic (OIE) theory (see Scapens, 1994; Burns and Scapens, 2000) (see Ribeiro and Scapens, 2006 and Scapens, 2006 for a review).

Research drawing on NIS theory places emphasis on the influence of the external institutional environment on the change process. Many of the early NIS studies argue that organisations adopt new management accounting systems for reasons of legitimacy rather than for efficiency. It is the institutional environment that affects the adoption of the new MACS. When the new system is adopted for legitimacy purposes, many organisations adopt them ceremonially; the formal system and the actual practice of the organisation become de-coupled (see Carruthers, 1995).

NIS has been criticised for neglecting the issues of power and interest of agency or actors; organisations are seen as passive actors mimicking similar organisations and adapting their structures to conform to institutional demands (see Oliver, 1991; see also Mouritsen,

1994). The dichotomy between institutional and technical pressures has also been criticised (see Powell, 1991). In more recent research on management accounting change, scholars have attempted to extend the NIS to capture roles of agency into their analysis (see, for example, Abernethy and Chua, 1996; Modell, 2001; Collier, 2001; Major and Hopper, 2004). Accounting scholars have also attempted to capture economic pressures into their analysis (see Brignall and Modell, 2000; Hussain and Hoque, 2002; Major and Hopper, 2004).

Whereas NIS research places emphasis on the external institutional environment, accounting scholars who adopt an OIE approach tend to concentrate their analysis on internal institutional elements within the organisation, with a focus on organisational routines and their institutionalisation. Drawing on OIE, Burns (2000) explores accounting change in the Product Development Department of a UK chemical manufacturer. Soin et al. (2002) examine the process of ABC implementation in the Clearing Department of a UK-based multinational bank. Some of the OIE studies focus their analysis specifically on the issue of resistance to change (e.g. Granlund, 2001; Lukka, 2007). Although OIE and NIS may place emphasis on different levels, some scholars combine OIE and NIS in their analysis to capture both internal and external institutional elements (e.g. Siti-Nabiha and Scapens, 2005; Yazdifar et al., forthcoming).

Research drawing on institutional theory has demonstrated the danger of constructing overly rational efficiency explanations of accounting change. It examines accounting choice as a longitudinal complex social construction process which involves not only technical issues, but also behavioural, organisational and institutional elements. The

importance of contextual issues which may have an impact on the change process is also highlighted.

2.4.1.3. Diffusion of Management Accounting Systems as Management Fashion

While research adopting a factor-based approach or institutional theory has often tended to focus its analysis on change within organisations, another line of research into management accounting change tends to place emphasis on how a particular accounting technology diffuses at a broader macro, typically national, level (Wenisch, 2004 is among few exceptions). This strand of research usually draws on the diffusion of innovation or dissemination of management fashion theory (Abrahamson, 1991, 1996).

Diffusion studies tend to focus on how and how far a particular accounting technology is disseminated to other, usually national, contexts. From a diffusion perspective, management accounting technologies are developed or invented by the innovators who put energy into the technologies, which are then spread to potential adopters, who may adopt the technologies for different reasons. Based on empirical research investigating ABC diffusion in Finland, Malmi (1999) argues that the early adopters choose ABC for reasons of efficiency. In the take-off stage, fashion-setting plays an important role, but in a later stage of diffusion, the influence of fashion-setting organisations diminishes, and the adoption of the technology can be explained by mimetic behaviour and efficient choice. Bjørnenak (1997) argues that while many traditional diffusion studies emphasise the demand side of the diffusion process (i.e. potential adopters), the supply side (e.g. innovators, media, consultants) also plays a significant role in disseminating accounting technology. In 2005, Ax and Bjørnenak examined diffusion of BSC in Sweden with a focus on the supply side of the process.

Although factor-based, institutional and diffusion studies may focus on different aspects of change and provide different explanations for management accounting change, one of the common themes among these studies being their focus on what slow down or accelerate the change process. The accounting technologies being implemented are usually taken for granted. It is often assumed that these systems are well-defined, designed and then either implemented or not as a consequence of resistance (Preston et al., 1992), with little attention being paid to the technology itself. The issue of how organisations or actors may play a role in modifying the technology to make it suit their contexts is largely unexamined. To address this issue, another theoretical approach, ANT, has been brought into the accounting arena.

2.4.1.4. The Actor-Network Theory Approach to Studying Management

Accounting Change

ANT has attracted growing interest among accounting researchers who attempt to understand the nature of change in accounting systems and practices. In the ANT studies, management accounting technologies are not described as being diffused into organisations as 'ready-made', stable, and immutable objects; rather, management accounting technologies are seen as being constructed through associations of human and non-human actors which are temporary and fragile (Baxter and Chua, 2006). The focus of the analysis is usually on how accounting technology has struggled to become a 'matter of fact' in particular networks. In the analysis, attention is given to human and non-human actors and their relations that play a role in the construction process; therefore, technologies and artefacts, such as computer and information systems, inscriptions, and system manuals, which are significant in the process of making

accounting systems operable, are captured in the analysis. The ANT approach enables researchers to avoid an asymmetric focus on macro/external (e.g. contingency theory, NIS theory) or micro/internal (e.g. OIE theory) elements that may influence accounting change.

The ANT approach has been employed to examine the introduction and translation of various management accounting technologies, for example, budgeting and responsibility accounting (Pinch et al., 1989; Preston et al., 1992; Lowe, 2000), casemix cost accounting systems (Chua, 1995), ABC (Briers and Chua, 2001), enterprise resource planning (ERP) systems (Quattrone and Hopper, 2001, 2005; Lodh and Gaffikin, 2003; Dechow and Mouritsen, 2005) and performance measurement systems (Andon et al., 2007).

Pinch et al. (1989) examine the experiments of clinical budgeting in the UK National Health Service (NHS). They explore how different versions of 'clinical budgeting' were presented by different people in order to gain acceptance from the clinicians. They also focus their analysis on how the experiments were described as a 'success' by some actors, but not a great 'success' from the authors' perspective.

In similar vein to Pinch et al. (1989), Preston et al. (1992) examine the production of budgeting technologies in the NHS in the UK, but at a more detailed process level. Drawing on Latour (1987), they explore specific linkages between government statements and the introduction of an accounting technology within a particular district. Preston et al. (1992) propose the notion of 'fabrication'⁶ to examine the process of change. Their findings suggest that management accounting systems are not well-defined technologies

⁶ Fabrication is defined as "an attempt to examine the chains of reasoning and mechanisms of influence between structured forces in the determination of the direction of change and human agency in the determination of the pace of that change" (Preston et al., 1992, p. 565).

that are designed and then implemented. Rather, the management initiatives are fabricated, being modified, strengthened and undermined during the process. Management accounting initiatives, too, are not “fixed technologies with well-defined purposes”; they are “changing constructions” (p. 561). The management initiative arises as much out of its implementation as out of its design, and the fabrication occurs throughout the utilisation process.

Also in the healthcare sector, Chua (1995) conducts a detailed micro-ethnographic study of the introduction and development of casemix accounting and costing systems in three Australian hospitals. She examines how a wider discussion of problems and reforms in the Australian public sector, including health care, was translated into the trial of a new costing system in the three hospitals. Drawing primarily on the work of Latour and Callon (e.g. Latour, 1987; Latour and Woolgar, 1979; Callon, 1986; Callon et al., 1986), Chua (1995) explores how four major groups of actors – academics, hospital personnel, State Department officials and Commonwealth bureaucrats, all of whom had diverse interests, formed a network to support the new costing system. She also examines how the new cost model became a powerful rhetorical and representative device, and how the inscriptions produced from the new cost system translated the patient into different types of products, categorised by classes of diagnoses, of the hospitals, which were depicted as multi-product firms.

Examining the introduction of another accounting technology, Briers and Chua (2001) investigate how ABC was trialled in an Australian manufacturer. The authors follow networks of global and local actors or actants and allies to examine how accounting change occurred, how change was enacted, and what the preconditions and processes of

change were. The authors also examine how different technologies competed in an attempt to find their place in the organisation.

In addition to ANT, the authors employ the concept of 'boundary object' (Star and Greisemer, 1989). Briers and Chua (2001, pp. 241-242) argue that a boundary object ties actors with different goals together because "it is common to multiple groups but is capable of taking on different meanings within each of them". The concept of 'boundary objects' may not be consistent with the ANT idea, as ANT suggests ceaseless and borderless organising, therefore, boundaries cannot be drawn. Nevertheless, a 'boundary object' concept is useful to explain management accounting ideas/initiatives which are viewed as common, although sometimes only at a surface level, across different parts of the world.

From the empirical findings of their study, Briers and Chua (2001) argue that change is the outcome of many interconnections between local and cosmopolitan networks of actors and actants. Diverse actor worlds are mediated and temporarily stabilised with the aid of boundary objects. They also argue that change is cyclical; "[N]ew accounting technologies were adopted on faith, made to 'work/succeed' temporarily, and then abandoned" (p. 237). However, "[r]ather than argue that accounting systems that succeed are those that 'fit' the strategic imperatives of dominant stakeholders, this study argues that success and failure is a fragile construction that turns on the strength of diverse ties tying together many heterogeneous elements" (p. 267).

From a review of studies of change in management accounting which draw on ANT, several implications of management accounting research that aims to examine the

implementation of a particular accounting technology can be identified. One of the important issues is the temporary and fragile nature of MACSs. ANT studies have shown that accounting technologies are fragile at the outset.⁷ “[Management accounting] numbers are built on the shifting and transient interests of disparate groups of organisational participants who work incessantly to maintain the ‘position’ (Latour, 1987, p. 50) of (their) numbers and influence over organisational functioning” (Baxter and Chua, 2003, p. 102). Accounting numbers and technologies are constructed through the temporary assemblages of heterogeneous actors who pursue their diverse interests. Moreover, “[the technological projects] do not exist at the outset, they have to be invented, they only come to exist little by little, step by step, and they can easily be wiped out when people stop believing, when a particular idea loses its currency” (Miller, 1997, pp. 362-363). With the temporary nature of accounting assemblages, ANT studies have pointed out the danger of attributing failure to implement a new accounting technology to managerial ignorance or resistance caused by ‘wider forces’, as accounting technologies are fragile at the outset.

Furthermore, with the changing and fragile nature of management accounting systems, it might be difficult to regard the implementation of accounting technologies in terms of ‘success’ or ‘failure’. As Pinch et al. (1989) have demonstrated, when the introduction of a management accounting technology is presented as a ‘success’ by one actor, others actors might describe it differently. Preston et al. (1992) have also shown that while one may describe the process as failing, it might just reflect the process of technological re-

⁷ Similar to ANT studies, governmentality studies also suggest the fragile and temporary nature of accounting assemblages (e.g. Miller and O’Leary, 1987, 1994a). However, governmentality studies tend to avoid an enquiry into the detailed uses and functioning of accounting as mobilised by organisational members (Ahrens and Chapman, 2007).

fabrication. “[T]he designation of an episode as a success or a failure is itself a fabrication.” (Preston et al., 1992, p. 589)

This line of research reminds us that the ‘identity’ and ‘value’ of the innovations or technologies do not lie in the technologies themselves. Rather, they largely depend on how actors around them enact and enrol the technologies (see Preston et al., 1992; Briers and Chua, 2001). As Latour (1987) has argued, “[T]he fate of technology is more fraught. It lies in the hands of those who come after the ‘inventor’ and success/failure is a social accomplishment by many different human and non-human elements.” (Briers and Chua, 2001, p. 240)

Moreover, ANT studies have suggested that the notion of ‘implementation’ in a conventional sense might be problematic. The notion of ‘implementation’ suggests a static feature of the technology. It implies that the new technology can be well-defined, designed and then implemented. But as Preston et al. (1992) has shown, the new technology is initially loosely-defined; it is continually modified throughout the design and implementation process.

Although ANT studies have shed some light on the management accounting change process, much attention has focused on the ways through which certain processes of organising become institutionalised and stabilised in centres of calculation (Latour, 1987). Researchers often stop their investigation when the new accounting technology is used or abandoned. The issue of how the translation may continue after the new technology is being used remains largely undiscussed. To address the issue, Quattrone and Hopper (2001) propose the concept of ‘drift’ to replace the conventional definition of change.

Using two cases of ERP implementation⁸ to illustrate problems in the ‘modernist constitution’ of change, they suggest the incompleteness of implementing and enacting accounting systems, arguing that change and flux happen all the time.

Drawing on ANT and the concept of ‘drift’, Andon et al. (2007) examine changes in performance measurement systems in a business unit of an Australian telecommunication organisation. They extend the concept of ‘drift’ proposed by Quattrone and Hopper (2001), suggesting the notion of ‘relational drift’ to emphasise “the *relational* and *experimental* nature of accounting drift” (p. 274). They argue that the concept of relational drift is “framed by spatio-temporal boundaries – the shape and strength of extant ties connecting, inter alia, various people, discursive programs/regimes devices and inscriptions – with varying capacities to persist and endure” (p. 278). They also argue that accounting can be characterised by ‘multiple ontologies’ (Mol, 1999) – “a knowledge object sustaining partial and changing variants of perceived identity, whilst maintaining a meaningful and sensible coherence across the actor worlds that imbue ‘it’ with meaning” (p. 301).

Empirical research investigating issues relating to changes in MACSs has examined the implementation process of various management accounting technologies. Nevertheless, relatively little research has focused specifically on the BSC, one of the management accounting innovations which has become increasingly popular during the past decade. BSC is an integrated performance measurement system which attempts to encompass various management areas. It embraces a number of issues that are not considered management accounting in a conventional way. The issues of how the BSC has struggled

⁸ Details of two cases and the effects of ERP implementation in the two organisations are discussed in Quattrone and Hopper (2005).

to gain 'fact-like' status, and how BSC usage influences organisational practices deserve attention.

2.4.2. Management Accounting Change with a Focus on Balanced Scorecard

Empirical studies examining issues of change which specifically focus on BSC can be broadly classified into two levels – studies which focus on changes at a broad level (e.g. why has BSC become popular? How far has BSC been adopted in various contexts?), and studies emphasising the detailed process of BSC implementation within specific organisations.

2.4.2.1. At a Broad Level

Studies on changes at a macro level tend to focus on a diffusion and application of BSC in various contexts. A number of studies have investigated how far BSC has been applied in various national contexts (e.g. Chenhall and Langfield-Smith, 1998a; Kald and Nilsson, 2000; Malmi, 2001; Speckbacher et al., 2003). These studies are usually large-scale survey-based.⁹ Findings from these studies have shed some light on how far BSC has been disseminated, and have also demonstrated the existence of various versions of BSC, illustrating how BSCs might be used in different ways. However, they remain largely descriptive. They offer limited understanding of the process of how BSC has been diffused and why it has become popular, although Malmi (2001) offers some insights into why organisations adopted BSC.

With limited understanding of the diffusion process of the BSC, several scholars have recently adopted more theoretical approaches to examine how BSC has been

⁹ Although Malmi (2001) adopts the semi-structured interview method, rather than a survey questionnaire, to collect data, the study involves largely descriptive analysis of how BSC is applied in Finnish companies which have a similar focus to other survey-based research.

disseminated. Focusing their analysis on the supply side of management accounting innovations, Ax and Bjørnenak (2005) find that in Sweden, the BSC concept has often been bundled with one of the management ideas currently fashionable in the country (i.e. the non-budget management and intellectual capital model) or with the management idea that has long been embedded in the Swedish business culture (i.e. the stakeholder model).

Ax and Bjørnenak (2005) argue that the bundling of the BSC with other management ideas can be seen as a fashion-setting process, done to make the BSC more attractive to potential BSC adopters in the Swedish market (cf. Abrahamson, 1996). They further argue that the bundling process is possibly due to the interpretative viability of the BSC (see Benders and Van Veen, 2001). Ax and Bjørnenak (2005, p. 17) suggest, “Administrative innovations, such as the BSC, are often open to multiple interpretations. They do not offer clear-cut recipes for managers, but are often characterized by a clever mixture of simplicity and ambiguity (Kieser, 1997). This ‘interpretative viability’ may be used opportunistically to increase the size of the potential market.”

Ax and Bjørnenak’s (2005) analysis of the ‘interpretative viability’ of the BSC is in line with Nørreklit (2003), who argues that BSC has attracted considerable attention because of its persuasive rhetoric. Nørreklit (2003, p. 612) argues that “using a text open to interpretation is the simplest way of spreading a message because, if a certain number of people are to be reached, then the sender has to leave a margin of negotiation to each of the actors so that each may transform the message as he or she pleases...” Although Kaplan and Norton’s 1996 book, *The Balanced Scorecard*, was awarded a prize by the *American Accounting Association* as “the best theoretical contribution in 1997”, Nørreklit (2003) contends that the book is appealing to business communities largely because of the

authors' use of convincing rhetorical devices (e.g. extensive use of analogies and metaphors which are ambiguous; the use of abstract and imprecise concepts), rather than convincing, theoretically-sound argumentation.

While Nørreklit (2003) focuses her analysis on texts in *The Balanced Scorecard*, Qu (2004) provides a broader analysis of how BSC has become popular and institutionalised as a set of taken-for-granted management tools. Drawing on ANT, specifically four moments of translation (Callon, 1986), Qu (2004) explores actors involved in the process of BSC construction and diffusion, and investigates how these actors engage in developing and enrolling in a 'network of support' to promote BSC dissemination. Qu (2004) argues that the process of BSC construction and dissemination has involved many actors, human and non-human, who have their own interests and are surrounded by their own institutional networks. These actors include academics, business schools, consultants and consulting firms, mass media and business publishing companies.

Qu (2004) suggests that BSC rose initially from perceived problems in financial accounting performance measures. BSC's two powerful initial actors, Kaplan and Norton, engaged in constructing BSC with close interaction with companies that are well-known for their innovative performance measurement systems, and then presented a BSC as a potential solution to problems of financial measures. The BSC concept was appealing to organisations, as the problems of inadequacy of financial measures were objects of concern among contemporary organisations.

Qu (2004) also suggests the 'Harvard network' (that is, Harvard Business School, Harvard Business School Press, and Harvard Business Review) as one of the major

supports for BSC dissemination. She argues that the Harvard Business School is often perceived as highly prestigious; it is, thus, not difficult for Kaplan and Norton to win trust from the readers and recipients of the BSC idea (cf. Nørreklit, 2003). She further argues that the ‘Harvard network’ has led to a creation and expansion of the Balanced Scorecard Collaborative, Inc., a consulting firm which has played a pivotal role in supporting a dissemination of the BSC. Among actors involved in the BSC diffusion process, Qu (2004) argues that it is the management consultants and consulting firms who have played a vital role in its rise and dissemination. This is consistent with Jones and Dugdale (2002), who also draw upon the actor-network theory to examine the diffusion of another management accounting initiative, ABC.

Whereas Nørreklit (2003) and Qu (2004) focus their analysis on why BSC has become popular, Bourguignon et al. (2004) critically examine plausible reasons to explain the reluctance of French companies to adopt the BSC. Bourguignon et al. (2004) analyse the ideological assumptions¹⁰ underlying the BSC and the French *Tableau de Bord*, and argue that the ideology embedded in the BSC is consistent with American ideologies but not coherent with French. In their view, differences between the BSC’s ideological assumptions and the French local ideologies can help explain why BSC has not received a warm welcome in France.

Studies on changes at the macro level have provided an overview of how BSC has been applied in various contexts, and have offered explanations as to how and why BSC has become popular or not popular. Research in the area has suggested that BSC design and usage can be different in different organisations. However, from this line of research,

¹⁰ By ideology, Bourguignon et al. (2004) mean “beliefs, knowledge and ideas serving to maintain social order, i.e. to construct hierarchies, to make people obey as well as to cope with uncertainty” (p. 109).

limited understanding of the process of how BSC has become what it is in a specific organisational setting can be obtained. Research which systematically investigates the process of change at a more detailed organisational level can offer some insights to complement knowledge obtained from the studies at the macro level.

2.4.2.2. At a Detailed Process Level

Studies of changes at a micro level tend to focus on the BSC implementation process within a particular organisation. Many of the early studies in this strand are found in professionally-orientated journals. These practitioner-orientated studies have tended to focus on the technicalities of BSC implementation. The major aim of these studies is often to provide a normative prescription for implementing the BSC by presenting 'successful' cases of implementation.

For academic research, they tend to adopt a more critical approach to examine the issues. A wider context of the implementation process is usually concerned. However, in comparison with the number of practitioner-orientated normative studies, relatively little academic research has critically examined the process of how the BSC concept has been implemented and has become what it is within an organisational setting.

Kasurinen (2002) is among the few studies which offers an in-depth analysis of the BSC implementation process in the organisation. He adopts an intensive case study approach to examine the process of BSC implementation in a business unit of one Finnish firm, by focusing on factors influencing management accounting change, with particular emphasis being placed on barriers to change. He attempts to examine whether the accounting

change models that have been developed and employed to explain changes in other contexts can be applied to explain BSC implementation.

Kasurinen's (2002) analysis draws upon Cobb et al.'s (1995) model, which is a refined version of Innes and Mitchell's (1990) accounting change framework. In their framework, Innes and Mitchell (1990) classify factors associated with change into three categories: motivators, catalysts, and facilitators. The framework suggests that motivators are related to change in a general manner, whereas catalysts are directly associated with the timing of change in particular. Facilitators are necessary but not sufficient to cause a change. Cobb et al. (1995) further identify three other factors related to accounting change: (1) barriers, which involve factors hindering, delaying, or preventing change; (2) leadership, which is related to individuals within the organisation who play an influential role in facilitating and driving the process of change; and (3) momentum of change, factors that are required to maintain the pace of change.

Based on his case study, Kasurinen (2002) further classifies 'barriers', forces hindering changes, into three sub-categories – confusers, frustrators, and delayers (see Figure 2.4 for Kasurinen's accounting change model). From the case, confusers refer to the inadequate education and sponsorship process and an uncertain future of the project after the resignation of a manager who was the leader of the project. Different goals of different parties involved with the project also created confusion. The frustrators refer to the forces that suppress the change, such as organisational culture and the existing reporting system in the case unit, while the last sub-category of barriers, the delayers, refer to 'technical' problems related to the new implementation (in this case, the BSC).

Kasurinen (2002) argues that delayers are generally temporary in nature. Examples of delayers in the case include a lack of clear strategy and adequate information systems.

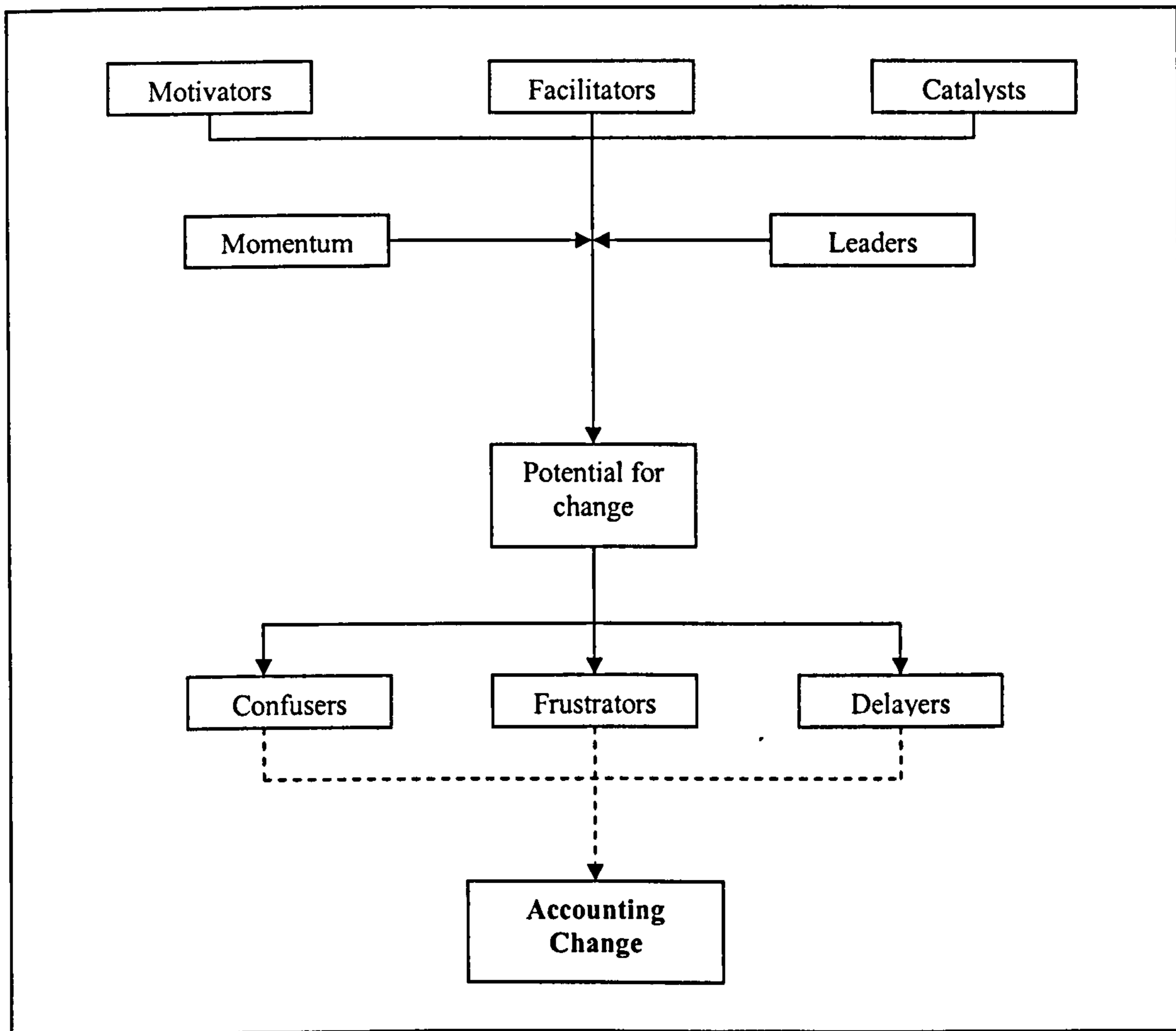


Figure 2.4: Kasurinen's (2002) accounting change model (p. 338)

In addition to refining Cobb et al.'s (1995) accounting change model, Kasurinen (2002) attempts to compare the BSC building process in his case organisation with that suggested by Kaplan and Norton (1996a). He argues that although the BSC construction and implementation process in the case organisation deviated from what Kaplan and Norton had suggested in several instances, it is difficult to evaluate whether the BSC would have been implemented successfully if the organisation had followed the process proposed by them. He argues that the process recommended by Kaplan and Norton does

not pay sufficient attention to the context of change implementation. In addition, structural barriers (e.g. organisational culture) are neglected. Moreover, some of the problems occurring during the BSC creation and implementation process were related to fundamental characteristics of the BSC, for example, a lack of clear-cut strategy. Kasurinen (2002) argues that it is unlikely that these problems would be resolved by focusing on the implementation process.

Kasurinen (2002) sheds some light on the process of BSC implementation and offers a number of explanations as to why the BSC project did not materialise in the case organisation. It demonstrates the complexity of implementation process. Nevertheless, as argued in Section 2.4.1.1, the factor-based approach adopted by Kasurinen keeps his analysis largely ahistorical and acontextual, with interrelationships between different factors not being captured. Moreover, his analysis suggests a linear process of BSC implementation; that is, BSC implementation was planned, designed and then implemented. When the project encountered barriers and resistance to a significant level, BSC was not implemented and the project 'failed' to materialise.

2.5. Implications of Previous Research and Research Questions

In this chapter, literature on management accounting and control relevant to the current study has been critically reviewed. The chapter has discussed debates on the development and 'relevance' of MACSs at both theoretical and technical levels. At the theoretical level, literature from various social perspectives has been discussed, providing alternative views to examine accounting phenomena. At the technical level, a concern over the 'relevance' of MACSs in today's advanced and fast-changing environment among business organisations, consultants and accounting academics has been explored,

and the attempts to address technical limitations of conventional MACSs examined. The chapter has discussed recent management accounting and control initiatives relevant to performance measurement, including integrated performance measurement models which form an important part of these initiatives. Although integrated performance measurement systems may not be a completely new idea, as reflected in the long-standing debate on single versus multiple measures, many integrated performance measurement models are perceived as a 'new' management tool that may be able to offer solutions to some of the problems of conventional MACSs and organisations.

Among the integrated performance measurement frameworks, BSC is one of the most popular versions adopted by organisations worldwide. While BSC is presented as one of the possible solutions to the management accounting and control problems, it is not without problems. Kaplan and Norton's ambition to encompass the BSC with many management areas, from strategic to operations management, has created complexities in the design and implementation process. While the early BSC literature tended to be practically-orientated, recent BSC research has shown something of a theoretical term, developing broader (if often changing) views to examine and analyse the BSC and its implementation. Researchers recognise the strengths of the BSC but are also aware of its weaknesses, which may be seen as endemic to any management techniques. The complexities, conflicts and tensions of adopting and implementing new management techniques are recognised.

Despite growing interest in BSC among scholars, there are still a number of research opportunities around the BSC. The issue of what 'balance' means, how organisations 'balance' multiple performance measures, and how the conception of 'balance' can

promote desired business outcomes, can be further explored (Ittner and Larcker, 1998b). In addition, issues around cause-and-effect relationships are worthy of further investigation. As discussed in Section 2.3.3, empirical studies investigating the relationship between non-financial and financial performance have yielded mixed results. The way in which organisations choose their performance indicators and link them in causal chains is largely unexplored. Moreover, the impact of the BSC, both in terms of economic and organisational consequences, needs to be further investigated. Furthermore, only limited amount of research has critically examined the detailed implementation process of the BSC.

In the current research, the issue of how BSC has been constructed and used at a process level is examined. Within this strand of research, little is understood of how the BSC has been introduced, interpreted, defined, and modified in an organisational context. In developing countries in particular, little is known about the way in which the BSC idea has travelled to these places and become localised in different cultural settings. In addition, the issue of how BSC operates in relation to a wider set of management control systems remains largely unexplored. Therefore, this research attempts to fulfil these gaps by tracing the process of BSC construction and translation in a Thai financial services organisation. The major aim of the research is to achieve an understanding of how a set of integrated performance management ideas has become translated into a set of practices in a particular organisational setting.

The major research question and possible sub-questions were set out in Chapter 1, noting that not all of the latter could be developed in equal detail or yield equally valuable or insightful answers. I would however just reiterate the major question, namely: How is the

American performance management concept, the BSC, translated into practices in a Thai financial services organisation? My attempt to answer this question and its sub-questions is set out in the subsequent chapters. However, in the immediately following chapter, I discuss the methodological issues raised by this study, and in particular my choice of an intensive field-based research approach as the most appropriate method to approach my research question.

Chapter 3

Methodology and Theoretical Framework

3.1. Introduction

In the preceding chapter, the current literature related to MACSs and performance management systems, particularly BSC, was critically reviewed and the background to the key research questions addressed here was articulated. One emergent theme was the complexity of measuring and managing organisational performance, particularly as evidenced by the various critical strands of research in this field. Another concerned the process of change management in relation to MACSs. In practice, this is frequently a complex, non-linear process, involving a number of actors, human and non-human, both inside and outside the organisation. The research to date into the implementation of BSC systems indicates that in this respect it is no different from other performance measurement tools. Its implementation is seldom problem-free, and both its design and use appear to be variable and different in different organisations. The examination of theoretical and empirical research in the field undertaken here therefore indicates that there is scope for further enquiry into the process of change in performance measurement systems and practices within their organisational contexts, in particular into why a given new performance measurement tool is adopted and how heterogeneous actors, human and non-human, play roles in creating networks of support and resistance to the implementation of the new performance measurement tool.

The literature review above led me to the conclusion that an in-depth, field-based qualitative empirical study would be the most appropriate way of investigating these problems and questions. The objective of this chapter is to clarify and justify the

approach therefore adopted to examine the research issues. This chapter is organised into 7 sections. Section 3.2 discusses and justifies the philosophical foundations upon which the research questions and design are based. In Section 3.3, the research method, an intensive single case study, is justified and the research design is presented. Section 3.4 discusses the actual conducting of the research, including fieldwork preparation, access negotiation, data collection and data analysis. Section 3.5 discusses the theoretical approach informing the analysis. Section 3.6 raises the issues of credibility of the research, which involve validity, reliability and generalisability. Finally, Section 3.7 summarises the issues discussed in the chapter.

3.2. Philosophical Assumptions Underpinning the Study

Every piece of research is based on a set of assumptions. As Hopper and Powell (1985, p. 429) note, “there is no such thing as a totally objective or value free investigation.” The underlying philosophical assumptions about the social world of researchers usually influence the way researchers formulate their research questions and the approach they adopt to investigate the phenomenon. The research questions and research approach are, thus, likely to derive from the researcher’s ontological assumptions (i.e. beliefs about the nature of human beings and the social world they inhabit) and epistemological assumptions (i.e. beliefs about the nature of knowledge and how it can be acquired). Therefore, it is important to examine the philosophical foundations underpinning the theoretical and methodological approach of the research in order to define and develop the boundaries of the research and the approach to knowledge one wishes to develop in the research project.

Having made the above claim, it is only proper to note that some accounting scholars have argued that research methodology should depend on the phenomena under investigation, rather than the ontological and epistemological assumptions of the researcher (e.g. Abdel-Khalik and Ajinkya, 1983; Seale, 1999).¹¹ Nevertheless, it is important to distinguish the issues of research methodology from the research method issues. Methodology and method depict different levels of analysis; the methodology level refers to the epistemological framework for the research, whereas the method level refers to the techniques adopted for gathering the data and conducting the research (Bryman, 1984; Silverman, 1993). Research methodology therefore corresponds fundamentally to the beliefs and values of researchers about what is 'real' in the social world and how the knowledge of the 'reality' can be obtained (Burrell and Morgan, 1979). On the other hand, research methods are concerned with the choices of techniques that researchers make in order to best address the research questions and best examine the phenomena under investigation (see Ahrens and Chapman, 2006a). While it is useful for researchers to select methods that are superior in examining particular research issues, the assumption that pragmatic choices between methodologies can be made seems inappropriate, as "researchers only rarely cross epistemological divides, hence, although they may vary their research methods, researchers are likely to remain committed to the methodologies that drive their research" (Giddens, 1982 cited in Llewellyn, 1992, p. 18). Maintaining the consistency between ontological and epistemological principles and research methodology is one of the ways to promote the production of 'valid' findings, thus securing the quality of the research (Hughes, 1990).

¹¹ This does not imply that they deny the importance of an understanding of philosophical foundations of each research approach. Rather, they argue that the capacity of each research approach to answer the research question and phenomena being investigated are more important in determining research methodology.

The ontological level of analysis is widely seen as being concerned with the nature of 'reality' in the social world, whereas epistemology is concerned with how one might understand the world and communicate this as knowledge to others (Burrell and Morgan, 1979). Ontological and epistemological issues are closely interconnected because claims about what exists in the world almost inevitably lead to questions about how the world can be made known to us (Morgan and Smircich, 1980; Hughes, 1990).

In the present study, the research questions and research design are guided in part by the interpretive approach, which entails a constructivist ontological foundation and an 'inside' epistemological standpoint. It can be classified as an "interpretively grounded management accounting" study which attempts to achieve an understanding of accounting practices through a study of "accounting in action, as forms of situated practice" (Chua, 1988, pp. 72-73). The aim of the research is to achieve an understanding of the meanings that individuals construct concerning performance measurement systems, and to understand the 'reasons' for individuals' behaviour within the organisation in terms of their interpretations of the world. The approach adopted is different from the 'mainstream' accounting research, which is grounded in a belief that theory is separated from observations, and empirical reality is objective and external to the subject (Chua, 1986).

From the interpretive perspective, the subjective nature of the social world is emphasised. It is believed that the social world is more complex than the natural world since human beings can interpret and construct their own cultural environment, while natural objects cannot (Dilthey, 1883, cited in Hughes, 1990). Human beings are not passive receivers; they produce a human environment with the integration of its socio-cultural and

psychological formations (Berger and Luckmann, 1966). Social reality is seen as “the product of processes by which social actors together negotiate the meanings for actions and situations” (Blaikie, 1993, p. 96). As social actors continuously interpret and construct their world, multiple realities may exist. However, this does not imply an extreme relativism, which suggests that there is no external world at all. There is a world of empirical reality out there, although the way individuals perceive the world may be different. Nevertheless, “the world does not tolerate all understandings of it equally...there is a long-standing intellectual community for which it seems worthwhile to try to figure out collectively how best to talk about the empirical world, by means of incremental, partial improvements in understanding” (Kirk and Miller, 1986, p. 11).

It should be noted that in saying that human beings are different from natural objects, it does not imply that natural objects are excluded from the observations and analysis. Non-human objects, too, do have actions and play a role in modifying a state of affairs (Latour, 2005). However, these non-human actors are not identical to human agents as non-human objects do not have interest or agency, whereas interests are crucial for human actors as, for instance, they make up accounting numbers in specific ways to achieve certain purposes (Chua, 1995).

From the interpretivist and constructivist perspective, an organisation is seen as being continuously constructed through interaction and communication among relevant actors. These actors could be drawn from within and outside organisational boundaries; the organisation is a product of organising which is temporary but has solid effects (Czarniawska, 2004). The MACS can be seen as one of the elements in the organisation that individuals have continually constructed to accommodate diverse interests within

organisations. Any MACS is not “a neutral device that merely documents and reports ‘the facts’ of economic activity.”; it is “an attempt to intervene, to act upon individuals, entities and processes to transform them and to achieve specific ends” (Miller, 1994, p. 1). It is used by organisational participants to legitimise particular forms of activity (Chua, 1986) and as a source of power for particular groups within the organisation (Macintosh and Scapens, 1990; Scapens and Roberts, 1993).

In order to understand the constructed objects (i.e. MACSs, performance measurement systems), researchers cannot separate the objects from the context in which they have been constructed (Flyvbjerg, 2001). It is crucial for researchers to understand the organisation that both has constructed, and has been constructed by, the objects. Furthermore, researchers should be situated inside the objects studied and give credence to the personal experience and interpretation of every individual (Alvesson and Willmott, 1996). It is important to learn from actors what they do, and how and why they do it. It is essential for researchers to get close to the subjects being studied and consider the historical, economic, social and organisational contexts in which the systems operate, as this will enable researchers to understand how the meanings of concepts are formulated and interpreted by different organisational members (Alvesson and Willmott, 1996).¹² This type of study will not provide the kind of predictive theory or supposed universals traditionally sought by positivist theorists. Rather, it will construct social theories of accounting which help us to understand performance management and accounting controls as social practices.

¹² It should be noted that this is by no means suggesting that by getting close to the subjects, researchers will produce a description of phenomena that passively reflects what organisational participants ‘really’ think or ‘actually’ do. Descriptions produced are inevitably influenced by interpretations, interests and theoretical choices of the researchers on the issues.

In accord with the ontological and epistemological principles underpinning the research questions, this research adopts a qualitative field-based naturalistic approach to investigate the phenomena. By visiting the field¹³ in which the performance measurement system is being constructed, the researcher can better observe the associations between humans and non-humans. “The ‘making of’ any enterprise...offers a view that is sufficiently different from the official one. Not only does it lead you backstage and introduce you to the skills and knacks of practitioners, it also provides a rare glimpse of what it is for a thing to emerge out of inexistence by adding to any existing entity its time dimension” (Latour, 2005, p. 89). Adopting a qualitative field-based approach is by no means implying that quantitative data are excluded. Qualitative research is “an empirical, socially located phenomenon, defined by its own history, not simply a residual grab-bag comprising all things that are ‘not quantitative’ ” (Kirk and Miller, 1986, p. 10).

3.3. Research Methods

As argued in Section 3.2, the ontological and epistemological stance of the researcher has led to research questions and a research methodology which require an in-depth investigation in the natural setting. At a practical level, an intensive case study approach was deemed most appropriate for the research questions, objectives and phenomena under investigation. The case study approach can be used in various ways, its precise role depending largely on the epistemological stance taken by researchers (Otley and Berry, 1994). For this research, case study means an in-depth, field-based investigation of management accounting and performance management practices within their natural setting, involved primarily with qualitative data collection and analysis.

¹³ The term ‘field’ is used instead of organisation to signify that relevant actors connected to a construction of performance measurement system are not expected to be drawn exclusively from within the organisation.

3.3.1. The Case Study Approach

Various scholars have identified conditions in which case study is an appropriate research strategy. Yin (2003) argues that case study is suitable when: (1) researchers attempt to answer 'how' and 'why' questions; (2) researchers focus on contemporary events; and (3) researchers do not have control over behavioural events. Marshall and Rossman (1995) suggest that a qualitative study conducted in a natural setting is preferred if: (1) the research conducts an in-depth investigation into complexities and processes; (2) little is known of the phenomena under investigation; (3) the research attempts to explore where and why policy and local knowledge and practice are in conflict; (4) the research focuses on informal, unstructured linkages and processes in organisation; and (5) the research focuses on actual, rather than stated, organisational goals. As for accounting scholars, Ferreira and Merchant (1992) argue that field-based case study research is powerful for investigating issues that: (1) are not well understood; (2) are complex and contextually contingent; (3) are highly sensitive in a way that survey response might be seriously biased; and (4) draw upon data which is not publicly available.

The current research attempts to investigate management accounting and performance management practices as they are constructed and used within the organisation. The major focus is on the complex processes of how BSC has been translated by various actors throughout the construction process. It seeks to achieve an understanding of how and why BSC has become what it is in the organisation, what BSC means to organisational members, and how BSC is used in practice.

It can be seen that the research is concerned primarily with contemporary events, although historical context inevitably has an influence on current practices. The study

focuses on the actual uses and meanings of management accounting and performance measurement systems, rather than the systems as written in the company's statements. In addition, it attempts to understand how management accounting systems play a role in monitoring activities of the organisation in relation to a wider set of control systems. Management accounting is only one aspect of any management control system, there being other controls which do not rely upon accounting information (Hopwood, 1987). It is, thus, difficult to fully understand how management accounting systems are used in isolation from their organisational context (Otley and Berry, 1994).

In order to adequately understand how management accounting and performance management systems function in practice, it is important to employ a research strategy that can capture the richness of the organisational environment and place the systems in a wider context. In this situation, intensive case study is deemed appropriate, as it can capture the complex issues and processes within an organisational context (Yin, 2003) and can also capture a wide range of organisational phenomena (Otley, 2001). In addition, it can help the researcher to understand the actual conduct of organisational participants, rather than merely studying their "verbally expressed sentiments and beliefs", something that is likely to occur if employing the survey method (Van Maanen, 1979, p. 522). Moreover, intensive case study offers the opportunity for researchers to learn more about the conflicting meanings and tensions that are almost always found around the uses of accounting control within the organisations (Covaleski and Dirsmith, 1990).

3.3.2. Case Study Design

In designing case study research, the number of cases and units of analysis are two important issues that need to be considered. The current study can be regarded as a single longitudinal case study which involves multiple units of analysis. The study involves investigation of the process of change in a Thai financial institution. It was conducted over a period of almost two years, and the data collection was carried out in more than one episode. A longitudinal single case study is adopted, as it can reveal the dynamic processes of change in performance management systems and practices with sufficient attention to detail within the organisation to generate a rich description of minor as well as major developments (Huber and Van de Ven, 1995). Although a major concern of the research is primarily contemporary events, extensive research of the historical development of the organisation has also been conducted, as the construction of MACSs is generally a long-term, gradual process; therefore, a research strategy that focuses on building knowledge of a historically and contemporary organisation-societal context is necessary (Covaleski and Dirsmith, 1990). The observations and analyses are extended beyond the boundaries of organisations (Czarniawska, 2004), and the interrelations between particular calculative practices and other managerial practices are addressed (Miller, 1994).

This research was carried out primarily in a single organisation. As Dyer and Wilkins (1991, p. 614) argue, “[T]he essence of case study research [is] the careful study of a single case that leads researchers to see new theoretical relationships and question old ones.” Although some scholars have argued for a study of more than one case in order to generate constructs that can be generalised (e.g. Eisenhardt, 1989, 1991), by paying attention to developing general constructs, researchers may lose rich theoretical insights.

There is an important trade-off between “the deep understanding of a particular social setting and the benefits of comparative insights” (Dyer and Wilkins, 1991, p. 614).

Intensive single case study research can create an exemplar – “a story against which researchers can compare their experiences and gain rich theoretical insights” (Dyer and Wilkins, 1991, p. 613). Researchers can get closer to the research subjects and can better “provide a rich description of the social scene, ...describe the context in which events occur, and ...reveal...the *deep structure* of social behaviours” (Dyer and Wilkins, 1991, p. 615). The “theoretical insights are often more powerful and memorable than those generated from large-sample field research, because these authors got as close as possible to the field and demonstrated theoretical constructs through their application in ongoing social settings” (Ahrens and Dent, 1998, p. 7). By conducting a single case study, it does not mean that no comparison is carried out; but it is a comparison within the same organisational context rather than a comparison across organisational contexts. Criticising a single case study for being inferior to multiple case studies can be misleading, as a single case study is “multiple in most research efforts because ideas and evidence may be linked in many different ways” (Ragin, 1992 quoted in Flyvbjerg, 2001, p. 82).

Although the study is conducted in a single organisation, it is comprised of several mini cases and involves multiple levels and units of analysis. In Yin’s (2003) terms, it is considered an embedded single case study. In the current study, the major unit of analysis was the BSC implementation process of the case organisation. It investigates the construction and translation of the BSC at both organisational and provincial levels. The analysis at multiple levels yields substantial opportunities for extensive analysis, which

can enhance the insights into a single case (Yin, 2003). The analysis was done with care in order to keep a balance between various levels, and to ensure that the holistic view of the organisation is retained (Smith et al., 1988).

3.4. Research Procedures

The conducting of the research followed the iterative process. The initial design of the study was flexible, allowing for modifications of research, interview questions and theoretical framework as new issues and phenomena emerged through the fieldwork. The flexibility in research design does not mean that research conduct was not systematic. The study was conducted in a way to ensure that the research process was rigorous. Prior to going into the field, background knowledge of the Thai financial services sector and the case organisation was acquired. The case organisation was chosen based on the issues of interest in the potential case organisations and the level of access the researcher could gain. Data collection and analysis was done systematically to ensure that data obtained was reliable and the interpretations made valid.

3.4.1. Preparing for the Fieldwork

Prior to the fieldwork, desk research was carried out. Information relating to the Thai banking sector was examined. Over the past decade, there have been significant changes in the Thai banking industry, particularly after the 1997 financial crisis. The structure of the sector, nature of the competitive environment and regulations were altered. In the wake of crisis, local financial services organisations fought for survival. Major organisational restructuring was undertaken several times in most, if not all, of the banks. Foreign capital was sought. A number of 'modern' western management techniques were imported, aiming at enhancing efficiency and becoming globally-orientated. With such a

radical change, it was important for the researcher to acquire knowledge of the industry and organisations' conduct, both historically and at present, in order to fully appreciate and understand the rationale behind the current management practices. In addition, it was necessary for the researcher to demonstrate her understanding of the industry when discussing with organisational members in the field, in order to obtain confidence from the organisations' gatekeepers that the organisations would not waste their time participating in the study. Therefore, prior to going into the field, the researcher examined documents from the Internet, newspapers, magazines, and academic and professionally-orientated journals, in order to obtain an overview of the Thai financial services sector.

In addition to research into the Thai financial services sector, case study protocol was developed to guide the initial data collection. Case study protocol forces the researcher to anticipate problems that may arise, and it can help enhance the reliability of the case study research (Yin, 2003). The protocol for the present research consists of the overview of the research project, research objectives, data collection procedures, case study questions and sources of information. The protocol was revised throughout the research process to capture the issues emerging during that process.

3.4.2. The Early Stage of the Fieldwork – Exploratory and Case Selection

After acquiring a certain amount of knowledge of the sector, the conducting of the fieldwork started. The early stage of the fieldwork was conducted over two periods of time – from December 2003 to January 2004, and from July 2004 to September 2004. This stage of the fieldwork was largely exploratory. It was concerned primarily with open-ended semi-structured interviews with key members of the organisations that had

the potential to become the main case organisation for the study. The rationales behind this stage were to explore the performance measurement issues of relevance to the organisations, and to establish initial relationships with potential case organisations. This process helped identify a suitable organisation for the main investigation, both in terms of the phenomenon of interest and the level of access that the researcher could obtain. (Key research activities which are considered formal data collection can be found in Appendix 1.)

Very little research on MACSs and performance measurement conducted in Thai organisations has been published.¹⁴ In the banking sector in particular, most of the companies are owned by business families although they are public listed companies; thus, much of the information regarding their management control systems is kept secret. It was difficult to obtain a broad picture of the current performance management practices in Thai organisations from a review of public documents. At this stage, the researcher, therefore, developed a set of broad questions to examine the recent changes, current performance management practices within Thai banks and issues of concern for these banks (see Appendix 2 for the interview guide). This process was intended to ensure that the research agenda was not only of interest academically, but also relevant to practitioners.

From December 2003 to January 2004, 8 semi-structured interviews were conducted with 11 senior, middle, and non-management staff of 4 local banks. Most of the interviewees

¹⁴ There are some professionally-orientated books offering prescriptive suggestions on how to design and implement BSC. These books discuss BSC design and implementation in some financial services organisations as examples to illustrate the authors' point of view. However, the issues covered tend to be only a small part of the process. A full picture of current performance management practices cannot be obtained. Although there are some MBA dissertations on the design of BSC in some particular banks, these dissertations largely focus on the design that the authors (often employees of the banks) would like to see in the banks, rather than the actual design of the bank's BSC.

were from the accounting, human resources, or planning and strategy department. In many banks in Thailand, the human resources or planning and strategy department is responsible for adopting and implementing management innovations, including performance measurement systems. The interviews were concerned primarily with current performance management practices, recent changes in MACSs and performance measurement systems. In addition to the interviews, the library of each bank, if one existed, was also visited, and documents from the bank's magazines relating to performance management issues were reviewed. In addition to the investigation within the potential case organisations, interviews were conducted with a member of the cabinet and senior official from the Bank of Thailand (the central bank), in order to obtain information regarding the policies on financial services sector development.

Findings from this stage of research suggest that BSC was the performance measurement framework that most of the banks in Thailand were implementing or considering to adopt. Empirical evidence from this stage, therefore, led to a revision of interview questions, with an increasing focus on BSC adoption and implementation.

The second phase of the fieldwork was conducted over a period of four months, from July to September 2004. During this stage, the researcher attempted to identify other local financial services organisations which were implementing BSC while maintaining relationships with those previously visited. By establishing and maintaining relationships with several organisations, the researcher could ensure that the research would be able to continue if access to some potential organisations was terminated. In addition to visiting potential case organisations, the researcher visited and interviewed the academic

consultant referred to by the management staff of several banks as a BSC expert, and who had played a significant role in facilitating BSC implementation in their organisations.

In September 2004, the main case organisation was identified. In the organisation selected, the AgroBank, the BSC development project had started several years before the fieldwork began. Although the researcher was not in the field when the BSC project started, the researcher went in when BSC was still controversial, and being constructed and re-constructed in the head office. At the time, the BSC development project was also extended to the lower level. Getting into an organisation which had started the BSC implementation project several years previously allowed the researcher to observe how BSC was used and the changes that it had brought to the organisation. Observation of the use of BSC in this way would not have been possible if the selected organisation had only recently started developing and implementing it, as it usually takes more than a year before organisations start to use the BSC, if indeed, they use it at all.

3.4.3. Negotiating Access and Maintaining Access in the Case Organisation

Gaining access is one of the most fundamental issues for field researchers, as an intensive case study is conducted primarily within an organisation. In the present study, initial access was gained through a personal contact to the director, the president and several members of staff of the case organisation. After discussing the proposed research informally with the director, the president and some management staff of the organisation, the office of the president arranged and facilitated initial meetings with senior management staff, who were, at the time, actively involved in the BSC development project. From these meetings, members of senior management helped to introduce the researcher to other relevant organisational members and to set up meetings

with them. Relationships with diverse but relevant organisational members established during the early stage of the research helped facilitate further access at a later stage (Baxter and Chua, 1998).

Access to the external consultants was also arranged with the help of senior management staff at the organisation. The external consultants who directly and indirectly played roles in the BSC development project were interviewed, and they also gave permission for some of their reports to be reviewed.

When negotiating for further access to other organisational members, particularly in the provincial offices and branches, wherever possible, the researcher did not reveal any personal connection with the executives of the organisation, in order to avoid 'party-line' talk. However, it was sometimes impossible not to refer to executives in order to guarantee full co-operation from organisational members. Some organisational members were concerned with the sensitive nature of the information being divulged, and therefore, were reluctant to provide certain information, particularly internal documents. However, when they were assured that executives of the organisation, including the director and president, were aware of the research, they showed greater willingness to provide fuller information. This is a delicate but important issue when dealing with Thai organisations, particularly in the case organisation, which is a state-owned enterprise, where hierarchical structure is crucial and power distance is high.¹⁵ It was sometimes necessary to mention such a connection, in order to obtain greater co-operation from organisational members.

¹⁵ It should be noted that this is based on the observations of the researcher. Although Hofstede (2001) also characterises Thai culture as having high power distance, his categories of national culture and scores for each category are not used to explain phenomena in the study.

3.4.4. Data Collection in the Main Case Organisation

One of the strengths of case study research is that it allows the researcher to deal with diverse sources of evidence, for example, interviews, documents, artefacts and observations (Yin, 2003). This research attempted to make use of the evidence sources available, and to this end, four sources of evidence were used, namely, interviews, documentation, archival data and direct observation. These sources have different strengths and weaknesses, as detailed in Table 3.1. It should be noted that by collecting and analysing data from different sources, it does not imply that researchers will produce more valid explanation of the phenomena; rather, different forms of data provide resources for the researcher to draw upon in the production of ‘interesting’ descriptions (Hansen, 2006).

Table 3.1: Strengths and weaknesses of sources of evidence

Source of Evidence	Strengths	Weaknesses
Interviews	<ul style="list-style-type: none"> - Targeted – focuses directly on case study topic - Insightful – provides perceived causal inferences 	<ul style="list-style-type: none"> - Bias due to poorly constructed questions - Response bias - Inaccuracies due to poor recall - Reflexivity – interviewee gives what interviewer wants to hear
Documentation	<ul style="list-style-type: none"> - Stable – can be reviewed repeatedly - Unobtrusive – not created as a result of the case study - Exact – contains exact names, references, and details of an event - Broach coverage – long span of time, many events, many settings 	<ul style="list-style-type: none"> - Retrievability can be low - Biased selectivity if collection is incomplete - Reporting bias – reflects (unknown) bias of author - Access may be deliberately blocked
Archival records	<ul style="list-style-type: none"> - (same as above for documentation) - Precise and quantitative 	<ul style="list-style-type: none"> - (same as above for documentation) - Accessibility due to privacy reasons
Direct observations	<ul style="list-style-type: none"> - Reality – covers events in real time - Contextual – covers context of event 	<ul style="list-style-type: none"> - Time-consuming - Selectivity - Reflexivity – event may proceed differently because it is being observed - Cost – hours needed by human observers

Source: Yin (2003, p. 86)

The data collection was conducted in the main case organisation between July 2004 and August 2005 in two phases – the preliminary investigation from July to September 2004, and the main investigation from April to August 2005. During the preliminary investigation, issues discussed in the interviews were concerned primarily with the development of BSC and other management control systems that were recently implemented in the case organisation. At a later stage of the research, the interviews focused in more detail on the process of BSC development and implementation in the head office and provincial offices, as well as the actual use of the BSC.

3.4.4.1. Preliminary Investigation

During the preliminary investigation stage, the researcher attempted to obtain historical and background knowledge of the organisation, as well as the issues of BSC adoption and recent changes in management control systems within the bank. To obtain background knowledge of the organisation, the researcher visited the library of the bank as well as the library of a university in Bangkok. The organisation's annual reports, five-year corporate plans, the bank's journals and magazines, and research papers related to the operations of the organisation were reviewed. The researcher also had further informal discussions with a member of the board and some management staff of the organisation.

With regard to formal interviews, 5 open-ended semi-structured interviews were conducted with 8 executives and senior management of the organisation. The interviewees included the president of the bank, four managers who had been key participants in the BSC development project since the project started, and the other three managers largely responsible for implementing other recently adopted management

control systems – a quality management ISO9001:2000 system and a new performance appraisal system.

In addition to the interviews, the researcher visited the ‘operation room’ – the meeting room in which the organisation’s key performance indicators are presented and where management staff meet on a monthly basis to discuss the performance of the organisation. The manager responsible for monitoring organisational performance and updating information in the room and his team explained how the room was designed and used. They also discussed their opinions about the usefulness and weaknesses of the room design and the actual utilisation of the room.

During this period of the visit, one formal meeting was observed. It was a meeting between senior management staff of the bank and external consultants hired by the Ministry of Finance, a major shareholder of the organisation. It is a policy of the Ministry of Finance to monitor performance of state enterprises on an annual basis.¹⁶ The meeting observed largely involved negotiations on the performance criteria and targets between the bank’s staff and the consultants representing the Ministry of Finance.

During the visit, various internal documents were obtained and reviewed. These included the bank’s KPI dictionary (including the strategy map and BSC KPIs), reports on the progress of the BSC, performance appraisal development and implementation projects, and a report of the provisional performance indicators, weights and targets that the Ministry of Finance would use for the fiscal year 2004.

¹⁶ Details about the performance evaluation by the Ministry of Finance are discussed in Chapter 6 (Section 6.2.2).

During all the visits, notes were taken systematically. Observational notes, theoretical notes and methodological notes were kept separately (McKinnon, 1988). With the exception of one, all interviews were tape-recorded, and were transcribed verbatim at the end of the day, or as soon as possible after they were held. The observed meeting was not tape-recorded, but notes were taken with the exact words spoken as far as was possible. The researcher's interpretation or observations were noted in double parentheses. At the end of the day, these notes were reviewed, analysed and categorised into observational notes, theoretical notes and methodological notes. A research diary was also kept to reflect the researcher's thoughts and feelings about the organisation and issues during each visit.

After the preliminary investigation in the case organisation, data obtained was analysed. Findings from this stage suggested that the bank started implementing BSC in the head office in 2000, at which time, the bank was attempting to expand the BSC to provincial office level. Although BSC might cover many areas of performance, other performance measurement tools were being implemented. As several pre-existing performance measurement tools still remained in use, many of the tools co-existed with some overlaps between each. Different divisions/departments were responsible for different performance measurement tools. External parties, particularly the government, had significant influence on the way the organisation is managed. From the findings at this stage, the interview guide was refined. Further information needed and potential interviewees were identified, and another visit to the organisation started in April 2005.

3.4.4.2. Main Investigation

The main investigation into the case organisation covered a period of five months, from April to August 2005. During this period, 24 in-depth semi-structured interviews were conducted with 32 organisational members.¹⁷ The interviewees ranged from top executives and management to non-management staff from various departments. Staff from regional and provincial offices were interviewed, and four provincial offices were visited. The retired ex-president of the bank was also interviewed, as he was the key person in initiating the idea of BSC adoption and the construction of the 'operation room' in the organisation. Some members of staff who had been interviewed or discussed informally during the preliminary stage were re-visited. Many of them had changed their posts from the first visit.¹⁸

In addition to the interviews with organisational members, an external consultant who had been directly involved in the BSC development and implementation project since the beginning of the project was interviewed. External consultants representing the Ministry of Finance were also interviewed.

Interviews during this period focused primarily on the detailed process of BSC development and implementation at corporate level, as well as that at provincial levels. It also emphasised the actual use of BSC and the way in which individuals interpreted and acted upon it. The use of BSC in relation to other control systems, particularly traditional management accounting and controls, was also a major issue of concern. (See Appendix 2 for the interview guide.)

¹⁷ Two of these interviewees were previously interviewed at the early stage of data collection.

¹⁸ In the case organisation, job rotations were undertaken many times during the period of study, partly because the bank was being restructured.

Apart from the interviews, two separate meetings were observed. One of the meetings involved the formulation of annual strategic and action plans at corporate and regional levels, and another was a monthly performance review meeting at one of the provincial offices. 'Operation rooms' at two provincial offices were also visited.

On many occasions, the researcher had opportunities to discuss informally with various organisational members, sometimes over lunch or dinner. Some conversations provided insightful information about the organisation in general, as well as performance measurement issues in particular. This helped to enhance an understanding of the working environment in the organisation and relationships among organisational members.

As in the preliminary stage, all interviews, except two, were tape-recorded. All interviews were transcribed verbatim on the day of the interview or as soon as possible afterwards. Notes were taken systematically, and a research diary was kept. For the observed meeting, notes were taken systematically of the exact words spoken as far as possible. Soon after the meetings, these notes were reviewed, analysed and categorised into observational notes, theoretical notes and methodological notes.

During this period, further internal documents were obtained and analysed. These documents included the bank's corporate KPI dictionary for fiscal year 2004-2005, corporate policies and annual business plans and budgets, the BSC and action plans of some provincial offices, performance and management accounting reports of provincial offices and branches, and performance reports from consultants representing the Ministry of Finance.

To summarise, within the case organisation, 29 open-ended semi-structured interviews with 38 members of staff were carried out. Interviewees consisted of a wide range of organisational members, including members of the board, top executives, management and non-management staff from various departments, both in the head office and at provincial offices and branches. Two interviews with three of the bank's external consultants were conducted. On average, each interview lasted approximately 75 minutes, but ranged from half an hour up to 3 hours. With the exception of three, all interviews were tape-recorded and transcribed verbatim. They were all conducted in Thai, and transcriptions were made in Thai to preserve the accuracy of the interviewees' expressions. In addition to the interviews, related documents were collected, analysed and cross-referenced with the interview data. Moreover, three separate meetings were observed. Furthermore, whenever possible, the researcher discussed issues informally with the bank staff. Altogether, approximately 65 hours were spent on interviewing, discussing, observing and attending meetings in the case organisation.

3.4.5. Data Analysis

The processes of data collection and data analysis were intertwined, the latter being undertaken alongside the data collection in a dynamic way. Patterns and theoretical concepts were gradually developed and tested in an iterative process between insights and the field material until they explained observed patterns of behaviour.

Guided by Miles and Huberman (1994), data analysis involved three interwoven flows of activity: data reduction, data display, and conclusion drawing and verification. The data reduction process started in the early stage of fieldwork and was conducted throughout the research project. It involved selecting, focusing, simplifying, abstracting and

transforming the data in the field notes and interview transcripts. After transcribing the interviews, or at the end of each visit to the field if the purpose of the visit was other than interviewing organisational members, fieldnotes and/or interview transcript were studied carefully. Reflections and remarks were noted in the margin of the transcript, and a contact summary sheet was produced to summarise issues from a particular field contact. The contact summary sheets identified people or events involved during the visit, summarised main themes or issues discussed during the visit, identified any new issues suggested by the contact, and determined further information needed.

The process was then followed by coding. Initial codes were broad categories developed from research questions and data from several first interviews. The codes were continuously refined as the research continued. Emergent themes were identified through a continual review of fieldnotes and interview data, and supplement codes emerged from the data during the fieldwork and subsequent analysis. While searching for patterns and similarities, the researcher was also sensitive to inconsistencies, for example, divergent views offered by different groups of individuals. Data was organised and displayed in charts, graphs, and metrics to aid further analysis. Themes and patterns emerged, guiding further data collection, and they were further refined in the process.

The process of coding and categorising data was conducted manually, with the aid of Microsoft Word and Excel. Qualitative data analysis software packages, such as Nud*ist or NVivo, were not used. This was primarily because the data analysis computer software did not support Thai characters. This study was conducted in a Thai financial service organisation, in which the first language of all interviewees was Thai. Therefore, all interviews were conducted in Thai, resulting in almost all of the data being in Thai.

The researcher could have translated data into English, one of the languages supported by the available analysis programmes; however, this would have involved the risk of losing the meanings and perspectives of the interviewees in the process of translation.

With regard to the theory-building process, or what Miles and Huberman's (1994) refer to as conclusion drawing and verification activity, there was continual iteration between field observations and theory. The analysis process did not start with any specific pre-determined theory; rather, empirically-based patterns and themes emerging from the fieldwork were compared with a range of theoretical possibilities, and the initial theories were revised, reformulated, discarded and supplemented in the light of field observations (Humphrey and Scapens, 1996). During the data collection and analysis process, narratives of findings were written and presented to several researchers in the field of management accounting and control, in order to seek alternative plausible interpretations of the data. The theory-building process employed is similar to what Yin (2003) calls pattern-matching and explanation-building. Pattern-matching is a comparison between an empirically-based pattern and the predicted ones, while explanation-building is a special type of pattern-matching dealing with the building of causal relationships. Although Yin (2003) distinguishes pattern-matching and explanation-building as two different techniques for analysing data, both involve essentially the same process, that is, the iteration between observations and theory.

3.5. Underlying Theoretical Approach for the Research

Although this research adopts an interpretive approach, this does not mean that the researcher started enquiries empty-handed. Researchers inevitably carry their own values and worldviews into their research; any approach to a study relies on prior understandings

of related or similar phenomena (Smith et al., 1988). A theoretical framework is seen as an essential starting-point of case study; nevertheless, researchers should hold such framework only loosely, so that it can be challenged and refined as a result of the research process (Humphrey and Scapens, 1996). Therefore, rather than imposing an a priori theoretical framework, in this study, the researcher engaged with a range of theoretical possibilities which were revised, extended, discarded and supplemented in an iterative research process. It can be said that the theoretical framework “both informs, and is developed by, observation” (Humphrey and Scapens, 1996, p. 100).

Underpinning the analysis of the study is the ANT approach. The sociology of translation or ANT is developed from the discipline of science and technology studies. It has been employed to examine the introduction and construction of various management accounting and control technologies, as discussed in the previous chapter (Section 2.4.1.4). The ANT approach brings together human and non-human, social and technical factors into the same analytical view (McLean and Hassard, 2004). It also bypasses the agency-structure debate; instead of taking structure or ‘macro’ actors, such as power or social forces, for granted, using them to explain observed phenomena, the ANT approach attempts to unfold the negotiations and associations which construct the ‘macro’ actors.

ANT adopts a ‘performative’ view; that is, “entities achieve their form as a consequence of the relations in which they are located....they are *performed* in, by, and through those relations.” (Law, 1999, p. 4) Society is seen as being performed through the various efforts to define it. The focus of the analysis is on “the performative character of relations and the objects constituted in those relations” (Law, 1999, p. 7). Under the ANT approach, actants (i.e. those which act and are acted upon) are followed through a

trajectory until they become actors, acquiring a distinct and relatively stable character (Czarniawska and Hernes, 2005, p. 9).

Central to ANT is the notion of translation, which refers to “displacement, drift, invention, mediation, the creation of a link that did not exist before and that to some degree modifies the original two” (Latour, 1999, p. 179). As Czarniawska and Sevón (2005) argue, what is involved in the translation has an uncertain identity, and each act of translation changes the translator as well as what is translated. The concept of translation draws attention to the fact that when a thing moves from one place to another, it is rare that it will emerge unchanged. Ideas, objects, or artefacts are modified by, and composed of, many different actors who slowly turn it into something completely different as they seek to achieve their own goals (Latour, 1986). Every translation involves transformation.

Latour (1986) argues that there are three key elements in the translation model. First, the spread of anything in time and space is in the hands of people who may act in different ways. Faithful transmission without transformation is unusual and needs to be explained if it occurs. Second, displacement is the consequence of energy given to the token, whether it is idea, object or artefact, by every actor in the chain who does something with it. Therefore, forces from actors who come early in the chain are no more important than those of actors who come later. Third, and most importantly, each of the actors in the chain is not simply resisting a force or transmitting it. Rather, they do something essential for the existence and maintenance of the token; that is, they shape it to fit their own frame of reference. Instead of the transmission of the same token, which may be

deflected or slowed down by friction, as would be depicted by the diffusion model, in the translation model, there is a continuous transformation of the token.

Behind translation, there might be imitation – a desire to become similar (Czarniawska and Sevón, 2005). However, imitation is not seen as a passive copying of a static model; instead, imitation is non-identity, an act that differs from what is imitated. Therefore, it is regarded as a process in which something is created and transformed by chains of translators; it is involved as an ongoing translation process, in which the new idea or model is modified and integrated with other models and traditions (Sevón, 1996). The results of imitation are uncertain, as each act of translation changes the translator, as well as what is translated (Czarniawska and Sevón, 2005).

As an extension of ANT which is both theoretical and practical, Czarniawska (1997, 2004) has developed the concept of ‘action net’ to emphasise that attention should be paid not only to the actor and structure of the network, but also to actions and activities within the nets (Pipan and Porsander, 2000). The concept of ‘action net’ attempts to capture the way in which certain actions are connected to, or disconnected from, one another. For the action net approach, emphasis is placed on connected actions rather than connected actors, although it is acknowledged that the actors influence the shape and kind of actions performed. The analysis focuses on connections within the entire action nets as action nets are being established and re-established. It involves studying organising by following chains of events, or unfolding nets of actions, and understanding how these may construct actors, or organisations (Czarniawska, 2004). From the action nets, we can deduce which actors are involved (Czarniawska, 1997).

Through the action net concept, we are reminded that in the analysis, emphasis is placed on the process of organising rather than organisation as such. It is the organising in an action net and the development of connections between various action nets that creates organisations and identities; actors or organisations are products rather than the sources of the organising – taking place within, enabled by and constitutive of an action net (Czarniawska, 2004). Organisations are temporary reifications because organising never ceases. However, in contrast to the conventional ANT approach, Czarniawska (2004, p. 780) argues that action net also embraces the solid effects of organising, that is, “for a moment, things seem unchangeable and ‘organized-for-good’”. Being aware that things can be stabilised for a moment in time is useful for a study of organisations and management practices, as organisations are different from the laboratory, a place in which the conventional ANT approach emerged (see also Miller and O’Leary, 1994b). Organisations are more bounded; one can distinguish who are inside and who are outside the organisational boundary, although there are connections between the two, and sometimes, local can become global (or vice versa) for a certain period of time (see Briers and Chua, 2001).

The translation model and action net approach have several implications for the analysis undertaken in this study. As Law (1999) has emphasised, actors gain their identities through relations with others. In order to understand how the BSC has become what it is in the organisation, it is important to follow chains of events or nets of actions associated with the BSC construction process, to see how these events or actions may construct the identities and meanings of BSC. It is essential to get into the construction site to observe the connections between actors, in order to see how the BSC emerges out of inexistence (Latour, 2005) and struggles to become ‘matter of fact’. The focus of the analysis is on

associations and disassociations in the BSC assemblage. As Latour (1986) argues, actors involved in the spread of the idea, object or artefact may act in different ways, for example, letting it drop, modifying it, deflecting it, betraying it, adding to it, or appropriating it. This suggests that it is important to place emphasis on how relevant actors react to the BSC, and how these actions or events may create the identities of BSC. It is also crucial to be aware that actions of actors who come early in the chains are no less or more important than the actions of those who come later in the process.

In order to examine 'accounting in making', the researcher has to go into the field before the 'black box' is closed (Latour, 1987). Attention is paid to both human and non-human actors; thus, technologies and artefacts, such as computer and information systems, inscriptions, system manuals, and other physical objects significant in the process of making the BSC operable are captured in the analysis. By following the chains of activities connected to BSC construction, sometimes, the researcher has to go beyond the boundary of the organisation, as actors connected to the process are not expected to be drawn exclusively from within the organisation. The researcher also has to trace some historical events/activities/actors that leave traces on the BSC construction, for when organisations imitate, they do not only imitate the previous successes of others; they also imitate themselves and their own history (Sahlin-Andersson and Sevón, 2003).

As the 'identity' and 'value' of the innovations or technologies (in this case, the BSC) depends largely on how actors around them enact and enrol the technologies (Latour, 1987), it is important that the analysis places emphasis on identities and meanings of the BSC as constructed by various actors throughout the construction and translation process. In the analysis, the BSC is not seen as a fixed object that is taken-for-granted. Rather, it

is treated as a boundary object, an object which is “both plastic enough to adapt to local needs and the constraints of the several parties employing [it], yet robust enough to maintain a common identity across sites” (Star and Griesemer, 1989, p. 393). The way in which identities and meanings of the BSC may be changed by heterogeneous actors who may slowly turn it into something completely different to make it fit their local conditions is one of the major focuses of the analysis.

3.6. Credibility of the Research

The value of scientific research is usually ascertained by the degree of validity, reliability and generalisability of the research. To ensure that the findings, interpretations and conclusions of the research are credible and trustworthy, two interrelated issues – validity and reliability – are crucial. The issue of validity is more concerned with the interpretation of observations, whereas the issue of reliability is more related to the data collected, although the two constructs also interplay, for instance with poor reliability necessarily impacting on validity. Kirk and Miller (1986, p. 20) define validity as “the degree to which the finding is interpreted in a correct way.” They define reliability as “the degree to which the finding is independent of accidental circumstances of the research” (p. 20). Any researcher needs to take the two issues into account, both separately and together, irrespective of their research methodology. However, meanings of validity and reliability, and ways to enhance the validity and reliability of research may vary, depending on the philosophical and theoretical standpoints of the researchers (see Seale, 1999). Therefore, it is important that one does not impose criteria for evaluating the validity and reliability of one research methodology to evaluate research drawing upon another methodology.

3.6.1. Validity and Reliability for Field-Based Qualitative Research

With regard to field-based case study research, various scholars have identified different types of validity and reliability. One of the definitions of validity and reliability often cited by researchers who conduct case study research is offered by Yin (2003), who specifies three types of validity and one type of reliability, as follows:

- Construct validity – establishing correct operational measures for the concepts being studied
- Internal validity – establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships
- External validity – establishing the domain to which a study’s findings can be generalized
- Reliability – demonstrating that the operations of a study – such as the data collection procedures – can be repeated, with the same results

He also proposes various techniques to enhance the validity and reliability of case study research (see Table 3.2).

Table 3.2: Case study tactics to enhance validity and reliability

	Tactics	Phase of research in which tactic occurs
Construct validity	<ul style="list-style-type: none"> - Use multiple sources of evidence - Establish chain of evidence - Have key informants review draft case study report 	Data collection Data collection Composition
Internal validity	<ul style="list-style-type: none"> - Do pattern-matching - Do explanation-building - Address rival explanations - Use logic models 	Data analysis Data analysis Data analysis Data analysis
External validity	<ul style="list-style-type: none"> - Use theory in single-case studies - Use replication logic in multiple-case studies 	Research design Research design
Reliability	<ul style="list-style-type: none"> - Use case study protocol - Develop case study database 	Data collection Data collection

Source: Yin (2003, p. 34)

Although the techniques to enhance validity and reliability suggested by Yin seem to be practically useful at first glance, his notions of validity and reliability are largely

influenced by positivistic assumptions that suggest a single tangible reality (cf. Seale, 1999, pp. 34-42). His notions of validity implicitly suggest that specific constructs can be objectively established and attributed to certain social phenomena (construct validity), cause and effect can be distinguished and captured by a small number of key variables (internal validity), and contextually independent knowledge can be obtained through a logic of replication (external validity). In several respects, Yin's definition of validity and reliability and techniques to enhance them may not be appropriate for interpretive research, which assumes that "[s]ocial reality is emergent, subjectively created, and objectified through human interaction" (Chua, 1986, p. 615). For instance, the 'constructs' of 'construct validity' cannot, within the interpretive frame just outlined, be assumed to be already there. They are necessarily a product of the movement between what is observed and reflection, so cannot be assumed to emerge purely from the 'evidence', however widely defined, and/or the views of 'informants' (itself a term revealing an unproblematised view of evidence as 'information'). 'Constructs', as the term itself suggests, have to be actively *constructed*.

One way of seeing this dilemma is as a problem inherent in 'replication logic'. For case research in the positivistic tradition, focus is placed on identifying key variables underlying a phenomenon, and the attempt is made to build constructs that are applicable to other cases (e.g. Eisenhardt, 1989). For positivist researchers, their studies have scientific power if they can identify a small number of variables that explain the outcomes over a large number of cases (Ahrens and Chapman, 2006a). However, interpretive case study research is based on a belief that social reality cannot be easily captured by a few key variables. It focuses on "the validity of specific phenomena, an understanding of which depends on nuanced descriptions of the phenomena themselves, the processes

which define them, and the (changing) contexts in which they are situated.”; the research is credible and has scientific value if the researcher can develop “a convincing account of the ways in which meanings and purposes relate to patterns of activity” (Ahrens and Chapman, 2006a, p. 834). As Becker (1970, p. 20 quoted in Ahrens and Chapman, 2006a, p. 833) argues, “We should not expect identical results when two observers study the same organisation from different points of view, or when they study different substructures within a large organisation. What we have a right to expect is that the two descriptions be compatible, that the conclusions of one study do not implicitly or explicitly contradict those of the other.”

In addition, Yin’s focus on data triangulation (i.e. uses of multiple data sources) as a way to achieve validity can be misleading. Although data triangulation may be useful in forcing researchers to consider more carefully why there are differences between data from different sources, this does not mean that combining different kinds of data will ensure validity of the findings (Fielding and Fielding, 1986). As Bloor (1997 in Seale, 1999) has questioned, “even if all the different methods employed converge on the same thing, apparently agreeing with each other, how can we know that they are correct?”

Moreover, his notion of reliability can be problematic. In qualitative field-based research, it is unlikely that researchers will obtain the same results if they repeat the study at a different point in time, as the study is conducted in a specific time. This type of reliability is only applicable when the phenomena remain unchanged through a period of time, which is unlikely in a changing world (Kirk and Miller, 1986), or alternatively is symptomatic of an unrealistic view of the world as unchanging.

The emphasis on reliability, which draws upon the positivist tradition of many researchers, has led some qualitative researchers to argue that reliability is not the issue of concern of qualitative researchers. For instance, Marshall and Rossman (1989, p. 147) have argued that the “positivist notions of reliability assume an underlying universe where inquiry could, quite logically, be replicated.” In their view, from the interpretive/qualitative stance, the social world is always changing and the concept of replication is problematic; thus, the issue of reliability should not be applied to evaluate the value of interpretive, qualitative research. Nevertheless, in the current study, reliability is one of the major concerns of the researcher. As Silverman (2001, p. 226) argues, a belief that the social world is always changing “would rule out any systematic research as it implies that we cannot assume any stable properties in the social world”. Therefore, it is important that the researcher ensures that data obtained are reliable. Qualitative field researchers, in my view, cannot ignore the issues of reliability, not least because (as indicated above) in the absence of high reliability, the validity of the results of the research is necessarily compromised.

With significant criticisms directed at the use of positivist criteria to evaluate interpretive research, various scholars have attempted to develop alternative definitions of validity and reliability, and criteria for interpretive research which are different from those commonly applied in the positivistic tradition. Among these, Kirk and Miller (1986) seem to provide useful definitions. They identify three notions of validity and three types of reliability:

- Construct/theoretical validity – “theoretical paradigm [which] rightly corresponds to observations”
(p. 22)

- Apparent validity – a measuring instrument [that] is so closely linked to the phenomena under observation that it is ‘obviously’ providing valid data (p. 22)
- Instrumental validity – a measurement procedure that “can be shown that observations match those generated by an alternative procedure that is itself accepted as valid” (p. 22)
- Quixotic reliability – “the circumstances in which a single method of observation continually yields an unvarying measurement” (p. 41)
- Diachronic reliability – “the stability of observations through time” (p. 42)
- Synchronic reliability – “the similarity of observations within the same time period” (p. 42)

Although Kirk and Miller also suggest construct validity as one of the important aspects of validity, their interpretation of such validity differs significantly from that of Yin. While Yin focuses on measurement during data collection, Kirk and Miller focus on interpretation of the observations. Yin views construct validity as a problem in field-based qualitative research; in contrast, Kirk and Miller see it as a strength of field study research. Kirk and Miller argue that field researchers continually contrast the observations with theoretical concepts at hand. They repeatedly compare new observations with their prior understandings and perceptions. The emerging descriptions and explanations are tested and retested in an increasingly stronger way, a process that helps to ensure that the theoretical concepts will correspond to the observations.

With regard to reliability, Kirk and Miller note that quixotic reliability is usually trivial and misleading. A broken thermometer which always shows 80 degrees Celsius for boiling water is an example of a measurement instrument that possesses quixotic reliability but produces misleading/invalid results. For ethnographic research, quixotic reliability usually demonstrates only that the researcher has managed to observe the ‘party-line’ or rehearsed information. As for diachronic reliability, it is also problematic; it is only applicable when the phenomena remain unchanged through a period of time

which is unlikely in a changing world (although it is arguable, from a more structuralist perspective, or using an approach like Foucault's, which posits historically specific or provisional epistemic structures, that there is a degree of regularity in how people see, think and act which may yield a form of diachronic reliability at a level beneath the surface of everyday activity). However, leaving that aside, Kirk and Miller argue that synchronic reliability is the most useful for qualitative field researchers, particularly when it fails, because it will force researchers to consider how and why different qualitative measurements might be simultaneously true.

In the current study, the major concern regarding validity is 'construct validity', as defined by Kirk and Miller. The research process involves various activities to ensure that the theoretical concepts developed can provide convincing and meaningful accounts to explain the empirical observations. With regard to reliability, 'synchronic reliability' as defined by Kirk and Miller seems to be most relevant. Although Kirk and Miller argue that the issue of 'quixotic reliability' is trivial, it is also an issue of concern in the study, as it is important for the researcher to ensure that data obtained are not 'rehearsed' information or 'party-line' talk.

There are various threats which may undermine the reliability and validity of research. McKinnon (1988) suggests four types of threat – observer-caused effects, observer bias, data access limitations, and the complexities and limitations of the human mind. Fielding and Fielding (1986) suggest two major sources of bias – a tendency to select data that fit an ideal conception or preconception of the phenomenon, and a tendency to select field data which are striking, at the expense of less dramatic but possibly indicative data.

Various scholars have provided suggestions as to how to achieve reliability and validity in conducting qualitative field research. In the current research, throughout the research process, various strategies and tactics were employed. During an early stage of the research, case study protocol was developed to guide data collection (Yin, 2003). This helped the researcher keep track of data, methods and decisions made during a project (Lincoln and Guba, 1985). An interview guide was formulated and used in other organisations during the exploratory stage of the research (Silverman, 2001). It should be noted that the interview guide was used flexibly, in order to maintain the open nature of the interview, and was continually refined as the research progressed in order to capture the new issues that emerged.

During the data collection process, data were collected systematically. Interviews were tape-recorded, whenever possible, and transcribed carefully; notes were also taken systematically (see Section 3.4.4) to enhance the reliability of the research (Silverman, 2001). The researcher spent considerable time in the field, and whilst present, was attentive to informal discussions among organisational members. This process helped the researcher to better understand both the working environment within the organisation and the relationships between various organisational members, which helped the researcher to identify 'party-line' talk. It also allowed more observations, so that more comparisons could be made (McKinnon, 1988).

At the data collection stage, multiple sources of data or data triangulation were also used. However, this was not used to achieve validity, as suggested by Yin. Rather, multiple sources of data were combined to make better sense of the other data. The researcher did not treat data from any particular source as superior to that from anywhere else.

Whenever conflicting information was found from different sources of evidence, the researcher further investigated reasons for the conflict. Data triangulation forced the researcher to consider “how multiple, but somehow different, qualitative measures might simultaneously be true” (Silverman, 2001, p. 42).

During the analysis process, the researcher continually iterated between theory and observations (as discussed in Section 3.4.5). Rival explanations were considered, and theories were developed, tested, discarded and refined throughout the process. The iterative process helped ensure that the researcher provided a valid account of the phenomena observed (Ahrens and Chapman, 2006a). Narratives of the case study findings were also written and presented to neutral researchers for criticism and challenging interpretations (Lincoln and Guba, 1985).

In writing case study reports, extracts of data have been presented where appropriate and detailed relevant contexts of observations are noted. It is helpful (and indeed inevitable) for readers to formulate their own ideas and feelings about the perspective of the people who have been studied (Bryman, 1988), as this will help enhance the reliability of the research (Silverman, 2001). It will also help enhance external validity, or in Lincoln and Guba’s (1985) terms, ‘transferability’, as it allows readers to use their own judgement to evaluate whether the findings are applicable to other settings familiar to them.

Several scholars have suggested respondent validation (i.e. the feeding-back of the researcher’s interpretation of the phenomenon to the subject of the study, in order to confirm the researcher’s interpretation) as one of the ways to enhance research validity (e.g. Scapens, 1990; Yin, 2003). However, the researcher did not employ this strategy,

partly for practical reasons. Furthermore, as Abrams (1984, p. 8) argues, an “overt respondent validation is only possible if the results of the analysis are compatible with the self-image of the respondents” (quoted in Silverman, 2001, p. 236). This may offer interesting paths for further analysis, rather than helping validate the research report (Silverman, 2001).

3.6.2. Generalisability

In addition to validity and reliability of the research, another important issue of concern among researchers with regard to the value of research is generalisability of the research findings. Case study, particularly single case, research has often been criticised for its inability to generalise beyond specific case(s). The scientific value of case study research is usually challenged by the argument that results and conclusions of such studies are unconvincing because they cannot be replicated in other settings. It has been argued that the depth and insight of case research is gained at the expense of a loss in generality.

The issue of generalisability is largely related to external validity of the research. The argument that research is valuable if its results can be replicated in other contexts is influenced by a positivistic approach which assumes an objective reality ‘out there’, the properties of which can be discovered (and often then acted upon to ‘improve’ how things are done), therefore, focusing on finding replication and reoccurrence of the phenomenon in different contexts. However, from the interpretive and constructivist perspective, meanings are temporary and changing; realities are being constructed and re-constructed. The search for generalisable findings and the application of these to ‘solve’ problems are both activities doomed, if not to failure, at least to discover that the findings are limited

and the 'solutions' temporary, as human action, reaction, thought and insight appropriate, distort and transform both into new forms and further mutations.

As Hansen (2006) argues, the aim of constructivist research is to produce new insight into what the phenomenon means, and thus, to illustrate the fluid nature of practice; hence, replication as suggested by positivist researchers is not a focus and a 'replication logic' is refused. In his opinion, from a constructivist point of view, the case study approach is powerful precisely because things are presented as being heterogeneous, relational and performative. Generality is only one of many ways knowledge can be generated. As Flyvbjerg (2001, p. 76) argues, "Formal generalization is only one of many ways by which people create and accumulate knowledge. That knowledge cannot be formally generalized does not mean that it cannot enter into the collective process of knowledge accumulation in a given field or in a society."

A number of accounting studies have shown that management accounting practices are highly context-specific. The specificity of theorising of qualitative field-based research is one of its strengths, rather than weakness (Ahrens and Chapman, 2006a). For this reason, in the present study, the researcher is concerned with how the empirical findings from the specific case may enhance existing knowledge in the field; generalisation of the findings to a wider population is not a major issue of concern.

3.7. Concluding Remarks

This chapter has attempted to outline and explain the methodological and theoretical approach undertaken to investigate the process of change in MACSs and the performance measurement systems of the AgroBank. It has attempted to justify how and why the

research was carried out in a particular way. It has also explained how the issues of credibility and trustworthiness of the research are considered.

In summary, this research is guided by an interpretive approach, but also engages with the constructivist debate about the ontological nature of the world. The research forms a qualitatively-orientated enquiry into the process of how an imported performance measurement idea, the BSC, is developed, constructed, modified and re-defined within a Thai financial services organisation. To trace the BSC construction and translation process over a period of time and within different organisational units, an intensive field-based research strategy is adopted. The methods employed to collect data include in-depth interview, documentation analysis and direct observation. Although data collected are largely qualitative in nature, quantitative data are not neglected.

The analysis of the research is informed by the ANT approach. The focus of the analysis is on chains of events or actions associated with the BSC construction and translation process. Human and non-human actors or actants connected to the construction and translation of the BSC are captured in the analysis. By adopting the ANT approach, the present research examines accounting technologies 'in the making' rather than studying 'ready-made' technologies. In the research, the BSC is not taken for granted as a fixed object which is diffused into the organisation. Rather, attention is paid to the identities and meanings of the BSC as they emerge via relations of the BSC and other actors or actants in the tie.

As argued in this chapter, the process of change in MACSs and the performance measurement systems always occurs in a context, and is open to 'contingencies, in the

sense of interventions, actions and reactions by agents in locally specific nets. In order to fully understand how the MACSs are developed and used in practice, it is essential for the researcher to understand the historical, economic, social and organisational contexts (both general and local) in which the MACSs operate, as they may have a significant influence on the process of introduction, construction and translation of the new MACS. For this reason, in the next chapter, the development of the Thai economy and the Thai banking sector, the context in which the main case organisation is situated, is examined.

Chapter 4

Overview of the Thai Banking Sector

4.1. Introduction

The preceding chapter discussed the methodological approach of the research. This research is based on a belief that management accounting practices are constructed; they are historically and culturally contingent phenomena. In order to fully understand how a particular management accounting initiative emerges in a particular organisational setting, it is important to understand the context in which the organisation is situated. This chapter, therefore, examines the context of the Thai economy and banking sector to provide an understanding of the context in which the Thai bank being researched operates.

Financial services is an important industry in many economies. Financial institutions, particularly banks, play a vital role in managing and clearing payment systems, which are critical to financial systems and economies of the country (Goodhart et al., 1998). The performance of financial institutions can have a significant impact on other sectors and the economy as a whole, while the health of the economy can greatly affect the operations of financial institutions. As financial institutions and society have long been closely intertwined, many banks, particularly large banks, are often perceived as social institutions rather than business enterprises (Lowell, 1990).

In today's global capitalism era, financial institutions, like many other businesses, are operating in a rapidly changing environment. Advanced technologies have lessened boundaries between countries, and as a result, financial systems in different countries

have become more closely connected. Inevitably, practices and systems within Thai financial services institutions are influenced by international practices and global financial systems. Organisational practices and control systems in different markets have converged, as firms are confronted by similar constraints in the worldwide market (Jensen, 1989). Nevertheless, differences across societies do still exist (Fligstein and Freeland, 1995). Organisational systems, practices and governance structures are politically and culturally distinctive, emerging from specific historical circumstances and conditions (Hamilton and Biggart, 1988; Fligstein, 1990). The institutional environment and interdependencies between firms and key institutions vary across societies, and these institutional contexts tend to influence the structure and behaviour of firms (Whitley, 1992). Therefore, in order to fully understand management practices within the Thai financial services organisation, it is important to examine the structure and development of key institutions of the Thai economy and the Thai financial systems.

In this chapter, the contextual situation, including an analysis of the Thai economy and development of the Thai banking sector, is discussed. The chapter explores the development of key institutions and the interactions of these institutions and financial services organisations within the Thai financial systems. The chapter is organised into four sections. Section 4.2 describes the development and overview of the Thai economy. Section 4.3 depicts the development and current situation of the Thai banking sector in particular, providing a brief history of the Thai banking sector. The context of financial liberalisation during the early 1990s, its impact on Thai financial systems and the operations of the Thai banks are discussed. The 1997 financial crisis, the most recent major turning point of the sector, and its consequences are analysed, and the current structure and situation of the sector is described. Section 4.4 summarises the

development of the Thai economy and financial systems, and explores how the development of the Thai economy and the Thai banking sector influences the structure and management practices of a Thai financial services organisation, the main case organisation of the current research.

4.2. Overview of the Thai Economy

The Thai economy is credit-based, relying heavily on credit from banks, particularly commercial banks. In Thailand, a significant capital market is only a recent phenomenon and one that is not yet well established. Capitalism in Thailand has traditionally been and in significant respects still is 'crony' capitalism, where the patron-client relationship is deeply embedded in the relationships between business people and state bureaucrats, who often adopt policies in favour of banks in order to obtain a share of wealth to secure their political stability (Hewison, 1989). Also, financial institutions have tended to give credit based on personal relationships and business networks rather than the feasibility and prospects of the projects (Thanapornpun, 2002). In such ways, the development of capitalism in Thailand is heavily influenced by the social and political culture of the country.

A further distinctive factor in this culture is the virtual absence of any influence or residue of western institutions and practices from a colonial past. Within Southeast Asia, Thailand is the only country not to have experienced western rule during the period of high imperialism. The maintenance of the formal independence of the country inevitably had a major impact on its social, political and economic development. One of the most important implications was the survival of the monarchy, which had far-reaching social and political implications for the country (Brown, 1988). Although the absolute

monarchy came to an end in 1932, when King Prajadhipok (Rama VII) was overthrown by a coup and a constitutional monarchy was established, the royal family has remained a significant influence in shaping the social and political situation of the country until today. As can be seen, Thai political life is more stable than it may seem to outsiders, despite the enduring heavy military involvement in the political affairs throughout most of Thai modern history; this is widely seen as being because the Thais are united by a popular monarchy (Warr and Nidhiprabha, 1996).

4.2.1. Development of Thai Capitalism

The development of capitalism in Thailand can be broadly classified into five periods: (1) pre-1855; (2) 1855 to 1950s – the Bowring Treaty and the beginning of modern Thai capitalism; (3) 1950s to 1980s – import substitution industrialisation; (4) 1980s to 1997 – export-oriented industrialisation; and (5) 1997 to present – financial crisis and beyond.

4.2.1.1. Pre-1855: *Sakdina* System

Prior to 1855, Thai society was structured under the *Sakdina* system, in which, according to the law, the king had rights over all land in the kingdom but the civil servants could also take up the land according to their status rank (Hewison, 1989). The system created two classes of society – the ruling class and the commoners. The ruling class consisted of royal family and civil servants who were primarily members of the royal family and the nobility. The commoners were bound to provide labour services for their masters for a certain duration each year. Alternatively, they could pay tax to avoid the required labour services. The ruling class earned their living from the collection of rents or from the use of land granted by the crown. During this period, Thai economic power was in the hands of the king, the royal family and a noble elite.

Under the *Sakdina* system, Chinese merchants were drawn into a subordinate relationship with the ruling class. These Chinese merchants had to rely on the *Sakdina* elite for access to surplus production, as the flood of European manufacturers into Thailand during the mid-nineteenth century prevented them from establishing their industrial interests (Brown, 1988). Despite being in a subordinate relation to the ruling class, Chinese immigrants played a major role in international trade.

The *Sakdina* system changed significantly after the signing of the Bowring Treaty in 1855, before eventually being abolished in the 1870s. Nevertheless, it significantly influenced the later development of political, social and economic structures and the development of modern capitalism in Thailand.

4.2.1.2. 1855 – 1950s: The Bowring Treaty and the Beginning of Modern Thai Capitalism

The signing of the 1855 Bowring Treaty can be considered the beginning of modern capitalism in Thailand. It significantly altered the international trade pattern of Thailand, as it prompted Thailand to reform its administration in many ways and to open itself up to unrestricted foreign trade. This created opportunities for the country to expand its exports of rice, timber, rubber and tin, and these commodities became the main exports of Thailand until the 1960s (Hewison, 2002). During this period, the ruling class entered into alliances with foreign and Chinese businesses, and a supportive but competitive business system began to develop (Suehiro, 1989). By the late 1920s, some business groups, comprising principally Chinese merchants, had emerged. Their main businesses were concerned primarily with rice operations, but also sometimes were linked to other

businesses, including shipping, insurance, banking, warehousing and general importing (Dixon, 1999).

In the 1920s and 1930s, domestic and international events brought dramatic changes. Thailand experienced its first financial crisis in 1919-1922 when there was a significant global depression following the end of the First World War. During this period, the international price of silver increased dramatically; consequently, the value of the country's silver coins rose beyond its face value, leading people to melt down coins for export (Warr and Nidhiprabha, 1996). The government was in serious financial trouble, which worsened with the Great Depression in 1929. The government's revenue dropped from 107 million Baht in 1929-1930, to 79 million Baht in 1931-1932 (Warr and Nidhiprabha, 1996). The financial crisis was one of the major reasons leading many bureaucratic elites to lose confidence in the monarchy's government. In 1932, a coalition of bureaucratic elites and commoners, who were economic nationalists and opposed to the monarchy and its state, seized the state and established constitutional rule. Thereafter, Thailand has been governed under a constitutional monarchy system. This significant change in the Thai political system has also led to substantial changes in the social and economic development of the country.

The new government began to take direct involvement in the development and control of the economy. In 1933, a national economic plan was developed, with emphasis on the central role of the state in controlling land and developing infrastructure and industry (Dixon, 1999). From the mid-1930s to mid-1940s, many state-owned enterprises were established, which were involved in various activities, including the railway, power and

water supplies, the manufacture of cigarettes, paper, textiles, soap, glass, silk and gunny sacks, and the distilling and processing of cassava, rubber and sugar (Dixon, 1999).

Many economic measures introduced in the 1930s contained strong nationalistic elements with attempts to reduce the influence of Chinese business. However, despite the dominance of nationalism in the economic debate, Chinese migrant families in Thailand were able still to fit into the society and were not subject to social and economic discrimination, unlike the Chinese community in many other Southeast Asian countries. Phongpaichit and Baker (1996) argue that Chinese merchants were able to continue their trading activities without much discrimination partly due to the fact that Thailand had never been colonised by western powers. In many other countries, nationalists viewed the Chinese migrant merchants as collaborating in colonial exploitation; they, therefore, attempted to expel the Chinese community together with the colonial rulers. Since Thailand had no colonial rule, they argue that nationalist politicians in Thailand did not have the same emotional popular support from local citizens as the nationalists in colonial territories. By the 1950s, the nationalistic policies were being gradually abandoned (Dixon, 1999).

From the 1940s, the Chinese migrants began to set up business syndicates, which later dominated Thai business over the next half century. The Chinese merchants grew wealthier on the new business opportunities. At the same time, their relationships with the nationalist politicians became closer as the politicians sought wealth support to build up their political power, whilst Chinese entrepreneurs, in turn, received privileges in many business opportunities from the politicians (Phongpaichit and Baker, 1996).

4.2.1.3. 1950s – 1980s: Import Substitution Industrialisation

In 1957, there was another military coup, which brought significant changes to Thai political, social and economic development. The new government, under the lead of General Sarit Thanarat, strongly emphasised economic development and promoted private investment. The government shifted its role from being directly involved in the operations of state enterprises to focusing on developing the infrastructure needed for economic development, and concurrently promoting private investments (Hewison, 2002). Most of the state enterprises established during the 1930s and 1940s, with the exception of infrastructure companies, were closed down or sold off during the mid-1950s (Phongpaichit and Baker, 1996).¹⁹ To support the development during this period, a number of organisations were established, including the Board of Investment and the organisation that later became the National Economic and Social Development Board (Hewison, 2002).

Under the Sarit government, the Thai international trade pattern also changed rapidly from that of a relatively backward exporter of agricultural products to that of an economically progressive state with exports dominated by manufactured goods and services (Warr, 1993). The manufacturing sector's contribution to gross domestic product (GDP) started to grow (see Figure 4.1). As with other developing countries, Thailand favoured product market policies which implied taxation on agriculture and subsidised industry. The government also implemented a number of measures to protect some parts of the manufacturing sector.

¹⁹ Most of the state enterprises did not operate efficiently. However, it appears that they were closed down primarily for non-economic reasons, e.g. due to the strong recommendations of US advisors, who argued that state capitalism was dangerously socialist (Phongpaichit and Baker, 1996).

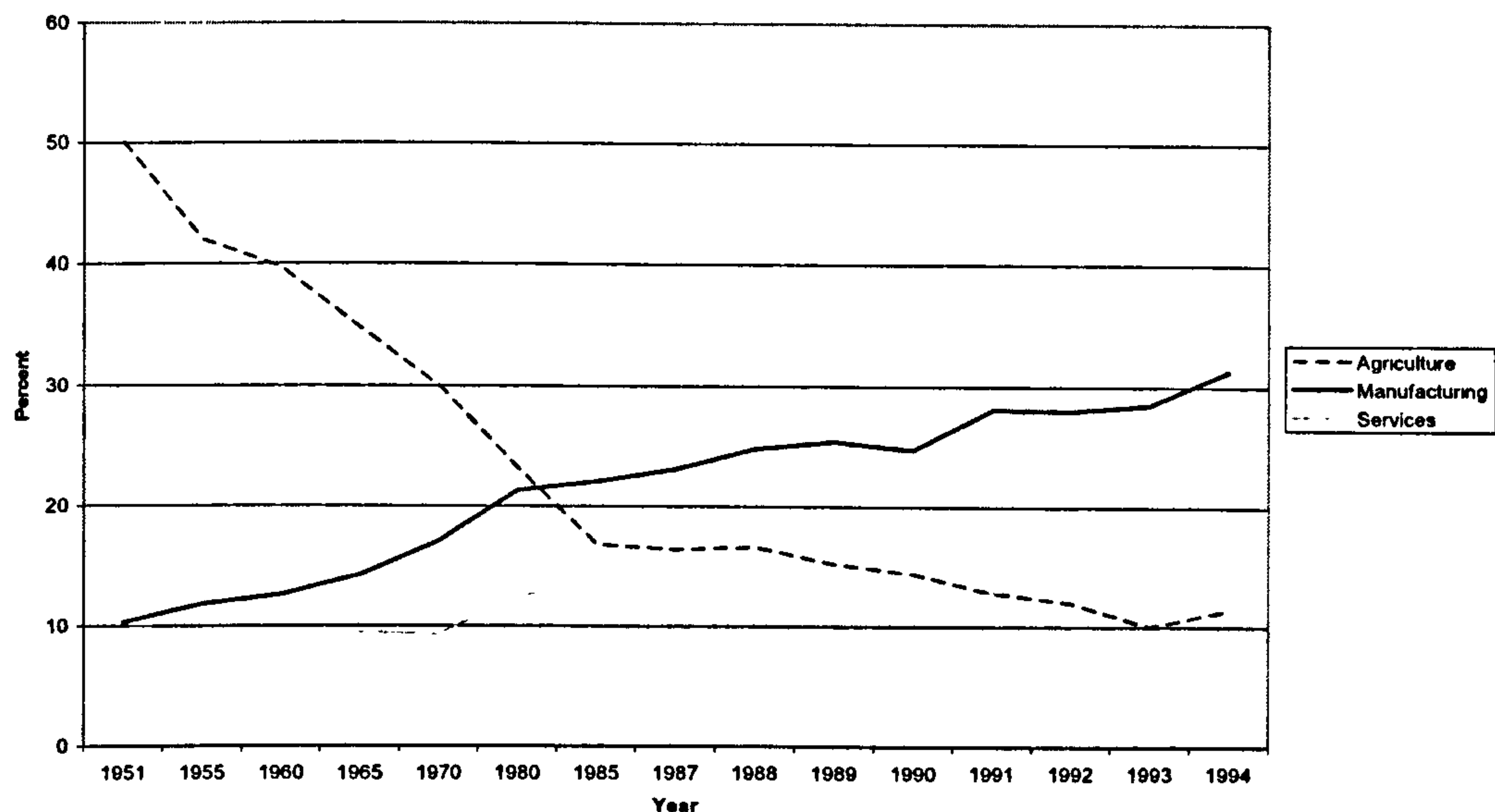


Figure 4.1: Share of GDP of agriculture, manufacturing, and service sector, 1951-1994 (Dixon, 1999, p. 10)

Throughout the 1960s and 1970s, a growing number of conglomerates, which later dominated the Thai urban economy, appeared. These conglomerates were established by groups of Chinese entrepreneurs, many of whom also had banking businesses or were closely associated with families which owned commercial banks (Hewison, 1989). The leading Chinese merchant families cooperated with each other to foster the immigrant community. Over the years, the connections between business families became tighter and more complex. As Phongpaichit and Baker (1996) observe, by the late 1970s, there were approximately 30 groups of conglomerates which had interests in more than 800 companies. A network of control among these Chinese conglomerates was also tightened through 'business marriages', as many Chinese families tended to be very large, providing plenty of opportunities for 'business marriages' (Hewison, 1989).

4.2.1.4. 1980s - 1997: Export-Oriented Industrialisation

While the strategy of agricultural expansion and import substitution policies worked well for three decades, in the 1970s, the conglomerates began to pressure the government to

undertake a manufactured-export-led strategy, following the pattern of the Four Tigers – Korea, Taiwan, Hong Kong and Singapore (Phongpaichit and Baker, 1996). Many technocrats also started to worry about the limitations of the agriculture-led strategy. However, despite pressures from businessmen and technocrats, the government still maintained the import-substitution policies until the economic downturn in the 1980s.

Economic circumstances began to change from the late 1970s. The prices of agricultural commodities started to decline; also, the value of the Thai currency, the Baht, being tied to the US dollar, began to increase, making Thailand's exports less attractive (Hewison, 2002). The government attempted to stabilise the economy through rigid deflation; however, the high interest rates, in turn, provoked a major business crisis. As Phongpaichit and Baker (1996) observe, in 1984, one bank crashed and three had to be bailed out. 22 finance companies went out of business and another 25 had to be rescued by a 'lifeboat' scheme. Many large conglomerates faced financial difficulties, while thousands of smaller companies went bankrupt.

Triggered by the crisis, the government perceived a need to shift the economic strategy to a manufactured-export orientation in order to utilise the advantage of cheap labour to produce commodities for the world market (Hewison, 2002). A dual track approach (i.e. blocking imports and promoting exports) was pursued (Talerngsri and Vonkhorn, 2005). The major exports of the country shifted from rice and other agricultural commodities to labour intensive manufactures (see Figure 4.2).

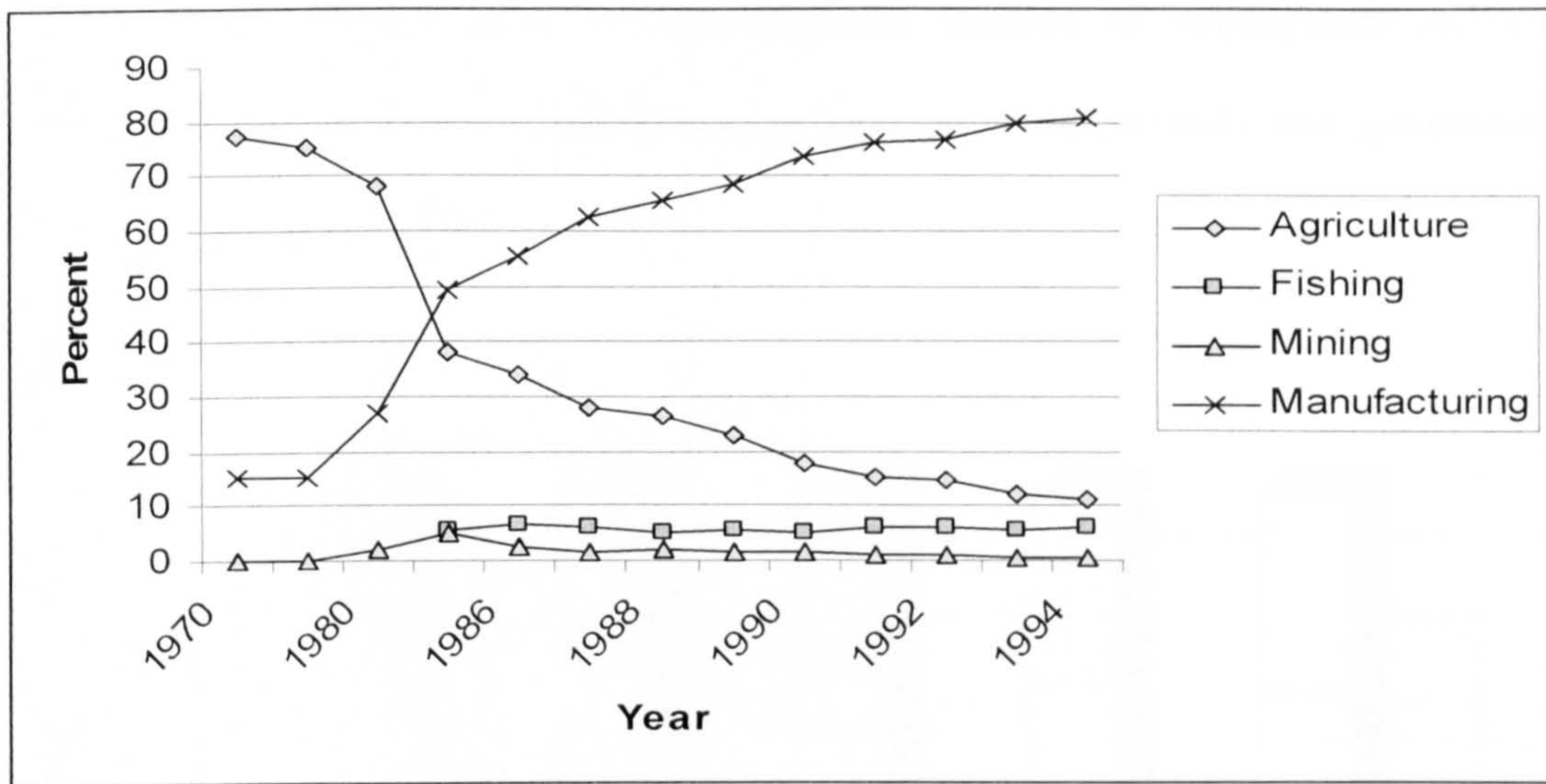


Figure 4.2: Composition of export earnings in percentage (Dixon, 1999, p. 5)

During the 1980s, significant growth in the number of factories in Thailand can be observed. This was not only due to the shift in economic policy, but also a result of the decline of Japan's comparative advantage in manufacturing and the global trend towards the 'un-bundling' of manufacture processes; many Japanese firms started to un-bundle their manufacturing process and offshore labour-intensive stages of production to nearby East Asian nations (Baldwin, 2006). Such a strategy was later followed by Taiwan, Korea, Singapore and Hong Kong. As a consequence, a number of manufacturing plants were built in less developed countries in East Asia, including Thailand.

During this period, the share of GDP from the manufacturing sector increased significantly, and in the mid-1980s, it overtook that from agriculture (Warr, 1993). As for the share of GDP from services, there was scarcely any change over these years (see Figure 4.1). In terms of employment structure, the share of employment in the agricultural sector also declined but the share of employment in the service sector increased significantly (see Figure 4.3). Despite a decline in GDP and employment in the

agricultural sector, agriculture still provided the benefits of employment and self-sufficiency in rural areas. In addition, agribusiness, both privately and government-owned, continued to expand.

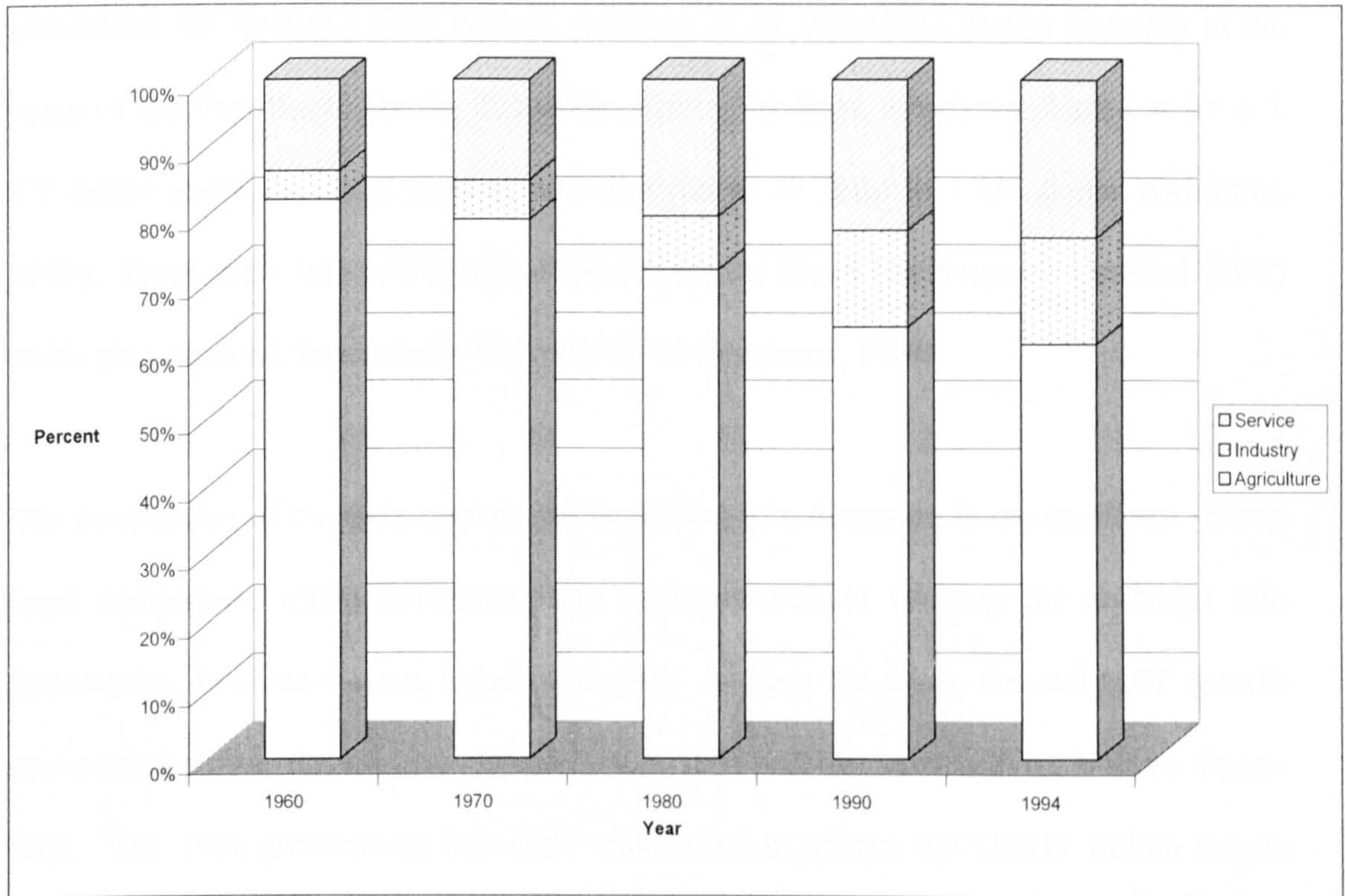


Figure 4.3: Structure of employment in Thailand, 1960-1994 (Dixon, 1999, p. 12)

Growth during this period was predominantly driven by the private sector (Hewison, 2002). Foreign investment also increased substantially. Between 1986 and 1990, Thailand stood out as one of the fastest growing economies in the world, with an average real GDP growth rate of 11.5 percent (Talerngsri and Vonkhorporn, 2005). However, the economic situation of Thailand changed significantly in 1997.

4.2.1.5. 1997 to Present: Financial Crisis and Beyond

In 1997, a financial crisis struck East Asia, Thailand being the first country to face this financial shock.²⁰ Thailand experienced both currency turmoil and serious banking problems. On 2nd of July, the government abolished the fixed exchange rate system²¹ and announced the managed float system, resulting in an immediate drastic decrease in the value of the Thai Baht. By the end of December, the Baht, which was traded at 24 to 1 US dollar under the fixed regime, had dropped to 47 Baht to 1 US dollar (Brimmer, 1998). From early July to the end of December, the Stock Exchange of Thailand (SET) index also declined dramatically from 125 to 30 (Brimmer, 1998).

The devaluation of the Baht marked the beginning of a downturn in the economy. Many local companies, which borrowed from overseas without hedging for exchange rate movements, fell into serious financial trouble. During the crisis, the real GDP growth rate went negative, dropping to -1.4 percent in 1997 and -10.5 percent in 1998 (see Figure 4.4). The Thai government had little choice but to accept the US\$17 billion rescue package from the IMF. The IMF, and other international organisations, pressured the government to undertake a range of policy and institutional reforms, including privatisation, increased access for foreign investors, new laws on bankruptcy and foreclosure and good governance practices (Hamilton-Hart, 2002). A large number of foreign consultants became involved in the reform programmes.

²⁰ There have been a number of explanations for the 1997 crisis, which are discussed in more detail in Section 4.3.2.2.

²¹ In 1955, the Bank of Thailand adopted the fixed exchange rate system, and Baht currency was pegged to the US dollar. In 1984, the exchange rate system was officially changed to a 'flexible exchange rate system', where the Baht was tied to a basket of currencies; the basket was dominated by the US dollar (War, 1993).

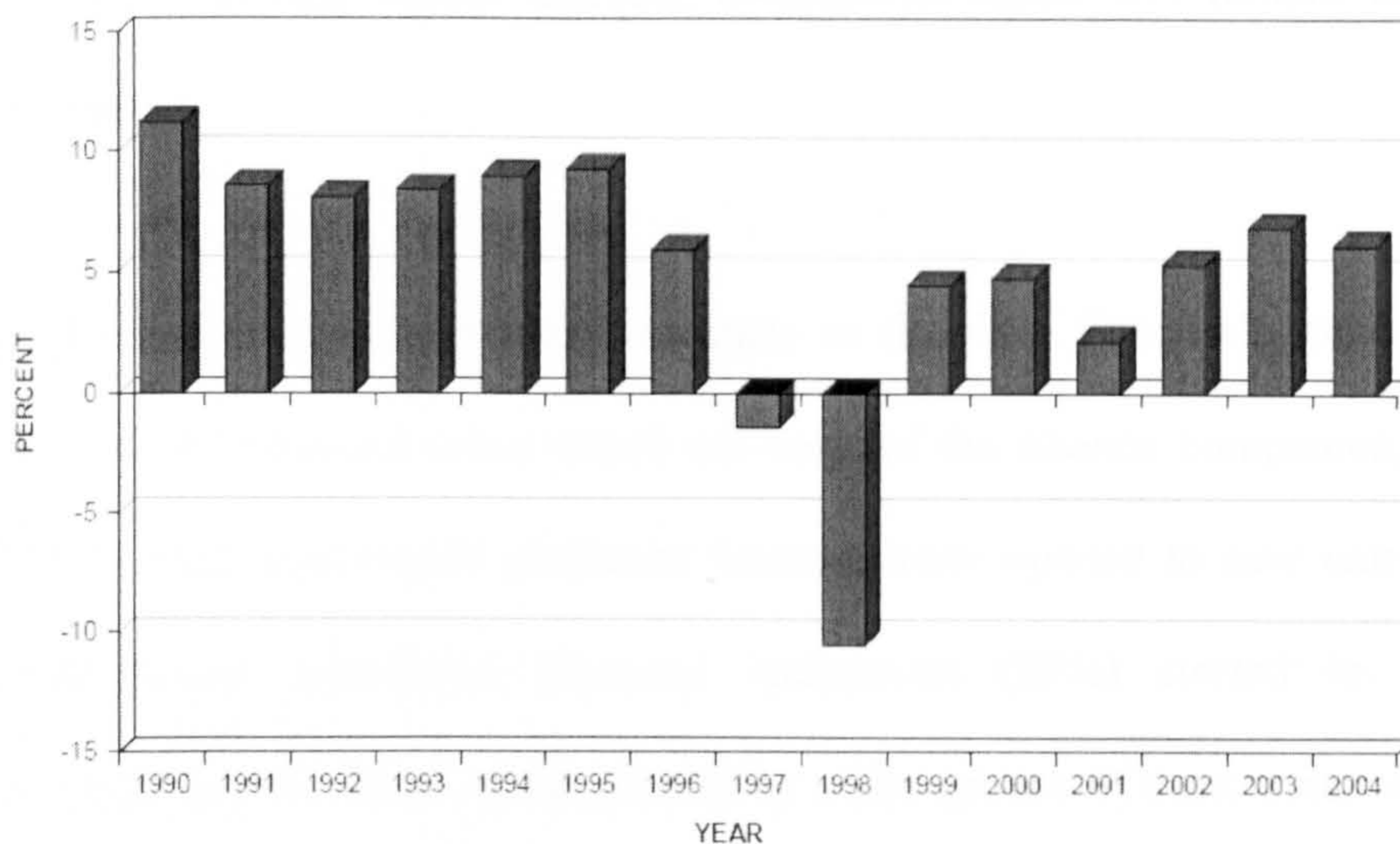


Figure 4.4: Real GDP growth, 1990-2004 (Thailand Development Research Institute, 2005, p. 21)

Despite the major crisis, the Thai government still continued to implement the market-oriented reform programmes. The government also adopted various measures to reduce or eliminate trade and investment barriers in order to integrate Thailand more into the global economy (Talerngsri and Vonkhorporn, 2005).

4.3. Development of the Thai Financial System and Thai Banking Sector

At a broad level, the Thai financial system comprises four major constituents – commercial banks; capital markets; state-owned specialised financial institutions; and non-bank financial intermediaries which include finance companies, credit foncier²² companies, life insurance companies and co-operatives. Among these constituents, commercial banks are the oldest and largest part in the system, accounting for the largest component in terms of total assets, credit extended and savings mobilised (Warr, 1993). The development of capital markets is still in its infancy; the Stock Exchange of Thailand (SET) only started its operation in 1975. Although many large companies have begun to

²² Credit foncier is a financial institution providing mortgage loans.

raise their finance through capital markets, commercial banks still remain the major source of capital.

During the previous decade, substantial changes in the Thai financial system can be observed. The 1997 financial crisis wiped out most of the finance companies, and the banking sector, which was highly protected, became more opened to new entrants. In addition, state-owned specialised financial institutions (SFIs) started to play an increasingly important role in providing credit for wider groups of customers. Although SFIs tend to focus on specific customer groups largely not of major interest to commercial banks, some of the SFIs have recently pursued a more pro-active strategy, attempting to expand their operations to commercial areas.

In the Thai banking sector, the major regulators are the Ministry of Finance and the Bank of Thailand (the central bank). For commercial banks, finance and credit foncier companies, the central bank acts as a sole regulator, whereas state-owned SFIs are supervised and regulated by both the Ministry of Finance and the central bank. Other ministries are also involved in the supervision of some of the SFIs, such as the Small and Medium Enterprise Development Bank of Thailand.

4.3.1. A Brief History of the Thai Banking Sector Prior to the 1997 Financial Crisis

The modern banking system in Thailand was started by westerners. It began in 1888, when the Hong Kong and Shanghai Banking Corporation established its first branch in the country. This was followed by the Chartered Bank of India, Australia and China in 1894, and the Banque de L'Indochine in 1897 (Chaiyasoot, 1993). The first indigenous

local bank, the Siam Commercial Bank, was established in 1906 by Prince Mahisra Raj Haruetai, the Minister of Finance at the time. His initiative in establishing the local bank came primarily from two major concerns – (1) the inadequacy of banking facilities for non-European people; and (2) the dominance of British banks in the exchange business in Bangkok which threatened to harm Thai political sovereignty (Brown, 1988). Following the establishment of the Siam Commercial Bank, other, primarily Chinese, local banks were founded to support the Chinese rice milling and export business to China. Despite the establishment of local banks, European banks continued to dominate trade finance. The European banks tended to employ local people, especially Chinese businessmen, as their partners, due to the fact that the European bankers had limited knowledge of local business conditions and languages (Chaiyasoot, 1993). The European banks prospered under this system until the 1940s.

In 1942, during the Second World War, Thailand was occupied by Japan, and all foreign banks, with the exception of the Japanese, were forced to suspend their operations (Phongpaichit and Baker, 1996). This led to the end of the control of the European banks in the Thai banking system. In 1944, as the war's tide turned, nine Chinese business families set up a partnership to exploit the opportunity to establish new commercial banks, and four of these Chinese-owned local commercial banks came to dominate trade financing during this period (Phongpaichit and Baker, 1996).

In 1955, the Thai cabinet passed a decree to restrain the approval of new banks, which made it more difficult for local businessmen to acquire a licence. In addition, foreign banks were not allowed to open new banks if their countries already had a banking business in Thailand. The regulations which protected the industry from the new entrants

provided an opportunity for the existing players to expand their businesses without serious competition (Chaiyasoot, 1993). The existing large commercial banks enjoyed substantial growth. The six largest banks – four Chinese-owned, one state-owned, and one controlled by the royal family – were able to increase their market share significantly. In 1967, these banks controlled almost 62 percent of the total commercial bank assets, and this increased to 68 percent in 1972 and to more than 75 percent in 1983 (Hewison, 1989).

Due to the increasing concentration in the market, the government introduced a policy to encourage the entry of more finance companies in the early 1970s in order to place stronger competitive pressure on the commercial banks. Although the number of investment, securities and finance companies increased to 113 in 1977 (Hewison, 1989), the policy did not work well, as many of the finance companies were owned by the commercial banks (Chaiyasoot, 1993).

In addition to market concentration, there was ownership concentration within the local banks. In most of the major domestic commercial banks, ownership was concentrated among a group of people from the same family. In order to diversify bank ownership, the government amended the Commercial Banking Act B.E. 2505, making it illegal for a shareholder to hold more than 5 percent of the total shares in a particular bank (Chaiyasoot, 1993). In addition, the Stock Exchange was used as a means to reduce ownership concentration by limiting the number of shares a person may hold (Phongpaichit and Baker, 1996). Despite an increase in the number of shareholders resulting from the new regulations, little was changed in terms of control within the

banks, as former major shareholders were still able to use other people and their affiliated companies to buy new shares, enabling them to retain control (Chaiyasoot, 1993).

The Chinese banking families did not focus only on banking business; they also expanded their investments to other businesses. Throughout the 1960s and 1970s, banking families established a large number of conglomerates. By 1979, 295 companies, conducting a wide range of businesses including finance, trade and manufacture, were established by the four major Chinese-owned local banks (Phongpaichit and Baker, 1996). The commercial banks not only provided capital for these conglomerates, but also acted like informal chambers of commerce and business consultants for the conglomerates of their groups. These commercial banks also facilitated deals, found overseas contacts through their networks and managed political relations for their conglomerates (Phongpaichit and Baker, 1996).

In the mid-1970s, tensions between bankers and politicians began to emerge. The general public, led by groups of students and academics, started to criticise banks for considering profits rather than the best interests of society. Such criticisms led to revisions in financial regulations in 1979, including the limitation of commercial bank investments in other businesses (Hewison, 1989). As a result of the new regulations and for economic reasons, banks started to divest themselves of large, direct holdings in conglomerates. Although there was a change in terms of direct ownership between banks and other business enterprises, the culture of relying heavily on personal relationships when considering loan applications still remained (Wisitsora-at, 2001).

During the late 1980s and 1990s, the government continued to further break down the monopoly of the local commercial banks. The government attempted to widen the capital market and legalised offshore banking, so that companies could get access to other sources of funds. Although these mechanisms might have helped reduce the market concentration, local commercial banks have played a crucial role in the Thai economy, and the Thai financial structure has remained in the form of a credit-based system (i.e. banks are the major sources of capital for companies) until the present day (Phongpaichit and Baker, 1996; see Figure 4.5).

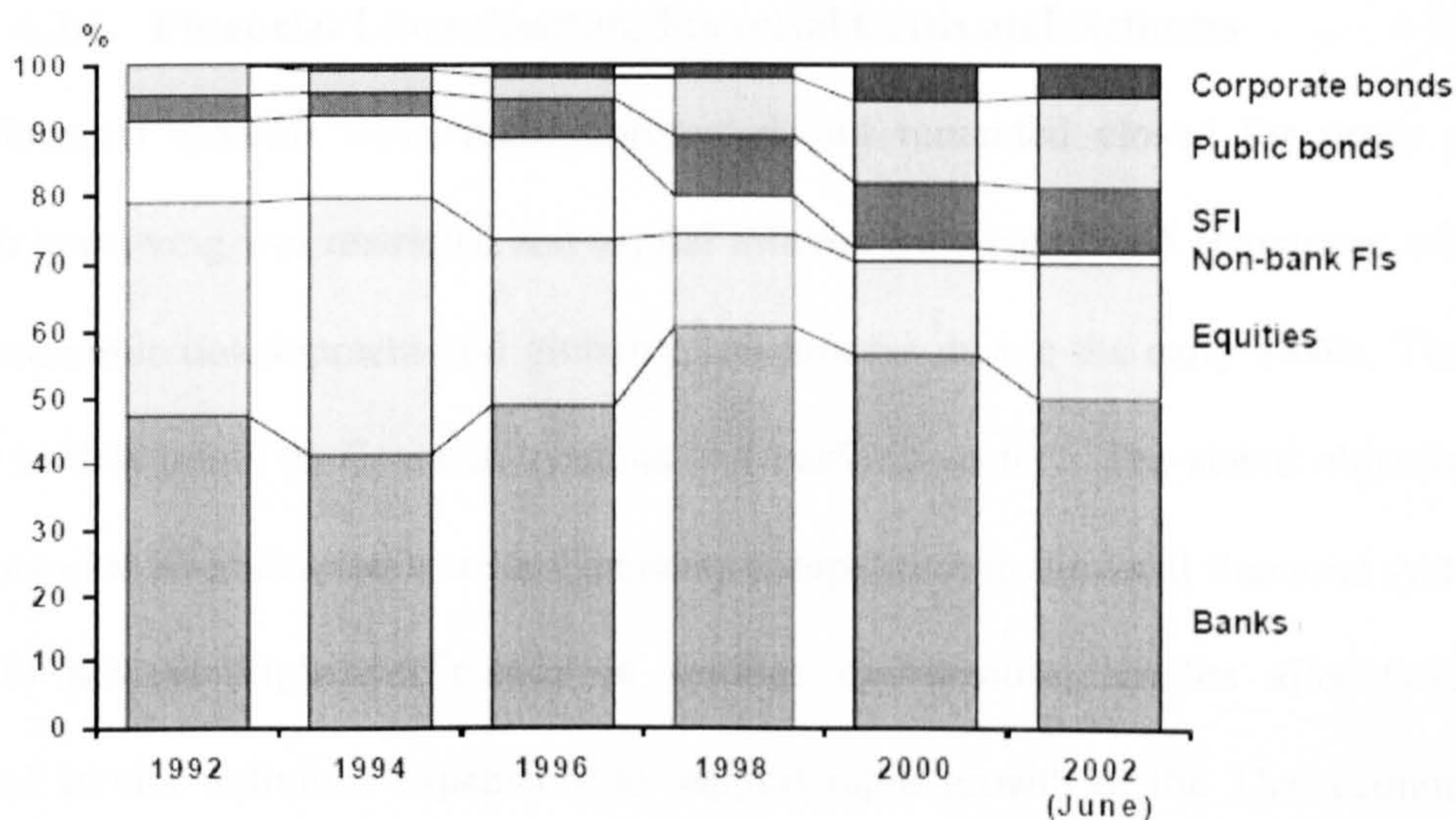


Figure 4.5: Percentage of credit extended by various groups of financial institutions, 1992-2002 (Subhaswasdikul and Nakornthab, 2003, p. 8)

Given this development within the Thai financial services industry, it is understandable why the Thai financial services sector was dominated by local commercial banks. These commercial banks operated in a cartel structure, loosely organised under the Thai Bankers Association.²³ Important decisions regarding interest rates and other price-setting

²³ The Thai Bankers Association was founded in 1958 by the 15 commercial banks at the time.

decisions in the money market were influenced by the four large commercial banks through the Thai Bankers Association (Warr and Nidhiprabha, 1996). They collectively set the standard rates for service charges and loan rates, prompting interest rates to respond slowly to market conditions. Commercial banks also maintained strong linkages with politico-bureaucrats, largely through marriage and/or seats on the boards (Hewison, 1989). As in many other countries in Asia, lending practice concentrated on collateral more than on an analysis of cash flows. Personal guarantees from owners and directors of the borrowing entities were also common (Wisitsora-At, 2001).

4.3.2. Financial Liberalisation, Financial Crisis and Reforms

Thai financial systems were highly protected and remained closed for many years. Foreign borrowing was restricted and capital inflows were controlled. However, with the rapid economic development and globalisation process during the early 1990s, Thailand started to deregulate its financial systems and banking sector. The stated objectives of Thai financial liberalisation were to “increase competition in the local financial system in order to achieve higher efficiency in savings mobilization, credits allocation, and financial service activities expansion, to support rapid growth of the Thai economy as well as to develop Thailand to become the financial center of the region” (Chantip et al., 1995, p. 2). The financial liberalisation and the subsequent financial crisis in 1997 have had a major role in triggering the substantial changes that have taken place over the past two decades in Thai financial systems and in the banking sector as a whole.

4.3.2.1. Financial Liberalisation

Thailand took its first major step towards liberalising its financial systems by accepting Article 8 of the IMF’s Articles of Agreement in 1990. The acceptance of the Article was

followed by a series of deregulatory measures in the financial systems. The central bank gradually lifted interest rate ceilings, starting from interest rate ceilings on time deposits with a maturity of more than one year, in 1989. In 1990, the relaxation was extended to time deposits of one year or less, and in 1992 all interest rate ceilings were abolished (Leightner and Lovell, 1998). The government also further opened the financial markets in 1993 by establishing Bangkok International Banking Facilities (BIBF) as an offshore banking centre to facilitate foreign capital flows. Under the BIBF scheme, qualifying banks were allowed to provide international banking services (Siamwalla, 2001). The relatively high domestic interest rates, allied to the global trend towards capital flows into emerging market economies and the establishment of the BIBF, led to a great flow of foreign capital into Thailand (Wattanagase, 2001; see Table 4.1).

Table 4.1: Thailand's external debt, 1990-2001

End of year	Short-term external debt		Total external debt	
	Million Baht	As % of total external debt	Million Baht	As % of GDP
1990	10.417	35.5432	29.308	
1991	15.391	40.63309	37.878	
1992	18.914	43.35985	43.621	
1993	22.634	43.43754	52.107	41.68726
1994	29.179	44.98281	64.867	44.95758
1995	52.398	51.96565	100.832	60.02388
1996	47.743	43.90484	108.742	59.7847
1997	38.294	35.04338	109.276	69.37696
1998	28.44	27.06973	105.062	93.05842
1999	19.539	20.55633	95.051	77.66377
2000	14.694	18.43317	79.715	65.18584
2001	13.37	19.85152	67.35	58.72762

Source: Charoenseang and Manakit (2002, p. 601)

While financial liberalisation brought increasing opportunity and freedom to local financial institutions, it also created a more competitive environment within the financial services sector. Domestic banks had to compete with foreign capital for the financing of domestic projects. In addition, the central bank widened the scope of activities that

finance and security companies could undertake so that they encroached increasingly on the traditional terrain of commercial banks' activities. Thus, commercial banks faced increasing competition among themselves as well as from almost a hundred finance and securities companies. Confronted with new opportunities to make profits but, at the same time, increased competition from new entrants, many local banks were pressured to take on higher, and sometimes, in retrospect, excessive risks in order to earn as much profit as they could whilst they were still able (Leightner and Lovell, 1998).

During the first period of financial liberalisation, the underlying economic strength and infrastructure were not yet well-established, posing threats to the Thai financial markets (Watanagase, 2001). The regime of financial regulation and the supervision of the regulators were also weak (Charoenseang and Manakit, 2002). Financial liberalisation without a sound economic infrastructure and adequate regulatory systems was seen in retrospect as one of the major internal factors leading to Thailand's financial crisis in 1997.

4.3.2.2. The 1997 Financial Crisis

As discussed in Section 4.2.1.5, in 1997, Thailand was hit by one of the most serious crises in its history. Many factors contributed to the crisis, including weak regulations, a mismatch of sources and uses of funds, and the un-hedged foreign currency borrowings of local companies. As discussed in Section 4.3.2.1, during the period of financial liberalisation, there were strong capital inflows into the Thai financial system, as into other emerging markets. However, there was no prudent limit on loan concentration, leading to an overinvestment in some risky sectors, such as real estate (Charoenseang and Manakit, 2002). Moreover, banks were pressured by shareholders to pay attractive

dividends; they therefore tended to invest in high risk projects with the expectation of high profits (Watanagase, 2001). In addition, as commonly found in other Asian countries, Thai banks tended to judge borrowers by their connections, particularly political connections, rather than rating their creditworthiness (Wisitsora-At, 2001). As bank lending practices were mainly collateral-based, cash flow or project feasibility analyses received less attention (Watanagase, 2001). Furthermore, during financial liberalisation, many companies borrowed money from overseas without hedging for any foreign exchange risks, as the exchange rate was fixed at that time. After the government announced the abolition of the fixed exchange rate regime, the value of the Baht fell sharply, intensifying the debt problems among many Thai corporations. Foreign investors lost confidence and pulled capital out of the country.

With the sharp decline in the Thai economy, many companies fell into serious financial difficulties. As a consequence, non-performing loans increased substantially (see Figure 4.6). Banks and other financial institutions faced severe problems, needing to increase their capital to make up for the deteriorating assets (Siamwalla, 2000). In many cases, foreign capital was sought, while in other cases, the government had to get involved.

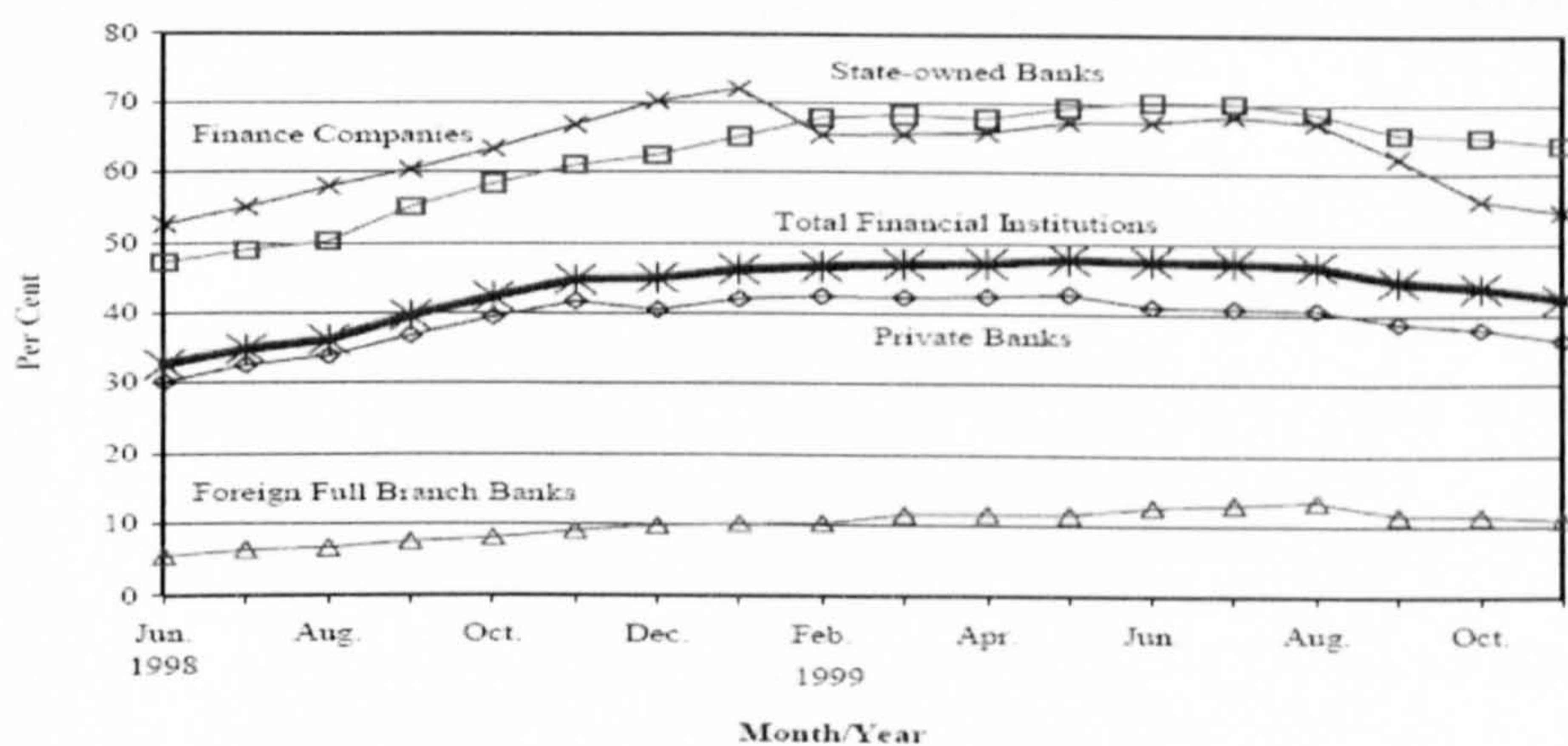


Figure 4.6: Non-performing loans in Thai financial institutions as percentage of their outstanding loans (Siamwalla, 2000, p. 9)

4.3.2.3. Financial Reforms

The financial crisis in 1997 led to substantial changes in Thai financial systems and the Thai banking industry. As discussed in Section 4.2.1.5, Thailand accepted the rescue programme from the IMF, which required the government to undertake significant reforms to restore and strengthen the stability of the financial systems. Reforms relating to the financial services and banking sector included the closure of non-viable banks and other financial institutions, as well as mergers among financial institutions, and regulatory changes.

During the crisis, the government intervened and took seven struggling banks into state ownership; some of them were later sold to foreign investors, while two of them were closed permanently in 1998 (Chudasri, 2002). In addition to mergers and closures of commercial banks, 16 finance companies had their operations suspended in June 1997, with another 42 being suspended in August 1997; later in December 1997, 56 out of the 58 suspended companies were closed permanently (Charoenseang and Manakit, 2002). After 1997, consolidations among struggling financial institutions continued. Many large, surviving banks also sought foreign partnerships (see Figure 4.7). In these large commercial banks, the families still retained management control, although family ownership was diluted (Hewison, 2002).

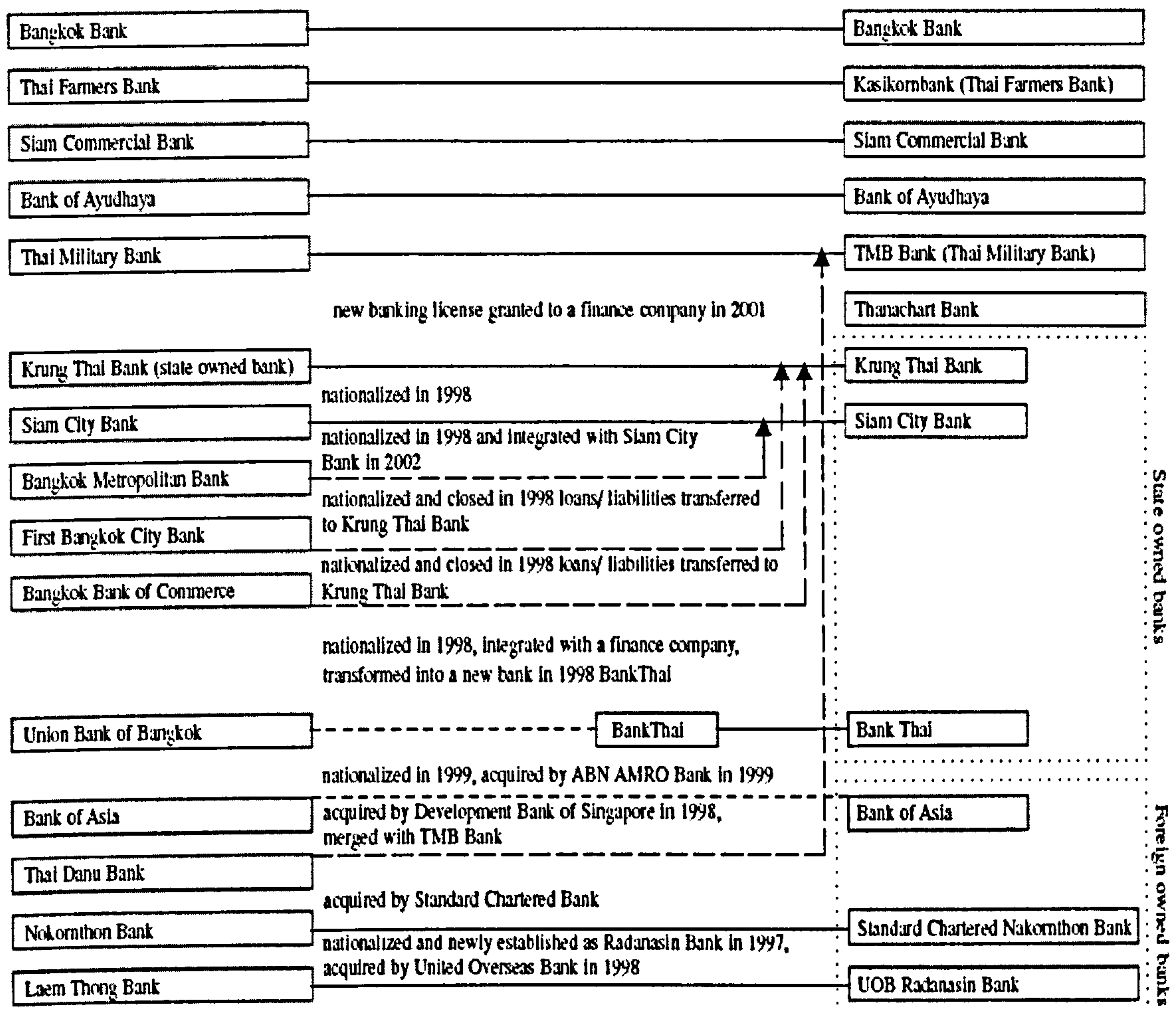


Figure 4.7: Re-organisation of the Thai commercial banks (Kubo, 2006, p. 329)

Since the financial crisis, foreign investors have come to play an important role in the Thai banking industry, and have been able to enhance their roles in Thai financial systems due to the changes in the regulations on foreign ownership after the crisis. Prior to the crisis, foreign investors were allowed to hold no more than 25 percent of the total shares of the commercial banks. This was increased to 49 percent under the new regulations. In addition, for a period of ten years after the crisis, foreign banks were allowed to take full ownership in the existing domestic banks. After ten years, they would not be required to divest their shares, but they would not be allowed to acquire more shares if they held more than 49 percent of total shares. Such changes in regulations arose out of the need

for recapitalisation of the local financial institutions when insufficient domestic capital was available.

Under the new Financial Sector Master Plan, non-bank financial institutions were also encouraged to merge to set up restricted-licence banks, which could be further upgraded to become full commercial banks at a later stage (Watanagase, 2001). Mergers among non-bank financial institutions and the upgrade of non-bank financial institutions have led to a number of new entrants into the banking industry as compared to the previous two decades when new entrants were rare.²⁴

It can be seen that since the financial crisis, the competitive environment in the Thai banking sector has changed significantly. Changes in ownership and new entrants are among the important changes. While foreign banks focused their businesses on the wholesale market prior to the crisis, they can now exploit the existing extensive branch networks of the acquired domestic banks to expand their businesses in the retail market (Watanagase, 2001). With rapid changes in the regulatory and competitive environment, many banks have undertaken extensive changes within their organisations. Organisational re-structuring and re-engineering have been undertaken with an aim to improve efficiency and reduce operating costs. Redundancies have been made by various methods; new risk management and internal control systems have been implemented; and new technologies and automated machines have been introduced.

²⁴ From 1967 to 1993, there were only two commercial banks set up (Lawler and Siengthai, 1997).

4.3.3. Current Structure of the Thai Banking Sector and Future Challenges

Through the reforms after the financial crisis, the banking sector has undergone substantial changes, both in terms of regulation and structure of the sector. Mergers among financial institutions and the upgrade of non-bank financial institutions to become commercial banks are still ongoing. At the end of 2005, there were 16 local commercial banks, 18 foreign banks, 10 finance companies, 4 credit foncier companies and 5 state-owned SFIs (see Table 4.2).

Table 4.2: Number of financial institutions, 1992-2005

	1992	1996	2000	2004	2005
Commercial banks					
Local banks	15	15	13	12	16
Foreign banks	14	14	21	18	18
Finance companies	92	91	21	18	10
Credit foncier companies	18	12	10	5	4
State-owned SFIs	5	6	6	5	5

Source: Kubo (2006, p. 328) and the Bank of Thailand Supervision Report (2005, p. 29)

Despite substantial changes in the structure and ownership of the Thai banking sector after the crisis, commercial banks remain major players in the Thai financial services sector (see Figures 4.8 and 4.9). The dominant market share of loans still remains concentrated among the six large local commercial banks, with their total loans accounting for approximately half of the whole financial sector (Kubo, 2006).

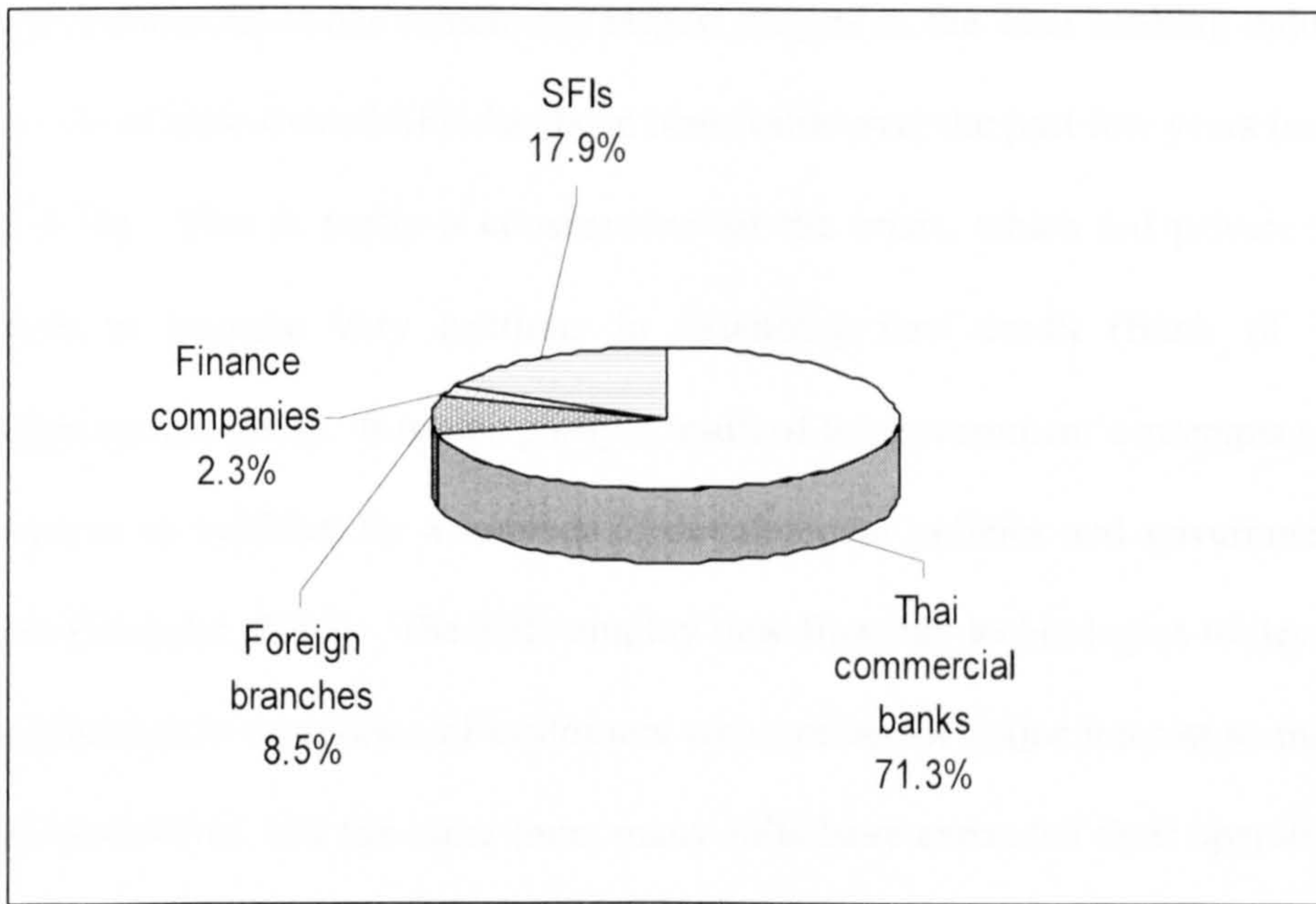


Figure 4.8: Market share of credits extended by financial institutions, as of December 2005 (Source: Bank of Thailand supervision report, 2005, p. 29)

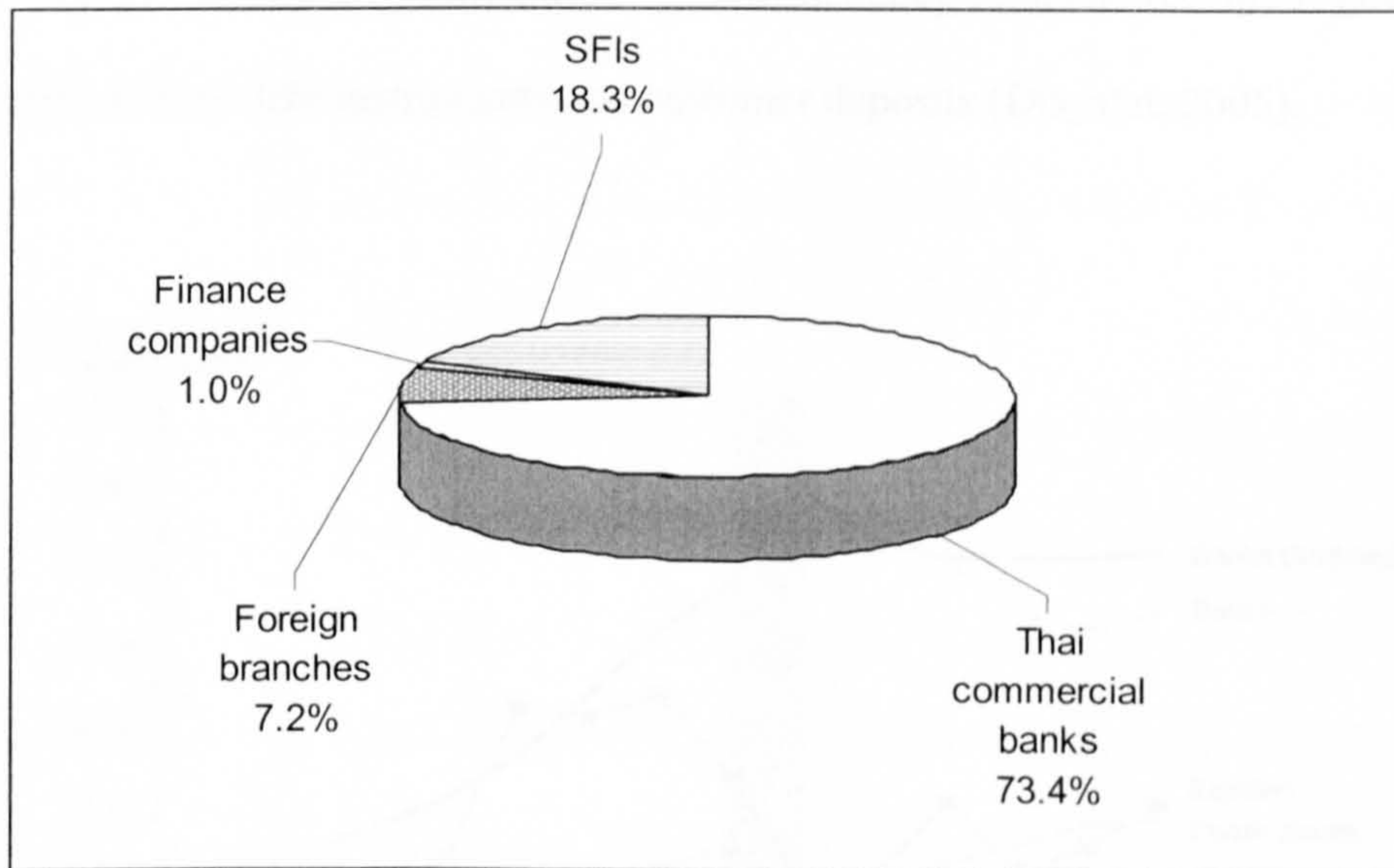


Figure 4.9: Market share of deposits of financial institutions, as of December 2005 (Source: Bank of Thailand supervision report, 2005, p. 29)

Although commercial banks remain the largest players in the Thai banking industry, the growing role of state-owned SFIs has been observable over the past few years (see Figure 4.5 and 4.10). This is partly a consequence of the crisis, which led private financial institutions to become very cautious in extending new credit (Bank of Thailand supervision report, 2002). It is also partly a result of the government's attempts to use the SFIs to serve as vehicles for a number of development policies and government fiscal initiatives (Disyatat, 2005). The SFIs employ new financial technologies to develop and provide products to categories of customers who are not of major interest to the private financial institutions. At the same time, many SFIs have expanded their operations onto the terrain of commercial banks. Although SFIs are owned by the government, generally the government does not support them through subsidies, except for loans on specific policy. Rather, SFIs tend to receive support in the form of exemptions from various taxes, holdings of more than one-third of government deposits, and receipt of government guarantees on their debt instruments and customer deposits (Disyatat, 2005).

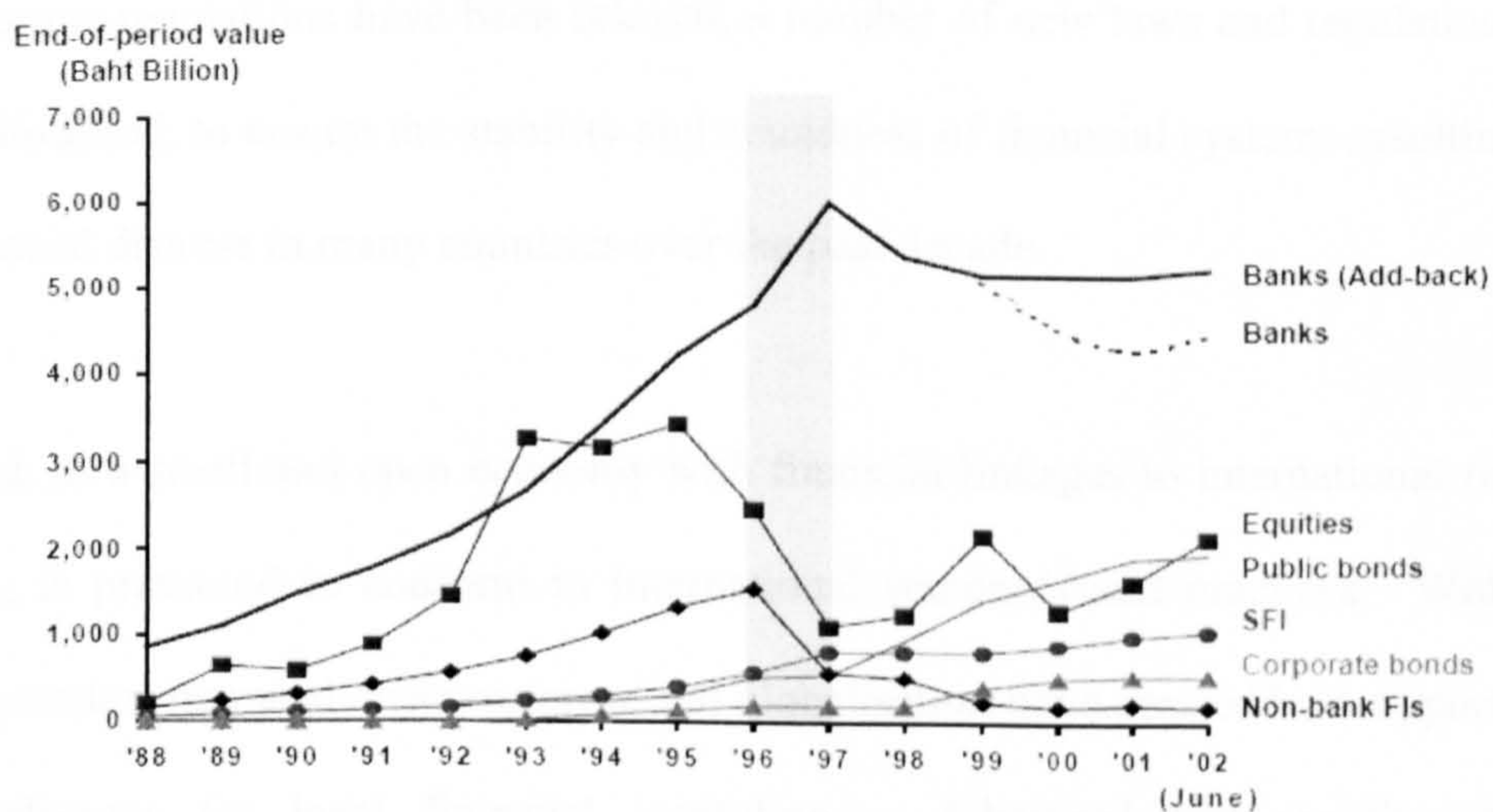


Figure 4.10: Outstanding values of credit extended by financial institutions, stocks and bonds, 1988-2002 (Subhaswasdikul and Nakornthab, 2003, p. 6)

Ever since the 1997 financial crisis, the Thai government and other agencies, such as the Bank of Thailand, have undertaken a number of measures and initiatives to restore and strengthen the financial system of the country. Various international standards and practices, for example, the Basel Capital Accord, are being implemented. The structure and competitive environment of the Thai banking sector are still changing substantially, something that has posed a number of challenges to Thai financial services organisations.

Changes in the competitive and regulatory environment have occurred not only at the local, national level, but also at a global level. Boundaries between economies and the financial systems of different countries have been lessened as a result of globalisation, advanced technologies and the increasingly prominent roles of international organisations in the global financial systems. The move towards deregulation in many countries has also reduced the boundaries of activities between different types of financial institutions, leading non-banking financial institutions, which operate under different regulations and have different costs, to encroach on some traditional banking activities (Dietrich, 1996). Whilst some regulations have been relaxed, a number of new laws and regulations have been introduced, to ensure the stability and soundness of financial systems resulting from the financial distress in many countries over the past decade.

Thailand, as a small and open economy with financial linkages to international financial markets, is pressured to conform to international standards and practices. Within the banking sector, financial crisis, reforms and globalisation have created both opportunities and challenges for local financial institutions. Advanced and rapidly changing technologies have also changed business practices substantially. Automated machines and e-banking have changed the cost structures of the banks. Technological advances

enable banks to better meet customers' demands, which tend to be increasingly sophisticated. On the other hand, changes in the competitive and regulatory environment also expose banks to various types of risk. These opportunities, challenges and pressures have forced banks to continually adapt themselves in order to survive.

4.4. Concluding Remarks

This chapter has provided a historical analysis of the development of the Thai economy and financial system. The analysis has shown that the development of the socio-political and economic systems in Thailand has until recently been based largely on a patronage relationship; that is, politicians, state bureaucrats and businessmen are closely connected and tend to act in favour of each other. The Thai economy is a credit-based system where banks have long been the major source of capital for businesses. Up into the 1990s, the Thai banking sector was dominated by a small number of large local commercial banks, most of which are owned by Chinese business families. The sector has been highly protected, with the entrance of new players being restricted and competition from global competitors limited, due to restrictions on the opening of full branches in the country by foreign banks. The major domestic banks, despite competition with each other, cooperate in various ways.

The Thai economy grew substantially during the 1980s and early 1990s. During this period, the economy, as well as the financial system, became more integrated into the global economy and financial system. However, this economic growth was disrupted by the financial crisis which hit Thailand in 1997, as a result of which, a number of reforms have been undertaken, leading to substantial changes in the competitive and regulatory environment in the financial services sector in Thailand.

Socio-political and economic development, as well as the development of the financial system in Thailand, have been significant influences on the business systems and management practices in Thai organisations. With the strong patronage relationship between banks, state bureaucrats and politicians, and tight connections between banks and other businesses, Thai banks have many traditional ways of conducting their business. However, changes in the financial system and banking sector during the past decade, resulting from the financial crisis and reforms, as well as globalisation, have inevitably had a significant impact on the structure and practices of financial services organisations. A number of western management practices have been brought into the local financial services organisations. Nevertheless, the western practices have not completely replaced the old traditional practices and systems, many of which remain in place alongside the new western management practices and systems.

The AgroBank, the financial services organisation that is the main case organisation of the current research, is one of the organisations which is operating in this rapidly changing environment. As with other local financial institutions, the AgroBank has attempted to change its organisational structure, management practices and management systems. Although the AgroBank does not directly compete with commercial banks, changes in management practices and systems of other commercial banks have influenced management practices of the AgroBank significantly, due to the fact that it has started to expand its operations to the terrain of commercial banks. Also, the AgroBank is connected to other commercial banks in various ways, including connections through the Thai Bankers Association, the central bank and the Ministry of Finance. The next chapter

will go into the specific evolution of this bank in more detail, and consider its current situation within the developing world of banking in Thailand.

Chapter 5

The AgroBank – From an Agricultural Lending Institution to a Development Bank

5.1. Introduction

The preceding chapter depicted the overview of the Thai economy and financial services sector in which the AgroBank, the organisation under investigation in the current research, is located. This chapter describes the development of the AgroBank, the organisation within which the BSC has been developed and disseminated. The AgroBank is a Thai state-owned SFI, which was originally set up as an agricultural bank, focusing on agricultural lending. Since it was founded, in 1966, the Ministry of Finance has remained the major shareholder of the bank with 99.84 percent of the total share (as of 31st March 2005, Annual Report), while the remaining balance is held by agricultural cooperatives.

Being a state-owned enterprise focusing almost exclusively on agricultural lending in its initial phase, the bank has developed many traditional and distinctive ways of doing business. At the same time, since the 1990s the bank has been attempting to expand its roles and scope of activities into the terrain of other commercial banks which are considered more competitive and efficient. In 2001, the bank officially proclaimed its intention to become a rural development bank, providing a full range of rural financial services. During the past few years, a number of changes have been undertaken, and a number of ‘modern’ management tools commonly used in private commercial banks have been implemented.

Despite the adoption of innovative management tools, a number of traditional business and management practices still remain important. Thus, in order to understand how the bank operates today, it is important to explore the way in which the bank has evolved from a specialised agricultural financial institution to a rural development bank. This chapter, therefore, examines the history of the AgroBank, the development of the bank's organisational structure, and recent change initiatives implemented within the bank, with the aim of achieving an understanding of the organisational contexts within which the BSC development project has been carried out.

This chapter is organised into 5 sections. Section 5.2 describes the historical background of the AgroBank, focusing on the bank's three phases of development. Section 5.3 presents the current profile of the AgroBank. Section 5.4 discusses changes in the bank's organisational structure as well as the personnel structure, and Section 5.5 depicts a series of change initiatives recently undertaken by the bank.

5.2. Historical Background

The bank's history can be broadly classified into 3 periods, the first being from 1966 to 1975, when the bank focused on channelling funds to the agricultural sector. During this period, the operations of the bank were restricted and capital was limited. The major products were short- and medium-term loans to farmers and agricultural co-operatives. From 1976 to 1992, the bank acquired more capital and substantially expanded its operations. The structure of the bank's capital started to shift; savings from customers were mobilised and capital from abroad was raised. With regard to its lending operations,

long-term loans and credit in kind²⁵ were introduced, with emphasis being placed on retail lending to individual farmers. During this period, the bank's activities were still restricted to agricultural lending to farmers and their institutions for farming activities only. March 1993 could be considered one of the major turning points of the bank, when it finally succeeded in amending the Act governing its operations to permit lending for agricultural-related activities. From 1993 to the present, the bank has undertaken many steps in order to transform itself into a rural development bank that can compete in the globalised, competitive financial market. These changes include organisational restructuring, several successful attempts to amend the Act to allow more autonomy and wider scope of operations, the adoption of more prudent financial regulations to meet international standards, and the implementation of a number of 'modern' management tools.

5.2.1. 1966-1975: Displacing Loans from the Informal to Formal Sector

The AgroBank was originally set up with the objective of channelling funds to farmers and farmer institutions in rural areas. In similar vein to agricultural banks in other developing countries, the AgroBank was one of the major instruments for the government to implement its agricultural development policies. The bank provided short- and medium-term loans to farmers and their institutions with the aim of promoting farmers' careers in agriculture, increasing productivity and income in rural areas, reducing farmers' reliance on private moneylenders and helping to alleviate rural poverty.

In rural areas, people had difficulties getting access to capital from financial institutions; as a result, they had traditionally sought credit from informal sources, such as landlords,

²⁵ Credit in kind is a loan given to farmers in the form of farm inputs rather than cash. It was first introduced as one of the bank's products in 1980.

farm input suppliers, purchasers and illegal trusts. As these private moneylenders were not regulated by the central bank, they usually charged excessively high interest rates. The interest rate from informal credit providers was usually around 5 to 6 percent per month, in stark contrast to the rate from the formal lending sector, which was 12 percent per year (Siamwalla et al., 1990). Heavy debt problems from informal sources worsened rural poverty and increased inequalities in rural areas. For this reason, the government established the AgroBank with a mission to displace loans from informal sources to the formal sector. The major purpose of the bank's credit at this time was for farmers to release their debt burden from non-institutional lenders.

During this period, operations of the AgroBank were restricted. The bank was allowed to lend only to farmers and farmer institutions, and only for activities directly related to farming. In addition, the bank was required to provide loans at governmentally determined interest rates which were set well below those of the commercial lenders. As noted in one of the bank's reports, *22 Years of [AgroBank] and Agricultural Development Work* (p. 83), "the [AgroBank] is a financial institution that provides loans to farmers at the lowest interest rate". This was based on the government's belief that lack of capital was the reason for rural poverty, and the rural credit market comprised of mainly non-institutional lending monopolies, charging high rates of interest. It was essential, therefore, that the government helped people by setting up a financial institution to provide agriculture credit at interest rates lower than the market rates (Mingmaneenakin, 1988).²⁶

²⁶ Some scholars have argued that sometimes the interest rates were set below those of the commercial ones for political reasons rather than out of a sincere desire to help the poor (Von Pischke, 1980 in Fox, 1985).

To determine the interest rates, the AgroBank used the average cost-pricing method; that is, costs of funds from all sources of its capital were averaged and a small mark-up was added to cover other administrative expenses. As the AgroBank obtained subsidised funds from various sources, including the central bank and the government, it was still able to make a small profit, although it charged customers at lower interest rates than those of the market. The interest rates charged to each customer were based on loan size rather than risks of the borrower. Higher interest rates were charged to larger loans and lower rates were charged to smaller loans under the principle of cross-subsidisation between borrower groups.

As the AgroBank was required to provide loans at low interest rates, leaving it with little profit margin, the bank strictly supervised loans to prevent the incurrence of any costs from defaulting loans. Before the first loan was given out during the growing season of the crop, the bank's officer would go to the borrowers' village to examine their activities. For working capital loans, all borrowers were required to repay the principal when the loans were due, although in most cases, the loan contracts would be renewed within a month of their original due date. Borrowers who failed to repay the principal would be put on the 'black list', despite the fact that they always paid interest. This requirement was for the bank's officers to monitor movement of the customers, even though it sometimes created problems for customers, as they needed to find money from other sources to pay back the principal if the due date did not accord with their harvest seasons.

During this period, the bank placed emphasis on wholesale lending to farmer institutions and agricultural co-operatives, as farmer institutions usually carried fewer risks than individual farmers. However, to ensure that individual farmers, who tended not to have

land title documents to use as collateral for their loans, were able to obtain institutional loans, the bank initiated a peer monitoring system called a joint liability group for working capital loans with a maturity of less than one year. Under the joint liability loan concept, farmers formed a group of 5 to 30 people²⁷ among those they knew and trusted, and the group was jointly liable for each member's loan. The loan repayment of each group member affected future access to loans for the entire group. Late or missed payments of individual members would have an impact on the credit rating of the group, and could affect the amount of subsequent loans of the group members. If the bank believed that the loan of any member of the group could not be recovered, the group as a whole would become ineligible for new loans. Through this system, the bank could improve the loan repayment rate with low administrative costs. Joint liability lending was successful, and has been one of the major lending practices of the bank until the present.

During the first ten years of its operation, the AgroBank grew only moderately, primarily due to its limited funds. It established branches in 58 out of 71 provinces of Thailand. The bank did not attempt to raise finance from public savings partly because the costs from public deposits would be higher than costs of funds the bank could obtain from the government and the central bank. With its limited funds, it was necessary for the bank to ration its credit strictly, leaving low-income farmers unable to obtain loans. Therefore, there remained excess demand for institutional loans in rural areas.

²⁷ The average size of the joint liability group was 15 people.

5.2.2. 1976-1992: Substantial Expansion, Savings Mobilisation, and Retail Customer-Focus

From 1976, there was a rapid expansion in the AgroBank, following the Bank of Thailand's requirement for minimum agricultural lending to apply to all commercial banks. In 1975, the new government was placed under pressure to transfer resources to the rural areas. To this end, in 1976, it enforced, through the central bank, all commercial banks to increase their lending to farmers and farm households. Commercial banks were required to disburse agricultural loans of not less than 7 percent of the value of their deposits at the end of the financial year. If they were not able to lend this amount directly, they could deposit an equivalent amount with the AgroBank, which would pay them normal interest rates for deposit accounts and use the funds for its farmer lending operations. This policy fostered a substantial expansion of the AgroBank's operations. By the end of fiscal year 1983, the bank had 66 branches with 545 field offices operating in 680 districts throughout the country (Fox, 1985). More than two million farm families were registered as the bank's direct and indirect customers.²⁸

In addition to higher capital raised through commercial banks, the government injected more capital into the bank, raising the bank's registered capital from 1,000 million Baht to 4,000 million Baht in 1976. In the same year, for the first time, the bank started to raise capital from abroad for its lending operations. Important sources of foreign funds included the Japan Bank for International Cooperation, the World Bank and the Asian Development Bank. There was not as yet any significant interaction with conventional foreign commercial banks.

²⁸ Indirect customers are those who registered with the bank through farmer associations and agricultural cooperatives.

In the late 1970s, the bank recognised that default rates from loans given to agricultural co-operatives were high, due to the co-operatives' poor financial management. In contrast, performance of retail lending was noticeably better. In 1975, the repayment rate of lending stemming from loans to agricultural co-operatives was 48.22 percent, whereas the repayment rate of lending to individual farmers was 73.54 percent (Mingmaneenakin, 1988). As a result, the bank shifted its focus from wholesale lending to retail lending through joint liability groups. The proportion of loans to individual farmers to total loans increased from 66.95 percent in 1976 to 71.82 percent and 82.16 percent in 1980 and 1984 respectively (Mingmaneenakin, 1988).

Despite the repayment rate of individual farmer lending being better than that of wholesale lending to agricultural co-operatives, the default rate was considered high. In 1983, the bank conducted a survey to identify the reasons why customers did not repay their loans, and found that one of the major reasons was the customers' false assumption that the money was a government grant that they could retain (Mingmaneenakin, 1988). Management of the bank believed that this misunderstanding could be rectified if the bank encouraged more savings from customers, to make them aware that the money they borrowed was from public savings, rather than a government donation.

At the same time, the bank attempted to rely less on the government's subsidised funds in order to have greater autonomy in its operations. Therefore, in 1988, the bank started mobilising public savings to adjust its capital structure. All customers applying for loans were encouraged to open a savings account with the bank, although it was not compulsory. Within a decade, the bank was able significantly to reduce its reliance on loans from domestic and foreign sources. The deposit to loan ratio of the bank increased

from 31 percent in 1986 to 73 percent in 1996 (Fitchett, 1999). Savings mobilisation has continued to be one of the major focuses of the bank to the present day.²⁹

During this period, the bank expanded its product line to focus more on assistance to improve customers' capability and efficiency. The bank launched long-term loans and encouraged farmers to take them for long-term investment, such as purchasing livestock and farm machinery, planting perennial crops, and developing small-scale irrigation systems. In addition, the bank started to provide assistance to farmers in other forms. For example, in 1980, the bank introduced credit in the form of farm inputs, such as crop seeds and fertiliser. From the bank's perspective, this credit in kind would help farmers obtain high quality farm inputs at a lower price. The bank also began to use mass media to provide knowledge on modern farming methods to farmers, in order to promote the use of modern technology for farm production. In the bank's view, these additional supports would enhance farming production efficiency, which would eventually lead to the bank's better performance.

In addition to providing assistance directly to farmers and farmer institutions, the bank started to engage in supporting a number of special government projects, such as the crop-pledging scheme, through its lending operations. Although the bank attempted to expand its activities to provide other assistance to farm households, its operations were still limited due to the Act governing the bank's operations which allowed the bank to lend only to farmers and their institutions for farming activities.

²⁹ At the end of March 2004, the bank had almost ten million savings accounts. The deposit-to-liability ratio reached 93 percent, while the deposit-to-loan ratio was more than 100 percent (Annual Report).

5.2.3. 1993 to Present: Expanding the Scope of Activities and Becoming a Rural Development Bank

1993 marked the bank's first successful step in attempting to amend the Act permitting the bank to expand its scope of operations. In March 1993, the AgroBank was authorised to provide loans for farming-related activities, such as agro-processing and marketing activities. Its operations were further expanded after another amendment to the Bank's Act in 1999, when the bank was permitted to provide financial assistance to farmers' family members for non-agricultural purposes, such as medical and educational expenses. This may be considered an early step taken by the bank to transform itself into a more diversified financial institution, providing a wide range of rural financial services, even before the Ministry of Finance officially proclaimed its intention to transform the AgroBank into a rural development bank in 2001.

During this period, the bank had greater autonomy resulting from both the amendments to the Act and its greater reliance on internally-generated funds. However, at the same time, the bank was subject to tighter financial regulations. In 1998, the central bank took on a role as a second supervisory and regulatory body governing the bank's operations, in addition to the Ministry of Finance, which had long been the bank's only supervisory agency. In this new capacity, the central bank required the AgroBank to adopt a number of financial regulations that were applied to other commercial banks, in order to strengthen the bank's financial stability. One of the major tightened financial regulations concerned the provisioning rule. In the past, the bank was able to spread a provision of non-performing loans over ten years, in contrast to today, when the bank is required to reserve the full amount of non-performing loans within three years, that is, 40 percent in the first year, 70 percent in the second year and 100 percent in the third year.

Although the bank did not suffer significantly from the financial crisis in 1997 compared to other commercial banks, this regulation was important for it, since it needed to enhance its financial health and maintain its financial stability, and be seen to be doing so, particularly when it needed to make preparations to compete with global competitors that had recently started to enter the Thai financial market after the 1997 financial crisis.

In addition to adopting internationally accepted financial regulations, the bank also changed its interest rate structure to be compatible with international practice. The progressive interest rate structure and the inherent cross-subsidies, where the interest rate increased according to loan size, were abolished and replaced by a minimum lending rate irrespective of loan size. The interest rates were now based on relevant risks carried by the borrower, rather than loan size. The bank also introduced a performance-related interest rate scheme, under which preferential rates were offered to borrowers with a good record.

With regard to customer focus, during this period the bank expanded its client base from individual farmers through joint liability groups to enterprises of farmer groups. In 1999, the government initiated the One Tambon³⁰ One Product (OTOP) project to promote co-operation among people in the local community to set up small enterprises to produce and market their agricultural produce and local materials; and in 2001, the Village and Urban Community Fund project was introduced to provide financial support for these enterprises. The programme has resulted in a development of many small and medium enterprises in rural areas. The AgroBank exploited its extensive branch network to extend its lending services to these micro-enterprises. The bank provided both financial

³⁰ Tambon is a local government unit, below district and province, in Thailand.

assistance to the enterprises and village funds and knowledge on accounting, financial management and general management. An initiative to transform village funds into community banks with the AgroBank as their consultant has been undertaken. Currently, wholesale lending to farmers' enterprises has become the major focus of the bank's lending operations, partly due to the lower costs in the loan appraisal process compared to those incurred in lending to individual farmers.

Over the 40 years of its operations, the AgroBank has gradually developed from being a small agricultural lending institution to being a large financial institution, providing a wide range of financial services to diverse groups of customers. Despite substantial changes in the bank's roles and operations, rural people still remain the focus of the bank, and the bank still remains a not-for-profit organisation. The corporate vision, value, administration principle and missions of the AgroBank can be seen in Figure 5.1, a figure which indicates, in addition to the continuance of traditional values such as the focus on farming and raising the quality of life in rural contexts, the adoption of more western or generic global business concerns. So for instance a focus in internal objectives of being 'modern and efficient' is combined with an external focus on 'clients (and) consumers', and wider external concerns such as communities, the environment and government policies, while the role of marketing is also now explicitly foregrounded.

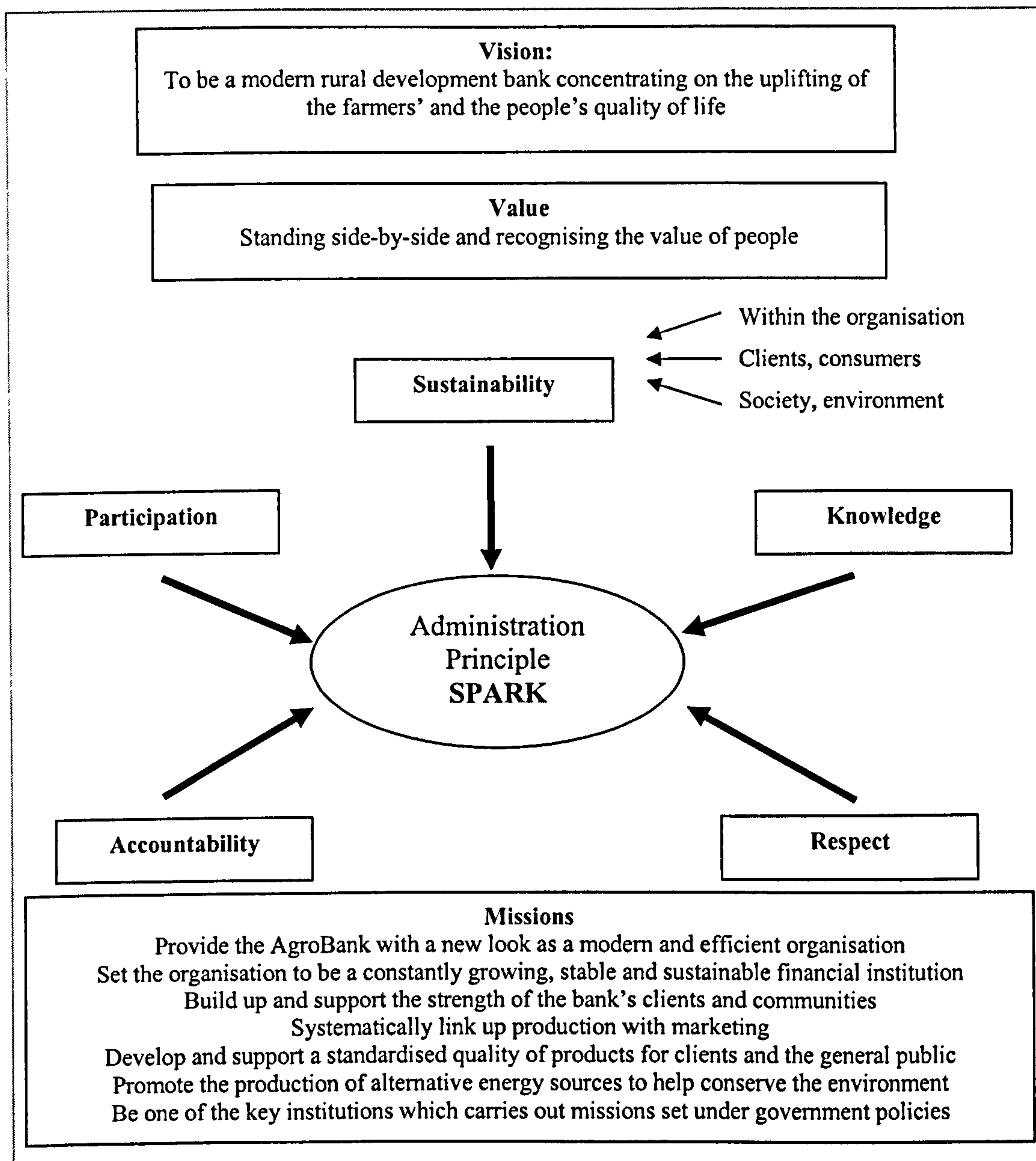


Figure 5.1: The AgroBank's vision, value, missions and administration principle (Annual Report)

5.3. The Current Profile of the AgroBank

Currently, the AgroBank is one of the largest state-owned SFIs. As of 31st of March 2006, the AgroBank had total assets of 501,932 million Baht, which comprised outstanding loans of 421,701 million Baht. The bank also had total deposits of 431,401 million Baht. For the fiscal year ending 31st March 2006, the bank made a net profit of 1,765 million Baht from the revenue of 30,905 million Baht, which comprised interest

and non-interest revenue of 29,257 and 1,648 million Baht respectively. Over the past five years, the bank has had significant growth in terms of net profit, asset size, number of customers and deposits (see statistical highlights in Table 5.1). By the end of 2005, 5.54 million farm families or 95.68 percent of all farm families nationwide had access to credit services from the bank. Whilst 4.01 million farm families were registered as individual customers of the bank, 1.52 million families were members of agricultural cooperatives and 0.01 million families were members of farmer associations. Between fiscal years 2002-2005, the performance of the AgroBank was ranked in the top five among state-owned enterprises, and among state-owned financial institutions, the bank was ranked in the top three.³¹

Table 5.1: Statistical highlights, Fiscal year 2001-2005

	2001	2002	2003	2004	2005
Number of employees	12,955	13,130	13,267	13,209	12,889
Number of provincial offices, branches and sub-branches	660	664	667	669	923
Number of field units	888	889	899	907	938
Number of farmers registered as branch clients (Households)	3,637,739	3,688,673	3,733,784	3,862,558	4,010,560
Net profit (Million Baht)	554	660	961	1,645	1,765
Total assets (Million Baht)	342,420	355,283	387,202	422,348	501,932
Total loan outstanding (Million Baht)	282,469	289,096	322,000	378,853	421,701
Deposits (Million Baht)	262,423	283,685	321,520	354,306	431,401

Source: Annual Reports

With regard to lending operations, the majority of credit services was provided to individual farmers. During fiscal year 2005, 202,429 million Baht credits were given to individual customers, whereas 36,485 million and 177 million Baht credits were granted to agricultural cooperatives and farmer associations respectively. At the end of fiscal year 2005, credits to individual farmers accounted for 81.86% of the total loan outstanding

³¹ Details of the 'state-owned enterprise performance evaluation programme' are discussed in Chapter 6, Section 6.2.2.

(see Figure 5.2). Among the credits given to individual farmers, crop farming activities represented the major proportion (see Figure 5.3). In addition, a significant proportion of the credits were extended under the government-secured loan projects (7.63% in fiscal year 2005). These extended credits were not given only to farmers and their families, but also to non-farmers (i.e. teachers and poor people). Loans classified under the ‘others’ category, included those to the sugarcane and sugar industry, loans to the Village and Urban Communities Fund, loans to non-farm micro enterprises and financial services provided under Islamic principles.

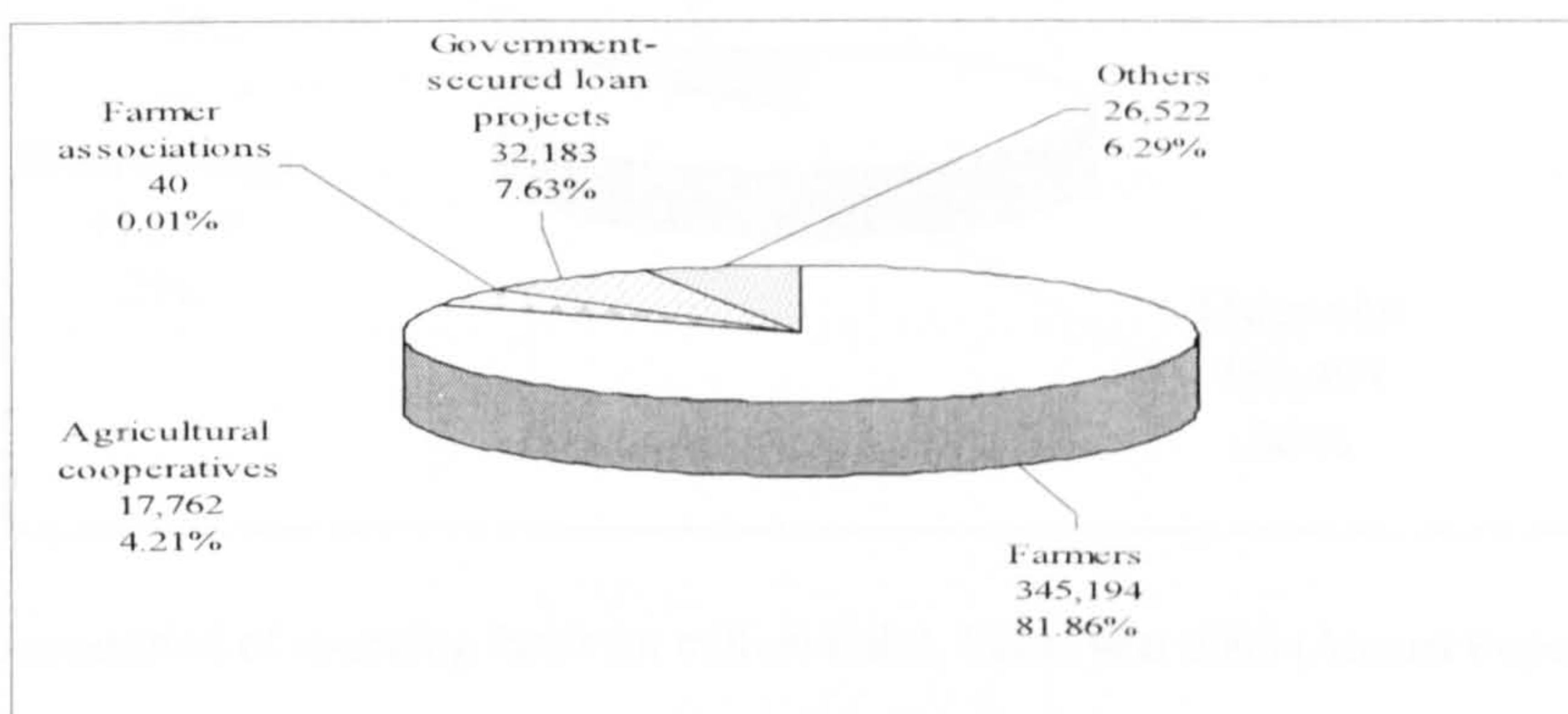


Figure 5.2: Outstanding loans (in million Baht) as of 31st of March 2006, classified by types of credit services (Annual Report)

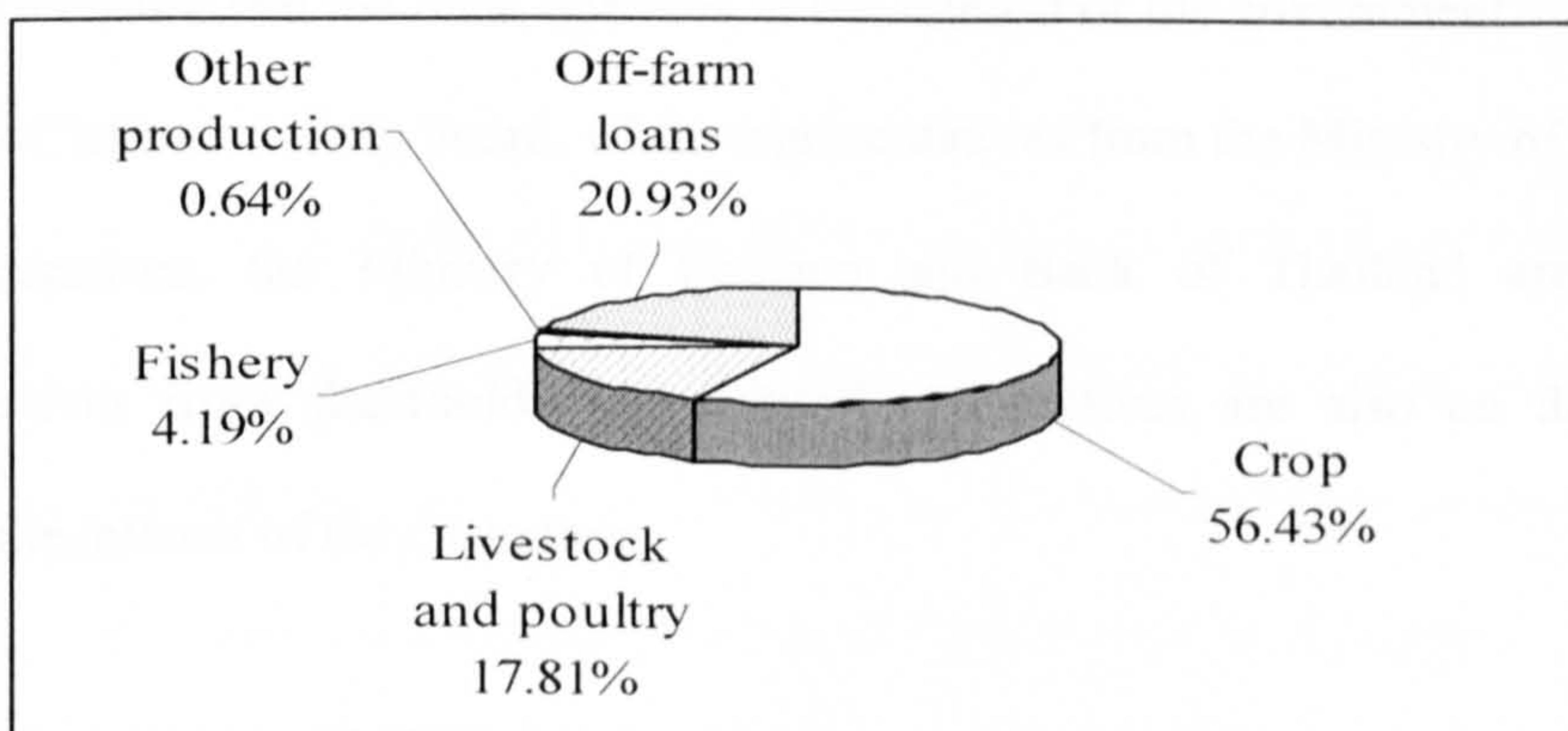


Figure 5.3: Credit extended to individual farmers during the fiscal year 2005, classified by type of production (Annual Report)

As discussed in Section 5.2.2, the AgroBank has since 1988 attempted to mobilise savings from farmers. In recent years, the bank has also attempted to extend its deposits services to the general public, official agencies and other state enterprises. As can be seen from Table 5.1, the total deposits outstanding increased from 262,423 million Baht at the end of fiscal year 2001, to 431,401 million Baht in fiscal year 2005. Deposits have become the bank's major source of operating funds (see Figure 5.4).

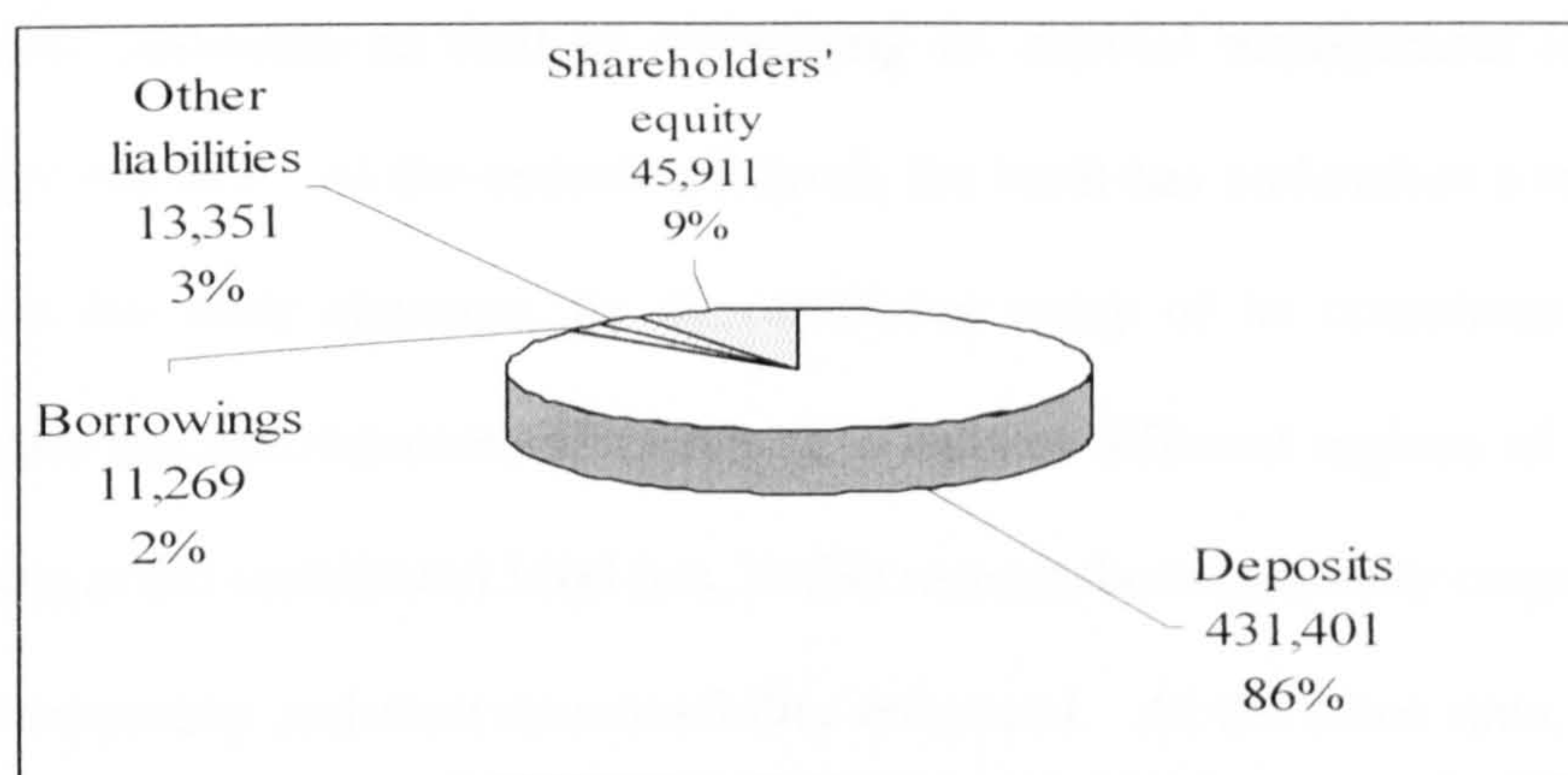


Figure 5.4: Composition of operating funds (in million Baht), Fiscal year 2005 (Annual Report)

5.4. The AgroBank's Organisational Structure

As a state-owned enterprise, public officials represent the majority of the bank's Board of Directors to ensure that the bank operates in the interest of the government. The Finance Minister is Chairman of the board, while representatives from the Ministry of Agriculture and Cooperatives, the Ministry of Finance and Bank of Thailand are members. Representatives from shareholder agricultural cooperatives are also on the board to represent the interest of the customers.

As discussed in Section 5.2, the AgroBank has continually changed its roles and transformed itself from an agricultural lending institution into a rural development bank.

To accommodate the new roles and activities of the organisation, the bank has also gradually restructured its organisation. The bank's internal organisational structure can be broadly classified into two levels, the corporate level at the head office in Bangkok, and the operational level which is implemented through provincial offices and branches reporting into those offices located in 76 provinces throughout the country. At the corporate level, the bank has recently restructured its organisation in line with the vision articulated in Figure 5.1 above, with an increasing focus on establishing relationships with external customers as well as developing its internal management and financial management systems. At the operational level, the bank has undertaken a re-structuring that reflects the same concerns, by decentralising many of its operations in order to accommodate the heterogeneous demands of clients in different regions of the country. Management at the operational level has, in this respect, been gradually empowered, with both their autonomy and their accountability enhanced. At the same time, in common with many other government agencies, the bank uses a grade hierarchy system to structure its personnel system. Despite several attempts to abolish this system, it still remains at the bank's personnel structure.

5.4.1. Changes in the Organisational Structure

5.4.1.1. Corporate Level

At the corporate level, over its forty years of the operations, the bank can be seen to have restructured its organisation incrementally, in the process increasing across time its strategic and external customer focus. A number of divisions and departments have been set up to provide financial assistance and knowledge support to customers. At the same time, the bank has increasingly emphasised internal management and development. Increasing importance has been given to improving its human resources, working

processes, information technology, management information systems, and risk and financial management systems.

5.4.1.1.1. Organisational Structure during the First Ten Years of Operations

During the first ten years of AgroBank's operations, the organisation was structured into four departments – the loan department; internal audit office; administrative department; and banking and accounting department. The loan department was organised into two major divisions according to the customer groups, namely, the individual farmer loan division and institution loan division. The legal division was also under the supervision of the loan department. During this period, the operations of the bank were still limited and the bank did not yet have many branches. Thus, branch administrative activities were carried out by the branch and representative division within the administrative department.

5.4.1.1.2. Restructuring during the Substantial Expansion Phase

During the second stage of the bank's development, from 1976 to 1992, the bank carried out organisational restructuring several times to meet the demands of growth in scale and scope, e.g. to accommodate new activities, products and responsibilities. Several new departments and divisions were established to oversee strategic and internal management issues generated by this growth. These new divisions included a planning division and human resources management division, both of which were set up in the fiscal year 1976 and later upgraded to the planning department and personnel and organisation development department in fiscal year 1978 and 1986 respectively. The planning department undertook the expanded range of staff office functions required in a large-scale line-and-staff organisational structure, with research and evaluation, budgeting and

statistics, and work system development divisions being set up in 1978 to develop the bank's internal management systems and practices. A form of what might now be seen as a 'strategic marketing' function was added in 1986, when the agricultural business promotion division was established under the supervision of the planning department. In the same year, the work system development division was transferred to the personnel and organisation development department which also supervised two newly established divisions – the personnel management division and training division. In 1986, the growth in the significance of IT and IS functions was marked by the establishment of an information processing centre to collect and analyse information for management purposes.

In addition to departments and divisions established with the aim of improving strategic and internal management practices, a form of marketing focus appeared in 1976 as several departments and divisions were created along traditional marketing lines to develop products and services for customers, in addition to the existing loan products. In fiscal year 1976, a public relations department was also established to develop audio-visual educational materials to impart knowledge on farming developed by the bank to farmers in rural areas. Rather than being organised according to customer type, the loan department was re-organised according to geographical areas, that is, northern, northeastern, central and southern regions. After credit in kind was introduced as another product of the bank, the farming supplies and equipment division was also established, under the supervision of the administrative department, to manage farm inputs supplied by the bank to farmer customers.

As the bank expanded its operations substantially during this period of sixteen years, it carried out another major restructuring in 1991 to accommodate the considerable growth that had followed the previous expansion, and to extend the scope of activities still further. Four loan administration divisions in the loan department were upgraded into four branch administration departments. As the bank started to engage in a number of special governmental projects, a special project department was established to oversee them, plus the new customer-facing activities which the bank was developing during this period, including savings promotion and agricultural business promotion.

In addition, importance was not surprisingly placed on improving the bank's internal management systems, given the added complexity of its operations. A monitoring and evaluation division was established under the supervision of the planning department to closely monitor the performance of branches even in remote areas. The division was also responsible for monitoring the performance of important special governmental projects. The information processing centre was also upgraded from a division to a computer department. In addition, the administrative department had its roles reduced from providing knowledge and a number of products (e.g. credit in kind) to customers to managing general issues, such as premises management and vehicle services. The activities of developing and providing knowledge in the area of agricultural production and agricultural business were transferred to the planning department.

5.4.1.1.3. Recent Organisational Restructuring

During the third and most recent stage of its development, the bank has undertaken a major organisational restructuring three times, in fiscal years 1998, 2001 and 2004. The 1998 restructuring focused primarily on financial management, partly due to the financial

crisis in 1997 and partly because of the demands imposed as the central bank became its second regulator, bringing it more into line with the regulation of commercial banks, as noted in section 5.2.3 above. The banking and accounting department was separated into two departments. The banking department supervised the banking, cash management, and savings promotion divisions, while the accounting department administered the asset accounting, accounting information processing and management accounting divisions. The treasury department was also established to oversee risk and financial management.

In addition to increasing its focus on financial management, the bank developed a more explicit commitment to the development of its human resources, with the human resource development department being set up to be responsible for planning and organising training courses for organisational members. Moreover, as the bank began to expand its operations to provide credit for farming-related activities, two new departments – the personal loan and institutional loan departments - were established with a focus on product development.

In fiscal year 2001, after the bank announced its aim of becoming a development bank, it created several departments to carry out development activities. The bank established the learning promotion department to replace the human resource development department with a dual remit, first to promote learning among people in rural areas and second to train banking staff on important issues for rural development. To complement this, a marketing promotion department was introduced to help farmer institutions enter into effective marketing negotiations. The learning promotion and the marketing promotion

departments operated closely with the Development Institute,³² a semi-independent unit of the AgroBank, to organise training courses on agricultural and rural development for the bank's staff and its clients.

Whilst customer and development activities were key strategic concerns for the bank during this period, further improvements in its internal management functions were also undertaken. Several departments were established with responsibilities to enhance the bank's financial performance and internal management systems. For instance, the loan quality development department and the information technology department were set up to improve the bank's portfolio quality and information technology. The loan quality development department was set up to focus on portfolio management, with the aim of reducing the number of non-performing loans, which had become increasingly problematic, particularly after the Thai financial crisis in 1997. Within the department, the Debt Moratorium Program Management Office was established to focus specifically on the loans under the Debt Suspension and Debt Reduction Programme, carried out according to governmental policy. To raise the strategic effectiveness of the use of information technology, the bank integrated the organisation and methods development department with the computer technology department to form the information technology department. This department comprised six divisions: system innovation support, computer system, computer work system, information system, communication network, and analysis and methods, and was charged with the overall responsibility for improving the bank's information technology and management information systems.

³² The Development Institute is the pseudonym of a non-profit organisation established in 1994 by the foundation headed by the AgroBank's patron and first president. The institute acted as the training, research and consultancy arm of the AgroBank. It also played a significant role in building relationships between the AgroBank and other international organisations. It provided training workshops for foreign institutes which were interested in the agricultural lending and operations of the AgroBank.

After the major restructuring in 2001, the bank did not undertake any more major restructuring until fiscal year 2004,³³ when it re-organised its operations into 7 working groups, and established a number of new departments within these groups, which further emphasised the development activities as well as financial management functions. This most recent development, analysed in more detail in Section 5.4.2 below (see also Figure 5.5 for the organisation chart as at 31st March 2005), arguably demonstrates a move towards a core competence approach to strategy, maintaining an Operation Group to coordinate regional and branch administration, but turning all other key functions into distinct groups each with a core mission, some existing and some new, e.g. Customer and Rural Development, but also Income Development, Policy and Strategy, Special Activities, Supporting, and Management Support Groups.

With regard to development activities, the customer and rural development department was established, to operate within the customer and rural development group, which was a new working group set up to carry out activities specifically related to customer development. The marketing support department, established in 2001, was incorporated as a division within the new customer and rural development department. The loan department was divided into the personal loan department and the institutional loan department, the former being organised according to loan type, that is, crop credit, livestock and fishery credit and non-farm credit. This structure allowed bank staff to specialise in particular types of credit, as different types of loans required different skills and attention.

³³ Several minor restructurings were carried out during fiscal years 2002 and 2003. For example, the treasury department was established to replace the financial management department, and the risk management office was set up as a division under the department. The loan group was also renamed and integrated with the financial management banking services group to become the customer development and financial management and banking services group.

In addition to new departments established to support the development functions of the organisation, other departments were created to carry out financial management and internal development activities. The new departments included the income and banking development department, which was established to replace the banking department, to focus on deposit services, fee-based income, electronic banking, customer relations and the Islamic fund. In addition, the risk management office was upgraded from a division under the treasury department to a department in its own right. A management department was also established to support top management's activities and to coordinate between the bank's top executives and the Board of Directors. Moreover, the learning promotion department, which was set up in the fiscal year 2001, was incorporated into the human resources department to focus on developing bank staff only, while the customer and rural development department took over the responsibility of supporting the learning of customers in rural areas. Finally, the systems analysis and development division was transferred from the information technology department to the newly renamed policy and strategy department.

5.4.1.2. Operational Level

At the operational level, the bank gradually decentralised its operations and empowered the local managers to be more responsive to the heterogeneous demands of customers in different parts of the country. From the start of its operations until 1997, the bank operated through a three-tier organisational structure, that is, field offices, branches and head office. Field offices operated at a district level and played an important role in outreaching clients in rural areas. Their officers represented the AgroBank's 'front line' linkages to the farmers. In each field office, there were eight to nine credit officers responsible for screening and selecting borrowers, appraising loans and monitoring loan

repayment. As field offices did not have the facilities for loan disbursement, debt collection and deposit services, all cash transactions were carried out by the branch with which the respective field office was affiliated. All branch managers reported directly to the president at the head office.

In 1994, the AgroBank had introduced the profit centre concept at its branches, to ensure a higher degree of accountability and responsibility among branch managers and their staff. From focusing purely on loan disbursements and customer numbers, focussing on key accounting concepts such as profitability, particularly defined as return on assets, became an increasing concern of branch managers.

In 1997, provincial offices were established as another layer of organisational structure. Provincial directors had responsibilities to manage, closely monitor and supervise the operations of branches and field offices in the area. Directors of provincial offices worked under the supervision of four heads of branch administrative divisions at the head office. The bank increasingly empowered its provincial directors and branch managers, each position having authority to approve loans of up to three million and one million Baht respectively. This marked a major shift in the devolution of decision-making, given that ninety-eight percent of loans extended by the AgroBank were below these ceilings (Watchananawat, 2004). These provincial offices operated as profit centres where the internal interest rates were applied on funds transferred between them and the head office. As well as being used as an instrument for policy implementation, the transfer price was set by the management in the head office in accordance with the market cost of funds.

In fiscal year 2004, the bank expanded the service scope of the field offices from solely providing credit services to being business units which also provided deposit and other cash-related services such as utility bill payment services. At the end of fiscal year 2004, the bank further decentralised its operations by introducing another organisational layer – the regional office – to supervise provincial offices in their respective areas. The introduction of regional offices was again designed to increase the bank's responsiveness to the heterogeneous demands of local people in different regions, as the agricultural products and lifestyle of people in different regions were different. At the same time, it helped the bank ensure that branches operated in the same strategic direction. As of 31st March 2006, the bank had 567 branches, and 75 provincial offices operating under a supervision of nine regional offices (Annual Report).

As previously discussed, the AgroBank frequently restructured its organisation. The structure at the corporate level arguably became more strategically oriented not least through devolving more functional activities out to existing or new divisions and departments. At the same time, rationalisation was pursued through re-arranging departments and divisions responsible for similar activities into the same working groups to promote more specialist expertise in terms of focus and activity. On the other hand, an increasing focus on customer differences shifted the structure at the operational level towards being more geographically oriented. Regional offices and provincial offices were created to manage branches in their respective areas more closely, to ensure that the different needs of local customers in different regions were met. However, this continual process of change seemed to promote a desire for still more change to improve focus and flexibility. At the time when exploratory fieldwork was being carried out, it was apparent from initial conversations that several senior management staff believed that the bank

might need to further restructure its organisation after another amendment to the Act governing the operations of the bank was approved.

5.4.2. Current Organisational Structure

As of 31st of March 2005, the bank's organisational structure was changed to comprise 23 departments operating under 7 groups, as can be seen in Figure 5.5. Six operating groups, management support, special activities, customer and rural development, income development, policy and strategy, and supporting, are based in the head office in Bangkok. The operation group, comprising nine branch administration departments responsible for the operations of provincial offices and branches nationwide, runs in nine different regions of the country: the upper northern, lower northern, upper northeastern, lower northeastern, central, eastern, western, upper southern, and lower southern regions of Thailand. The branch administration departments are responsible for overseeing the operations of provincial offices and branches to ensure that the bank's objectives in developing rural areas and maintaining financial stability are achieved. Within each branch, the operations are further classified into the operations and the business development divisions.³⁴ The operations division is responsible for legal, banking and accounting activities, while the business development division is responsible for lending operations and development activities.

At the head office, the six working groups have the following functions: the policy and strategy group plays a significant role in formulating corporate plans, developing management systems, and monitoring and controlling the overall operations of the bank.

³⁴ The business development division was formerly known as the agricultural credit division. It was renamed in fiscal year 2001 to emphasise the bank's role in providing knowledge and services for development purposes, in addition to providing financial assistance through credit services.

It has a major responsibility for translating policies into practice, developing business and action plans, and monitoring and evaluating the performance of the organisation, departments and divisions, with the aim of increasing the efficiency and quality of the services.

To support provincial offices and branches in their activities, the customer and rural development group and the income development group play important roles. The customer and rural development group has a responsibility to systematically integrate the production and marketing activities of the customers, strengthen the micro-enterprises in the rural areas, and co-ordinate with other organisations to provide knowledge on production, marketing and general management to customers. The major tasks of the income development group cover lending operations, other financial-related services and financial management. Within the group, the treasury department's major responsibilities include financial planning and management, as well as assets and liabilities management. The institutional loan, the personal loan and the government secured loan departments have the responsibility of formulating policies regarding lending operations and supervision of the provincial offices' credit operations. The duty of the income and banking development department includes improving the bank's other financial services, such as deposits, electronic banking, the Islamic fund, and other fee-based income services. The institutional loan, personal loan, government secured loan and income and banking development departments also share the responsibility of developing new products to meet customers' demands.

The management support group, comprising the audit department, the management department and the risk management department, and the supporting group function to

provide support to top management and other departments. The management support group's main functions include ensuring that appropriate internal control systems are in place, improving the bank's internal management systems to meet international standards, facilitating the work of the Board of the Directors and the bank's executives, communicating the bank's policies, and managing risks. With regard to the supporting group, its responsibilities include the provision of financial and accounting information, improvement of internal management systems, development of information technology systems and the professional development of the bank's employees. Finally, the special activities group has the major responsibility of facilitating and managing special projects and missions.

Changes in the bank's organisational structure have had an impact on the bank's personnel, creating more job promotion opportunities for management staff. For example, the introduction of provincial offices created a large number of Provincial Director positions, equivalent to the Divisional Director positions in the head office. The introduction of regional offices also created nine Senior Vice President positions, nine Vice President positions and nineteen Assistant Vice President positions. On the other hand, many staff needed to move to areas in which they were not specialised. For instance, the Senior Vice President of the human resources department was transferred to one of the branch administration departments when regional offices were introduced. Nevertheless, this seemed not to be problematic for the bank, as the bank tended to rotate their staff to different functions regularly.

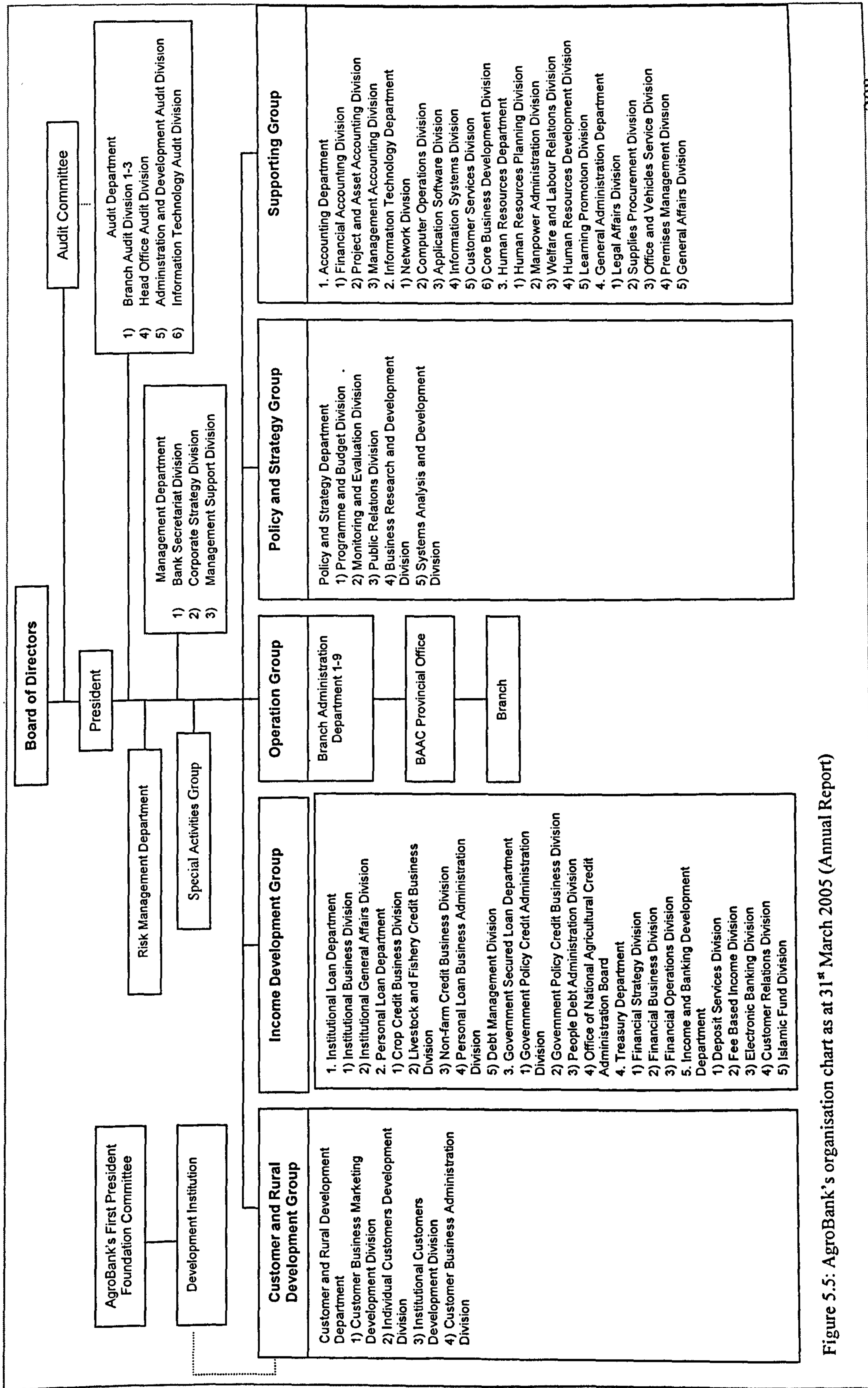


Figure 5.5: AgroBank's organisation chart as at 31st March 2005 (Annual Report)

5.4.3. The Bank's Personnel Structure

To structure its personnel system, the bank uses a grading system, with 14 grades for its officers. The president of the bank is not included in the system, as he or she is not considered a member of the banking staff. The current structure of the bank's personnel can be seen in Figure 5.6. All banking staff are remunerated according to grade, although there are salary overlaps between grades. In 2004, several changes to personnel management were made in the areas of staff promotion and salary rise systems, and in terms of the system of recruiting the president. The bank has attempted to abolish the grading system in its personnel structure, but at the time the fieldwork was conducted, the grading structure was still in place.

Prior to 2004, the promotion for staff at grade 6 and lower was based on seniority and salary level; that is, if the salary or years of working with the bank reached the baseline for the next grade, individuals would get promoted automatically. On the other hand, to be promoted to grades 8, 9 and 10, it was necessary for staff to be examined on specific issues about the bank's operations as well as issues on general management practices prevalent in the business community. As many senior staff did not perform well in the exam, compared with young, recently graduated staff, the bank combined the selective system with the exam system. Through the selective system, divisional directors and provincial directors proposed the names of the staff they wished to promote. The human resources department at the head office then made a decision as to who would receive promotion, based on each staff member's work experience and educational qualifications. Therefore, 80 percent of the staff at grades 7 to 9 were promoted on the basis of their exam results, while 20 percent were promoted through the selective process. The promotion of staff at grade 10 and above was determined solely through the selective

process. Since 2004, the exam system has been abolished and replaced by the selective system. For this reason, all promotions of staff from grade 6 and above have to go through the selective process. Staff from grade 9 and above are also assessed by the bank's assessment centre to determine their competency level and management skills before they can be promoted to the next grade.

With regard to salary increases, employees performing well are allowed to have a rise ranging from 0.5 up to 2 salary levels each year, or alternatively they might not be entitled to any rise, if performance is not deemed adequate. In the fiscal year 2004, the bank changed the salary rise system from increasing at a certain level to increasing as a percentage compared to the previous salary. The percentage of increase in the salary of individual staff varies according to his or her performance measured by the new performance appraisal system introduced in 2003, discussed later in Section 5.5.3.

In addition to changes in the incentive system, the bank changed the president recruitment system from one that was seniority-based to one that was candidate-based. Prior to 2004, the senior executive vice president with the most seniority would take over from the retiring president. However, since October 2004, the bank has operated a candidate system; that is, anyone, including those who are not currently banking staff, who wishes to be considered for the position can submit an application, and the decision on who should be selected is made by the Board of Directors. Under the new system, the president has to sign a performance agreement with the Board of Directors on an annual basis. This agreement is then used as a basis to evaluate the president's performance.

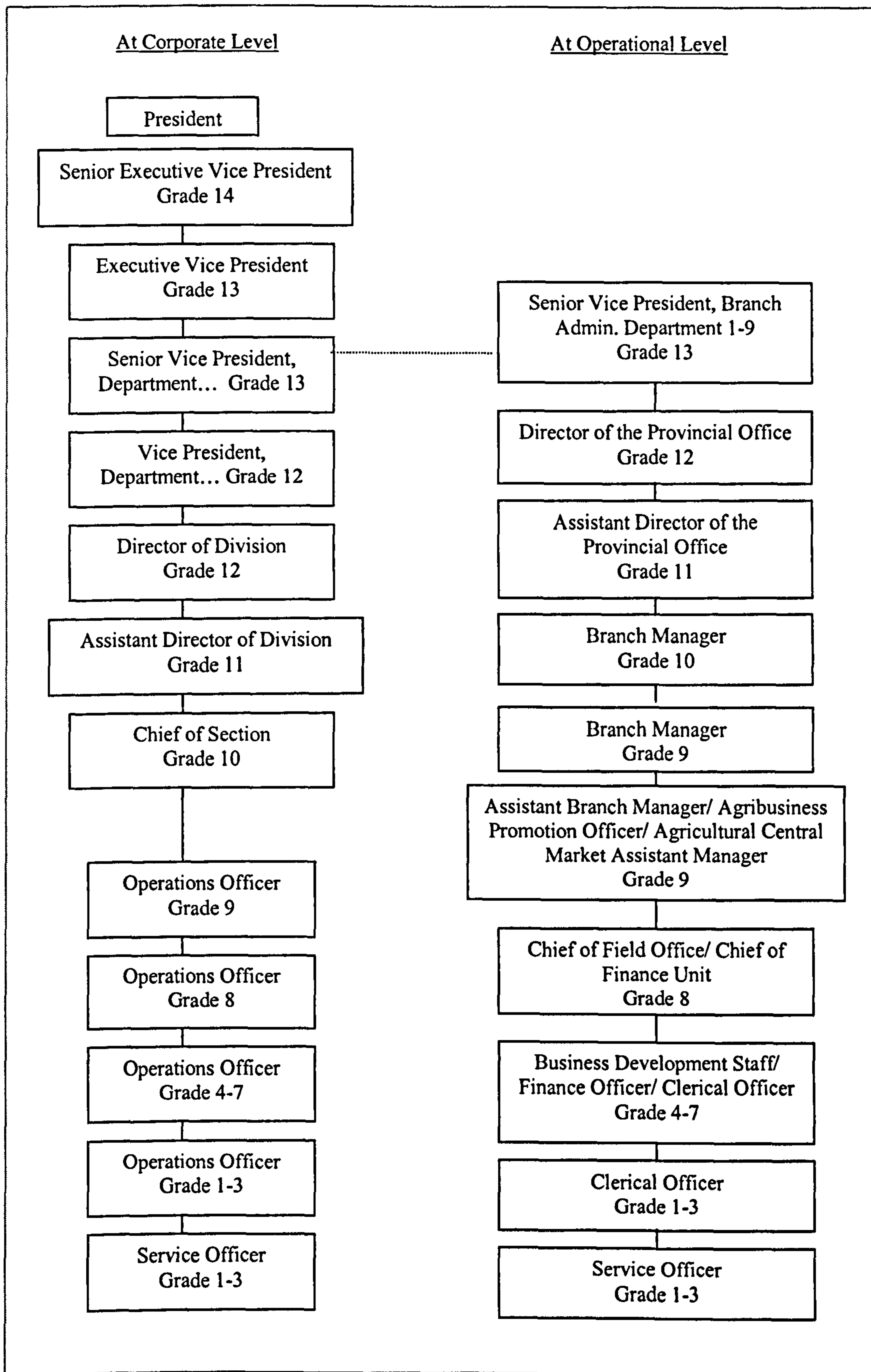


Figure 5.6: The AgroBank's personnel structure (Internal document)

5.5. Recent Change Initiatives

In the AgroBank's evolution from a specialised agricultural lending institution to a diversified rural development bank, it has implemented a number of 'modern' management systems commonly used in the global business communities. While the senior management of the bank believed that the implementation of innovative management tools would enhance the bank's efficiency and competitiveness, some management staff also believed that it would create a more commercial outlook and help enhance its legitimacy. By adopting new management tools that are widely accepted among contemporary business communities, the bank can present itself as a more global, modern financial institution.

The recent adoption of innovative management tools in the AgroBank has included (1) the implementation of a quality management system, ISO 9001: 2000, (2) the improvement in information technology systems, which included the renovation of the bank's entire management information system and the implementation of the Automatic Teller Machines (ATMs), and (3) the introduction of new performance assessment systems at employee level. As part of the recent change initiatives, and in particular in order to monitor performance at corporate and operational levels, the BSC approach was adopted, along with the development of the 'operation room' to help run it effectively, details of which are discussed in Chapter 6.

5.5.1. The Quality Management System: ISO 9001:2000

ISO is the latest quality management system implemented by the bank. In fiscal year 1999, the bank started its pilot project of implementing the ISO 9001: 2000 quality management system at the front office of its two branches. These two branches were later

certified for their ISO 9001:2000 by an independent accredited certification institution in July 2001. The bank further expanded the ISO implementation to all of its branches in fiscal year 2003; and by the end of that year, the finance section of all branches were qualified by the internal ISO auditors, who also continued a periodic assessment of the services provided by the finance section of the branches. ISO measures have become one of the major issues to which the provincial directors pay significant attention in monthly performance review meetings.

Prior to ISO adoption, the bank utilised several quality management systems that were popular at the time, for example, 5S. Some of the bank's top management also claimed that the bank implemented TQM, but a director of one division suggested that rather than fully implementing TQM, the bank employed only particular elements. After the ISO implementation, 5S still remained in place, while TQM was less apparent.

By implementing ISO, management of the bank believed that they could improve the bank's efficiency and the quality of services provided to customers, which would, in their view, lead to better organisational performance. An assistant director of the human resource planning division, and a former director of one of the provincial offices, commented that people used to joke, "If you wish to go to the Agro, take a pillow with you." However, after implementing ISO, branches provide quicker service leading to greater customer satisfaction.

Currently, the bank has a plan to expand ISO standards to all departments in the head office and business development section in all branches, although it remains uncertain as to whether ISO is suitable for credit operations. In addition to implementing ISO in the

bank, farmer institutions have been encouraged by the bank to adopt the same ISO standards.

5.5.2. Information Technology

In fiscal year 2003, the bank undertook the renovation of all of its management information systems. From the perspective of the bank's staff, the information technology system of the bank was outdated. Many organisational members at all levels of the organisation believed it was necessary for the bank to improve its information systems in order to compete in today's competitive and advanced financial market. Therefore, a new Core Banking System, covering such information systems as the client's database, credit, deposits, services, financial management, and automatic branches, was implemented. In addition to introducing the new information systems, in fiscal year 2004, the bank installed 600 ATMs nationwide and became a member of the ATM pool. Prior to fiscal year 2004, the bank had a limited number of ATMs, with customers being able only to use those ATMs located at their branch, due to the fact that the information systems were not linked from one branch to another. However, since February 2005, bank customers have been able to make transactions at any ATM belonging either to this bank or any other banking members of the ATM pool.

Many of the banking staff believed that the modernisation of the information systems would enhance the efficiency of the bank's operations. They also suggested that it would expand the bank's opportunities because it would increase its business channels, such as ATMs, online-banking, and credit card services, which would eventually lead to a higher fee-based income. The use of electronic channels may change the relationships between the bank and its customers to a certain extent. However, bank operations need to remain

labour-intensive; the bank cannot merely replace human labour with advanced technology because farmers still need personal advice from banking staff.

5.5.3. Performance Measurement at Employee Level

In addition to an improvement in quality management and information systems, the bank attempted to change its performance management systems at employee level in order to create more focus on performance. In 1999, the bank introduced the new performance measurement system at employee level, called Performance Management System (PMS). The pilot project was undertaken in fiscal year 2000, and the system was further implemented in all of the bank's departments, provincial offices and branches in fiscal year 2003. The PMS was first implemented in the head office, before being extended to other provincial offices and branches. The President of the bank commented, "If we want other employees to accept it, we need to show them that we are also evaluated by the system. That's why we started applying it to management staff in the head office first."

Under the new PMS, at the beginning of each fiscal year, all employees have to identify plans and targets they want to achieve during the year, and agree them with their immediate superior. Results from the individual performance agreement have an impact on the salary rise of individual employees, although individual performance is not the sole determinant of salary rise. The performance of the branch or division in which employees are located also affects the quota of total salary rise awarded. In addition to the impact on salary rise, individual performance results are used to determine promotion prospects.

It was suggested in the bank's internal documents that the PMS was a result-based performance management system which aimed to integrate four important processes of human resource management – performance planning, performance coaching and feedback, performance appraisal, and competency development (see Figure 5.7). The bank's management claimed that the PMS would encourage participative discussion between superiors and their subordinates. Nevertheless, some of the banking staff expressed doubt about whether PMS would actually create more discussion, as it is not common for Thai people to argue with their superiors.

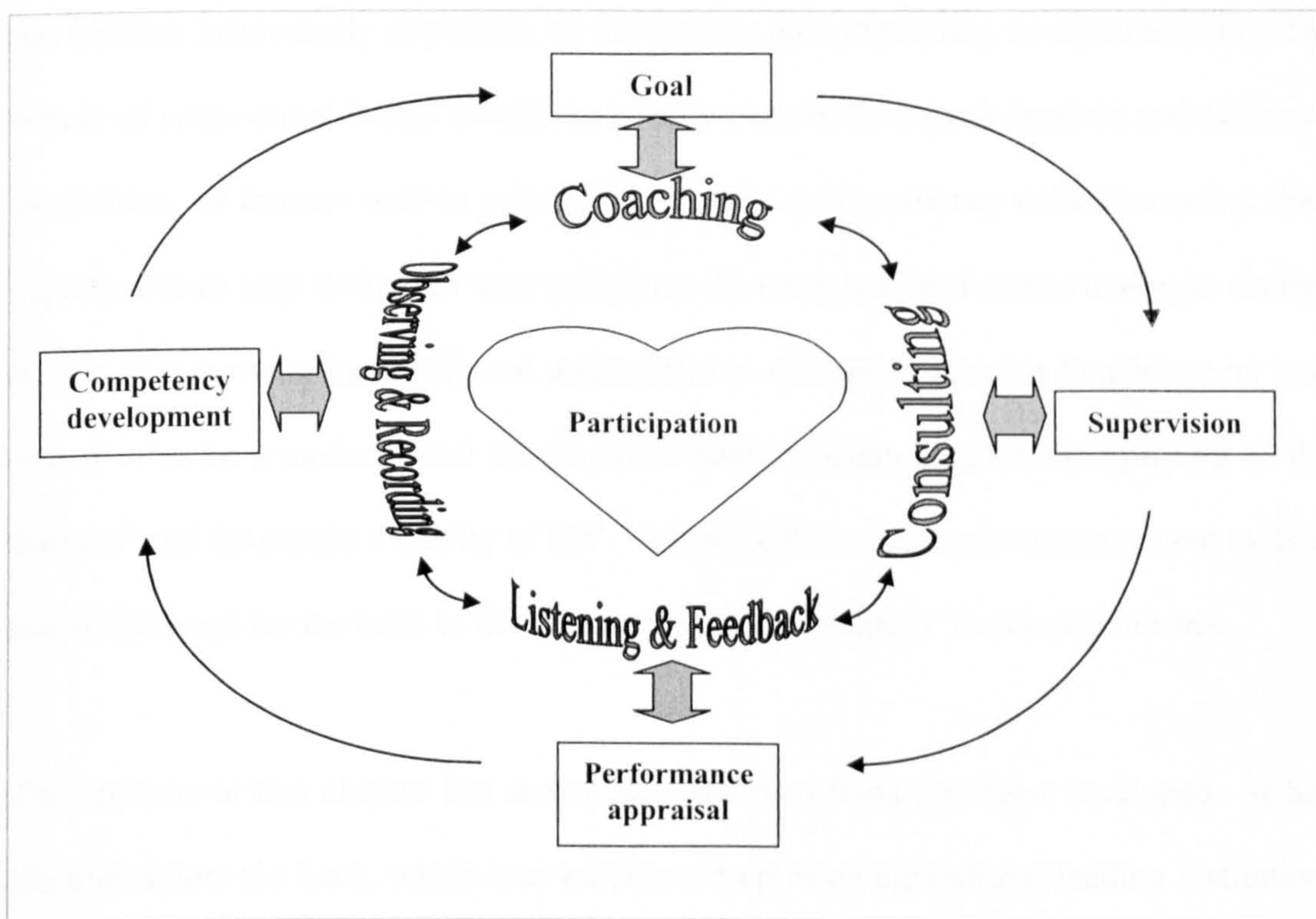


Figure 5.7: Key concepts of Performance Management System (Internal document)

The management of the bank explicitly indicated that the PMS was not a performance assessment system. In their view, the main aim of the system was for employees to learn and improve themselves, with performance appraisal being only one aspect. However, a

number of employees viewed that measuring performance was a fundamental element of the system, partly because the system was now linked to the reward system; that is, decisions on the salary rise of each member of staff was based on their performance as evaluated by the new PMS. As a consequence, the performance appraisal element of the PMS has inevitably become the major focus of banking staff.

While adopting these modern management tools might help enhance the bank's efficiency to some extent, employing management tools which are widely accepted among the contemporary business communities can help improve the image of the bank. This image has become increasingly important, as the bank is now expanding its operations into the terrain of commercial banks, which are usually perceived as more modern and efficient. In addition, as farmers tend to perceive the bank's staff as money collectors rather than experts able to help them with their problems, the bank has been endeavouring to change its image to become more efficient and helpful to customers in order to achieve its new vision – 'to be a modern rural development bank concentrating on the uplifting of the farmers' and the people's quality of life'. Adopting these innovative management tools is one of the ways for the bank to develop its image as a 'modern' development bank.

The analysis in this chapter has shown how the AgroBank has been developed. It has illustrated how the bank, which was initially set up as an agricultural lending institution, has developed its business and management practices which, in many ways, are distinctive. The analysis has also shown that over the period of 40 years of its operation, the AgroBank has expanded its roles and scope of activities substantially, and interactions with external parties, such as the central bank, other local commercial banks and foreign financial institutions, have become more frequent and important. Along with the

expansion of its roles and scope of activities, organisational restructuring has been undertaken many times with an increasing focus on strategic and external customers. At the same time, important attention has been given to developing its internal management systems to accommodate the increasing complexity of its operations. A number of 'modern' management approaches and tools which are commonly used in global business communities have been implemented, particularly during the recent years. Alongside with the new, global management tools, a number of traditional management practices remain significant and play important role in shaping the way in which organisational participants view and react to the new management technologies. As a part of recent change initiatives undertaken by the bank, the BSC approach was adopted. The next chapter will discuss the detailed process of the way in which the BSC was introduced and implemented within the AgroBank.

Chapter 6

Translating the Balanced Scorecard into Practice in the AgroBank

6.1. Introduction

The previous chapter discussed the development of the AgroBank, the organisation that is the focus of this study on how the BSC was introduced and implemented. It summarised some of the key steps that the organisation has undertaken to transform itself from an agricultural lending institution into a diversified rural development bank. It presented the bank's attempts to become more global and modern by introducing a number of change initiatives in its internal management systems. These change initiatives reflect the increasing external focus (i.e. strategic and customer-facing) of the organisation, and at the same time, demonstrate the organisation's attempts to develop its internal resources and management practices.

BSC was introduced by top management as part of the most recent change initiatives. The decision to adopt it was driven largely by several key senior and middle managers, in particular the president of the bank at the time. In addition, external actors, including the government, consultants and other organisations in the industry, played significant roles. Given the top-down approach to its implementation, organisational members at different levels responded to the BSC differently, leading to several revisions and reformulations of it, both planned and emergent. Throughout the design, implementation and utilisation process of the BSC, various interests, tensions and conflicts were negotiated, articulated and mediated. In order to make the BSC operable, and to accommodate the diverse interests of various organisational participants, new meanings and identities of the BSC emerged in the ebb and flow of discussion and implementation.

This chapter describes the process of how the BSC was introduced, constructed and disseminated as a new performance measurement and management system within the AgroBank. It describes how various actors – local and global, human and non-human – played roles in creating networks to support, resist and transform the BSC within the AgroBank. The main objective of the chapter is to describe how what was (as explained in Chapter 2) an American performance management concept was translated into practice in a Thai financial services organisation. It traces the process of BSC construction and translation within the organisation, as well as within different units of the organisation, over a period of time. Emphasis is also placed on the interplay of the BSC and other key performance management tools, with a view to tracing some of the more general implications of BSC adoption within the AgroBank.

This chapter is organised into 6 sections. The next section discusses the pre-existing performance measurement and management systems of the AgroBank. Section 6.3 introduces the process of BSC development in the AgroBank. The way in which the BSC idea came into the organisation and the process of how BSC was constructed at the corporate level are explored. The design of the bank's corporate BSC is discussed. The issues of the bank's decision on dimensions of performance and KPIs, the development of a strategy map and the issues around cause-and-effect relationships among performance measures are considered. Also discussed is the way in which the elements of the bank's corporate BSC have changed over time. Section 6.4 depicts how the BSC development project was extended to the operational level, and examines the reactions of the provincial directors to the BSC development project. Section 6.5 considers how the AgroBank's organisational members viewed and understood the BSC, while Section 6.6 provides a

brief summary of the way in which the BSC was introduced, constructed and used within the organisation.

6.2. Pre-Existing Performance Measurement Practices in the AgroBank

Over the past decade, substantial changes to management practices in the Thai banking industry have been taking place. As discussed in Chapter 4, since the financial crisis in 1997, most, if not all, of the banks in Thailand have attempted to modernise their organisations, in order to survive and compete in an increasingly tense competitive market. Large-scale organisational re-engineering and restructuring has been carried out; information technology and management information systems have been renovated, and a number of innovative management tools have been adopted. Efficiency has become increasingly important; as a president of one local commercial bank commented, “Prior to the crisis, there was little competition. We were usually profitable. It seemed like we could just sit still and gain higher profit. There was no need to be efficient.”³⁵

Striving for survival, most of the banks in Thailand undertook significant changes in their internal management systems, including performance measurement and management systems at every level of the organisation. At the corporate level, many banks have implemented integrative strategic performance measurement systems, while at the employee level, a performance-based appraisal and reward system has often been implemented, to replace the subjective performance evaluation and the seniority-based reward system commonly found in Thai organisations.³⁶

³⁵ Interview with the president of Bank B (August 2004) (see Appendix 1).

³⁶ Interviews with a first executive vice president of Bank B (December 2003), a senior vice president – investor relations of Bank C (December 2003), and a vice president – planning and budgeting of Bank E (August 2004) (See Appendix 1).

• Among the strategic performance measurement frameworks, BSC is one of the most popular among the Thai banks. From a survey conducted in 2002, 6 out of 12 commercial banks reported adopting the BSC (Decharin, 2003). Most of these banks announced the adoption of BSC either in their annual reports or on their websites. Some banks also presented their strategy map in their annual report. In the banks where BSC was adopted, the BSC development project was usually the responsibility of a corporate planning and strategy or a human resources management department. Although many banks claim to have implemented BSC, the way in which it is used tends to differ across organisations.³⁷

In similar vein to other local banks in the country, the AgroBank has carried out extensive changes in its performance measurement and management systems over the past decade, although the bank has suffered less financial loss from the financial crisis compared to other commercial banks. Change initiatives were part of the bank's attempt to enhance its efficiency and modernise its organisation to become a rural development bank which can compete with other commercial banks in a globalised, intensified competitive financial market. One aspect of those initiatives was the adoption of BSC.

Prior to BSC adoption, there were three key performance measurement tools used to monitor performance at the corporate level – budgetary control, performance evaluation by the Ministry of Finance, and Logframe.³⁸ Budgeting and performance targets from the performance evaluation conducted by the Ministry of Finance were allocated to the

³⁷ This observation is based on data obtained from the interviews and documentation analysis during the pilot and exploratory stage of the research (see Appendix 1). However, the detailed use of BSC within other banks is beyond the scope of this thesis.

³⁸ Logframe or 'Logical Framework' is a performance monitoring tool commonly used by development agencies, such as the World Bank. Within the AgroBank, it was used by the monitoring and evaluation division to input, process and outputs of the key projects of the organisation.

operational level, while Logframe targets were focused on the performance of projects at corporate level only. After BSC was implemented, budgetary control and performance evaluation by the Ministry of Finance remained significant, while Logframe was completely abandoned. The pre-existing performance measurement tools, particularly budgetary control and performance evaluation by the Ministry of Finance, play a significant role in shaping how organisational members see, interpret and react to the new performance management technology, the BSC.

6.2.1. Budgetary Control

Budgeting has long been used as a major tool to monitor and manage performance at corporate, departmental, provincial and branch levels in the AgroBank. Budgets and plans are formulated on an annual basis, with the programme and budget division as a central co-ordinator during the process. As with other state-owned enterprises, the AgroBank is required, by the Ministry of Finance, to develop an annual plan, policies and budgets based on its five-year business plan.³⁹ The annual budgeting and planning process usually starts in July, when the policy and planning committee discusses and agrees on the overall direction and policy framework for the bank based on governmental policies. The policy and planning committee comprises several members of the Board of Directors and some executive members of the bank, in order to ensure that the interests of various groups of stakeholders are considered. While members of the board represent the interests of customers and the government, which is also the bank's major shareholder, the bank's executives represent the interests of the bank and its staff.

³⁹ Prior to fiscal year 2005, it was called the 'corporate plan'.

Along with discussion of the policy and planning committee, the programme and budget division organises a series of discussions among senior management of all departments, including branch administration departments, to formulate a draft of plans and projects to support the main policies of the bank. This draft is then proposed to the policy and planning committee to review, comment on and revise. After the committee agrees on the overall policies, a series of workshops is organised in various regions throughout the country, to obtain the local staff's views on the possibility of the plans and projects. In September, when the final draft is completed, it is submitted to the Board of Directors for approval.

After the annual business plan at the corporate level is approved, corporate budgeting targets are allocated to relevant departments. Departments then develop action plans and projects to support the corporate plans and policies. Budgets for each project are identified. During this process of plan development at departmental level, the organisation holds meetings among members of the policy and planning committee on a regular basis to consider departments' budgets and plans. In late November or December, final plans are proposed and approved by the Board of Directors and submitted to the Ministry of Finance.

After the corporate annual plans and budgets are finalised, the programme and planning division organises a meeting among directors of all divisions in the head office, provincial directors and branch managers to communicate the corporate plan to management at lower levels, to further formulate action plans to support the corporate plan. Thus, all divisions and provincial offices also develop their plans and budgets on an annual basis.

Key budgeting targets focus primarily on quantitative financial performance, although some of the indicators are concerned with the progress of the projects. Examples of the key corporate budgeting targets include loan disbursement, non-performing loan reduction, deposit amount, fee-based income, expenses and the progress of some key projects, such as the information technology development project. At the provincial level, examples of key budgeting measures that are reviewed monthly include loan disbursement, loan disbursement on particular projects, non-performing loan reduction, deposit and fee-based income.

Budgeting targets are set primarily from the top level and then cascaded down to lower levels; however, bottom-up target setting is also considered. To determine the targets, past performance, including average past performance and performance of the previous year, is used as a major basis. This is based on the philosophy of continuous improvement; that is, the departments/provincial offices/branches should at least perform better than they did in the previous year. To set the targets for provincial offices and branches, the bank also considers the average performance of offices and branches located in the same areas as another benchmark. Top management of the bank believes that using past performance as a benchmark is fair to provincial offices and branches, as different offices and branches might have different external and uncontrollable environments that impact on their performance. However, a director of one provincial office argued that this assumption might not be sensible in some circumstances. In his view, it would be more difficult for provincial offices with high performance to improve, compared with offices with low performance. He argued,

We are human, not machines. Sometimes, I can't push my staff any further. Actually, when we achieve very high performance, sometimes we despair because we can't do any

better. It's as if now we are running 100 metres in 9.9 seconds, they want us to get it down to 9.5 or 9 seconds. We can't do that. It is so easy for others who are completing 100 metres in 20 seconds to improve to 15 seconds, for example.

In his view, for provincial offices that are already performing at a high level, maintaining it at the same level should be sufficient.

Once the budgets and plans are finalised, the targets are fixed throughout the year. Only in exceptional circumstances, such as the chaos in the three southernmost provinces and the tsunami which hit the six provinces in the south, might the targets be adjusted. If the bank needs to implement any urgent, special projects arising during the year in order to accommodate particular interests of ministries and government agencies, the bank does not include these projects into any form of performance evaluation. Rather, the monitoring and evaluation division will come to play its role in monitoring the projects, ensuring that they are carried out to the government's requirements.

On a monthly basis, the policy and planning committee meet to review performance on annual plans and budget. At the operational level, every month, provincial offices and branches also review performance measured against budgeting targets. Often, branches and provincial offices also review the performance of their branch against the performance of other offices and branches.

Prior to 1996, budget was used as a tool to evaluate branch managers' performance.⁴⁰ At the beginning of the fiscal year, branch managers had to sign a performance agreement

⁴⁰ The provincial office was set up as another layer of organisational structure in 1997 (as discussed in Section 5.4.1.2); thus, there was no performance agreement for provincial office directors prior to that period.

with the president based on the finalised budget and plans of their branches. Performance results measured by performance indicators on the agreement would have an impact on the allocation for salary rises for employees within the branches. However, after 1996, when the Ministry of Finance introduced a new performance evaluation system to state-owned enterprises, budgeting targets were no longer used as KPIs in the performance agreement. Rather, the performance criteria determined by the Ministry of Finance were used to form the performance agreement to evaluate the performance of provincial offices and branches. Despite the introduction of many other performance targets to supplement budgeting targets during the past few years, achieving the pre-determined budgeting targets still remains crucial for managers at all levels, particularly at provincial offices and branches.

In addition to using budget and plans for internal management purposes, the AgroBank is required to submit its annual budget and plan to the Ministry of Finance and the National Economic and Social Development Board, responsible for the country's macro-economic planning. The operations of the AgroBank are of great interest to the government and the National Economic and Social Development Board, as its operations have a significant impact on farmers, the major population of the country.

6.2.2. Performance Evaluation by the Ministry of Finance

As a state-owned enterprise, the AgroBank is subject to an annual performance evaluation by the Ministry of Finance, the ministry responsible for overseeing all state enterprises. The 'state-owned enterprise performance evaluation programme' was introduced in

1996⁴¹ by the State Enterprise Policy Office⁴² in response to recommendations by the World Bank. The key objectives of the programme are to enhance the efficiency and performance of state-owned enterprises and to improve co-ordination between the Ministry of Finance and the Ministry directly responsible for each state-owned enterprise.

In evaluating the performance of state-owned enterprises, the Ministry of Finance hires a consulting company to draft a performance agreement, specifying performance indicators, weights and targets, and this agreement is then recommended to a committee⁴³ set up by the Ministry. The consulting company is also responsible for measuring actual performance of the state-owned enterprises at the end of the fiscal year. The consulting company hired to evaluate the performance of the AgroBank is the Thai Rating and Information Services Company Limited (TRIS).⁴⁴ Thus, staff of the AgroBank usually refer to the annual performance evaluation by the Ministry of Finance as the 'TRIS measurement'.

Currently, there are two types of performance measurement systems under the 'state-owned enterprise performance evaluation programme' – the Good Enterprise System (GES) for enterprises listed on the SET, and the Performance Agreement System (PAS) for non-listed state enterprises. Under the GES, there is no negotiation with regard to performance indicators and targets between the enterprises and the Ministry. Five key areas of performance are determined by the Ministry of Finance, and worldclass targets, or at least industry norms, are set as a benchmark. Good corporate governance criteria

⁴¹ The time that state enterprises join the programme may vary depending on their readiness. AgroBank joined the programme in 1996.

⁴² The State Enterprise Policy Office operates under the supervision of the Ministry of Finance.

⁴³ Members of the committee include academics from leading universities, retired government officers and prominent businessmen. Each committee is responsible for evaluating 4-5 enterprises in the same industry.

⁴⁴ In fiscal year 2005, TRIS was hired to evaluate performance of 44 out of 53 state enterprises.

determined by the SET are also incorporated into the evaluation criteria. In contrast, under the PAS, a series of negotiations between the enterprise and the consultancy firm, and between the enterprise and the committee from the Ministry of Finance, will be carried out before the performance agreement is finalised. Although the Ministry of Finance has attempted to apply the GES to all non-listed enterprises as a non-negotiable change, management staff of TRIS argue that this is difficult in practice and to date it has not happened.

In the case of the AgroBank, the PAS is applied, as the bank is a non-listed organisation. At the beginning of each fiscal year, the bank has to sign a performance agreement with the Ministry of Finance, based on the recommendation of TRIS. The programme and budgeting division is responsible for negotiating with TRIS and co-ordinating between TRIS, the Ministry of Finance and the bank's executives and directors, whereas the monitoring and evaluation division is responsible for monitoring actual performance to ensure that the pre-determined targets are eventually achieved at the end of the fiscal year.

The process of negotiation starts with discussions between staff from TRIS and staff from the programme and budgeting division of the AgroBank. The bank has to submit a draft of its annual plan to TRIS to develop a draft of the strategy map, KPIs, weights and targets. Then, KPIs and targets developed by TRIS are compared with those formulated by the bank, after which staff from the programme and budgeting division of the bank and staff from TRIS discuss adjustments before a draft is proposed to the Ministry of Finance's committee. After the draft is proposed, the committee and the bank's executives and directors further negotiate before the final performance agreement is

formulated. Finally, the bank signs the performance agreement with the Ministry of Finance as a commitment that the bank will achieve a certain level of performance in particular areas in the fiscal year.

To develop a framework to evaluate the performance of state enterprises, TRIS combines a number of western performance management concepts, including Sink & Tuttle's model, the European Foundation for Quality Management approach, the Malcolm Baldrige National Quality Award, and the BSC. Performance criteria have changed over time. TRIS' director of the performance evaluation division suggested that the development of a performance evaluation programme can be classified into three phases.

During the first phase, performance criteria focused on inputs and processes, in order to improve the internal management systems of the enterprises. In the second phase, the focus shifted to responsiveness to stakeholders and corporate governance. As corporate governance issues received considerable attention from practitioners at that time, the evaluation focused primarily on transparency, the role of the board, and information disclosure. Strategic performance management was also prominent; thus, state enterprises were encouraged to adopt a strategic performance management approach, such as the BSC. During this period, some non-financial performance indicators were incorporated into the performance criteria. These indicators were classified into 5 main categories – (1) effectiveness, including financial performance, physical performance and policy responsiveness; (2) efficiency, including financial and physical; (3) stakeholder responsiveness, including customer, employee and society; (4) organisational management and development; and (5) corporate governance.

With regard to the third phase, which is the current stage, the criteria are mainly concerned with how well the enterprises perform from the perspective of shareholders. The main focus is on wealth creation and value added. Performance indicators are classified into three categories – (1) policy responsiveness; (2) financial and non-financial performance; and (3) organisational management.

Main categories for performance evaluation are applied to all state enterprises, but details and weights given for each category may vary. Policy responsiveness accounts for 20-30% of the total weight, whereas financial and non-financial performance and organisational management account for 40-50% and 20-40% respectively. As the AgroBank is an important instrument for the government to implement its policies, the maximum weight, 30%, is given to the policy responsiveness category. The KPIs and weights for AgroBank in fiscal year 2004 can be seen in Table 6.1.

Table 6.1: 'TRIS measurement' performance evaluation criteria, fiscal year 2004

Performance Indicators	Weight (%)
I. Policy responsiveness	
Loans granted under Asset Capitalisation Policy	8
Loans granted under Public Debt Restructuring Policy	8
Supports for One Tambon One Product Programme	9
Public Service Account implementation	5
Total for Category I	30
II. The enterprise's performance	
Financial indicators	
Net profit	3
Operating expenses to net income ratio	6
Expenses related to human resources to net income Ratio	6
Non-financial indicators	
Loans to number of employees	8
Overdue loans to outstanding loans	8
Level of success in developing farmer and community enterprises, measured by number of products that are certified by Thai Industrial Standard Institute and number of farmers that passed the production standard criteria	9
Total for Category II	40
III. Management	
Role of the board	6
Risk management	6
Internal control and internal audit	6
Information technology management	6
Human resource management	6
Total for Category III	30

Source: Internal document

Results from the 'TRIS measurement' are used to determine bonuses for directors, management and non-management staff of the enterprises. In addition, the State Enterprise Policy Office produces a league table, presenting performance results of each state enterprise at the end of each fiscal year, to encourage state enterprises to improve and compete with each other. Moreover, the Ministry of Finance uses the results to form a decision as to the extent to which certain regulations can be relaxed in order to grant a greater degree of autonomy to state enterprises.

Through the 'TRIS measurement', important governmental policies pertinent to the bank are translated into performance indicators. However, this does not mean that the bank waits until the agreement is signed before starting the projects related to the governmental policies; it is usual for the bank to already be aware of relevant policies at the time of announcement by the government. When formulating its annual plan, the bank also needs to take these policies into account. Relevant policies are confirmed again at the beginning of the fiscal year, when a meeting between the Finance Minister and management of the bank, ranging from president to branch managers,⁴⁵ is organised. While this meeting can be seen as official confirmation that the bank acknowledges the direction the government wishes the bank to take, the 'TRIS measurement' system can be seen as a further reinforcement for the bank to pay attention to the relevant policies, as the results of the evaluation will have an impact on bonuses for all directors and staff. The 'TRIS measurement' helps to clarify which particular aspects of the policies the bank needs to focus upon, and what specific projects or activities the bank should undertake.

⁴⁵ Prior to fiscal year 2005, only management from the level of director of provincial office and above were required to attend the meeting, but since then, it has become compulsory also for branch managers to participate.

Since 1996, when the bank joined the 'state-owned performance evaluation programme', it has adopted targets from the 'TRIS measurement', rather than budgeting targets, as a basis for formulating performance agreements at lower levels. Based on the agreement at corporate level, the bank allocates the targets down to departmental and divisional levels. All heads of the department have to negotiate and sign the agreement with the bank's steering management committee,⁴⁶ while divisional directors sign the agreement with their respective heads of department based on the agreement at departmental level.

At the operational level, senior vice presidents who are heads of regional offices sign the agreement with the steering management committee, and then cascade it down to provincial level. As the agreements are based on criteria from the 'TRIS measurement', performance indicators in the agreement are similar across provincial offices, except for only some provincial offices where KPIs are different from those of the other provincial offices, to reflect the specific local situation of the offices (see Table 6.2 for a comparison of KPIs on the performance agreements of four provincial offices).

⁴⁶ The steering management committee consists of the president, senior executive vice presidents and executive vice presidents of the bank.

Table 6.2: Comparison of provincial offices' performance agreements for fiscal year 2004

Performance indicators	Weights given to the performance indicator (%)			
	Office A	Office B	Office C	Office D
1. Policy responsiveness	30	30	30	60
1.1 Marketing support	10	10	10	5
1.1.1 Agricultural outputs sold through the Agricultural Marketing Cooperatives (AMCs) (%)	3	3	3	5
1.1.2 Participation from members of the AMCs (%)	2	2	2	-
1.1.3 Profit and loss (thousand Baht)	3	3	3	-
1.1.4 Farm inputs bought by AMCs through Thai Agribusiness Co., Ltd. (%)	2	2	2	-
1.2 Learning support and community strengthening	10	10	10	5
1.2.1 Urban and village community funds attending the training course provided by the AgroBank (level)	5	5	5	-
1.2.2 Infrastructure development and customer group strengthening				
1.2.2.1 Development of infrastructure of the customer groups (number of groups)	1	1	1	5
1.2.2.2 Strengthening of customer groups				
(1) Group activities (number of activities)	2	2	2	-
(2) Project to strengthen the groups (number of projects)	2	2	2	-
1.3 Private debt problem-solving	10	10	10	5
1.3.1 Non-institutional debt solving				
1.3.1.1 Results from the negotiation (%)	3	3	3	5
1.3.1.2 Number of customers under the project which were granted the loans to total eligible customers (%)	3	3	3	-
1.3.2 Institutional debt-solving (%)	4	4	4	-
1.4 Urban and village community fund project (%)	-	-	-	5
1.5 Asset capitalisation project (%)	-	-	-	10
1.6 Islamic fund	-	-	-	30
1.6.1 Training course (number of Masjid)	-	-	-	6
1.6.2 Loan disbursement (million Baht)	-	-	-	9
1.6.3 Deposit (million Baht)	-	-	-	6
1.6.4 Non-performing loan to total loan (%)	-	-	-	9
2. Efficiency	45	45	45	25
2.1 Return on asset (%)	25	25	25	-
2.2 Non-performing loan to total loan (%)	15	15	15	-
2.3 Fee-based income (thousand Baht)	5	5	5	5
2.4 Management of debt suspension project	-	-	-	10
2.4.1 Reduction of interest overdue (%)	-	-	-	10
2.5 Increase in deposit (%)	-	-	-	10
3. Organisational management	15	15	15	15
3.1 Management and teamwork (score)	10	10	10	10
3.2 Internal control (score)	5	5	5	5
4. Customer satisfaction	10	10	10	-
4.1 Customers' knowledge on the bank's products (score)	4	4	4	-
4.2 Customer satisfaction (score)	6	6	6	-
Total	100	100	100	100

Source: Internal documents

From Table 6.2, it can be seen that, with the exception of provincial office D,⁴⁷ KPIs and weights given for provincial offices are the same. This raises the issue of the appropriateness of the KPIs in terms of the performance agreement, as the operations of provincial offices A, B and C also differ significantly. For example, office A is located in Bangkok, which is an urban community with only a small farmer population. It is difficult for the office to arrange activities to strengthen customer groups because people in urban areas tend to have less time to participate in this kind of activity and, in fact, there are very few farming groups in Bangkok. In contrast, office C is located in the northeastern part of the country where the majority of the population are farmers who are also customers of the bank. As people in rural areas tend to be more group-oriented and have more time, it is easier for provincial office C to organise training courses for customers to strengthen their groups.

Many provincial directors argued that it would be more useful if the bank developed a performance agreement for each provincial office based on the office's specific environment. However, the management at the head office claimed that the bank developed similar performance indicators for all provincial offices to ensure that all of those offices operated in the same strategic direction, as well as to ensure that the targets from the 'TRIS measurement' were attained.

Generally, the negotiation process between the bank and TRIS, and between the bank and the Ministry of Finance takes a long time. The agreement is typically not finalised for several months after the start of the fiscal year. This means that the agreement at

⁴⁷ Provincial office D is located in one of the three southernmost provinces of Thailand. The KPIs of the office differ significantly from those of the others, partly due to the chaos in the province which led the government to implement several policies, such as the Debt Suspension Programme, which had an impact on the operations of the bank.

provincial level may not be finalised until the second half of the fiscal year. Therefore, at the beginning of the year, most provincial directors focus on their annual action plans and budgeting targets. However, after the agreement is signed, most of them turn to focus more on the performance agreement. Some of the plans are, sometimes, completely neglected.

6.2.3. Logframe

Logframe, or 'Logical Framework', was, as noted at the start of this chapter, another major performance monitoring tool in the AgroBank prior to the BSC. It was used by the monitoring and evaluation division to monitor key projects under the annual corporate plan. As this was the only division to utilise the tool, Logframe was known only among staff within the division.

The Logframe concept is a mix of strategic planning and management by objectives, and is commonly used by development agencies, such as the World Bank. To use the Logframe, the monitoring and evaluation division identified goals, purposes, inputs, processes or activities, and outputs of the key projects they wished to monitor. Then, performance indicators and assumptions were determined for the purpose of assessing the extent to which the targets were achieved. The performance indicators from the Logframe were followed up on a monthly basis.

The management in the monitoring and evaluation division suggested that Logframe was similar to the BSC, as it attempted to establish cause-and-effect relationships between inputs, process and outputs. However, unlike the BSC, Logframe could present only the performance of a particular project; it could not present the overall performance of the

organisation. Therefore, after BSC was implemented, Logframe was completely abandoned.

Although Logframe was abandoned after adoption of the BSC, the other two prevailing performance measurement systems – budgetary control and ‘TRIS measurement’ – remained significant. They played an important role in shaping the way organisational members viewed the BSC, and had a significant impact on how the BSC was designed and used within the AgroBank.

6.3. Translating the BSC at the Corporate Level

In the AgroBank, BSC adoption was a top management initiative, and the bank employed a top-down approach to implement it. That is, the BSC was first developed at the corporate level in the head office and then cascaded down to operational level in the provincial offices. The introduction of the BSC was part of the bank’s attempts to modernise its organisation and internal management systems. Management of the bank believed that BSC could provide the bank with guidance on how to achieve better performance; and at the same time, the bank could gain greater legitimacy through adoption of the BSC.

The BSC development project started in 2000, and the initial BSC was constructed only gradually. Key actors supporting BSC construction during the initial stage included the president and the director of human resource planning division at the time. The external consultant also played a significant role in facilitating the project. Despite strong support from top management, the organisation inevitably came across complexities in introducing a new management technology. To make BSC operable, BSC had been

modified, re-designed and re-defined to accommodate the interests of various actors. Attempts to reconcile the BSC with the prevailing performance measurement systems also led to a re-fabrication of the BSC. (See Figure 6.1. for overview of the BSC construction process.)

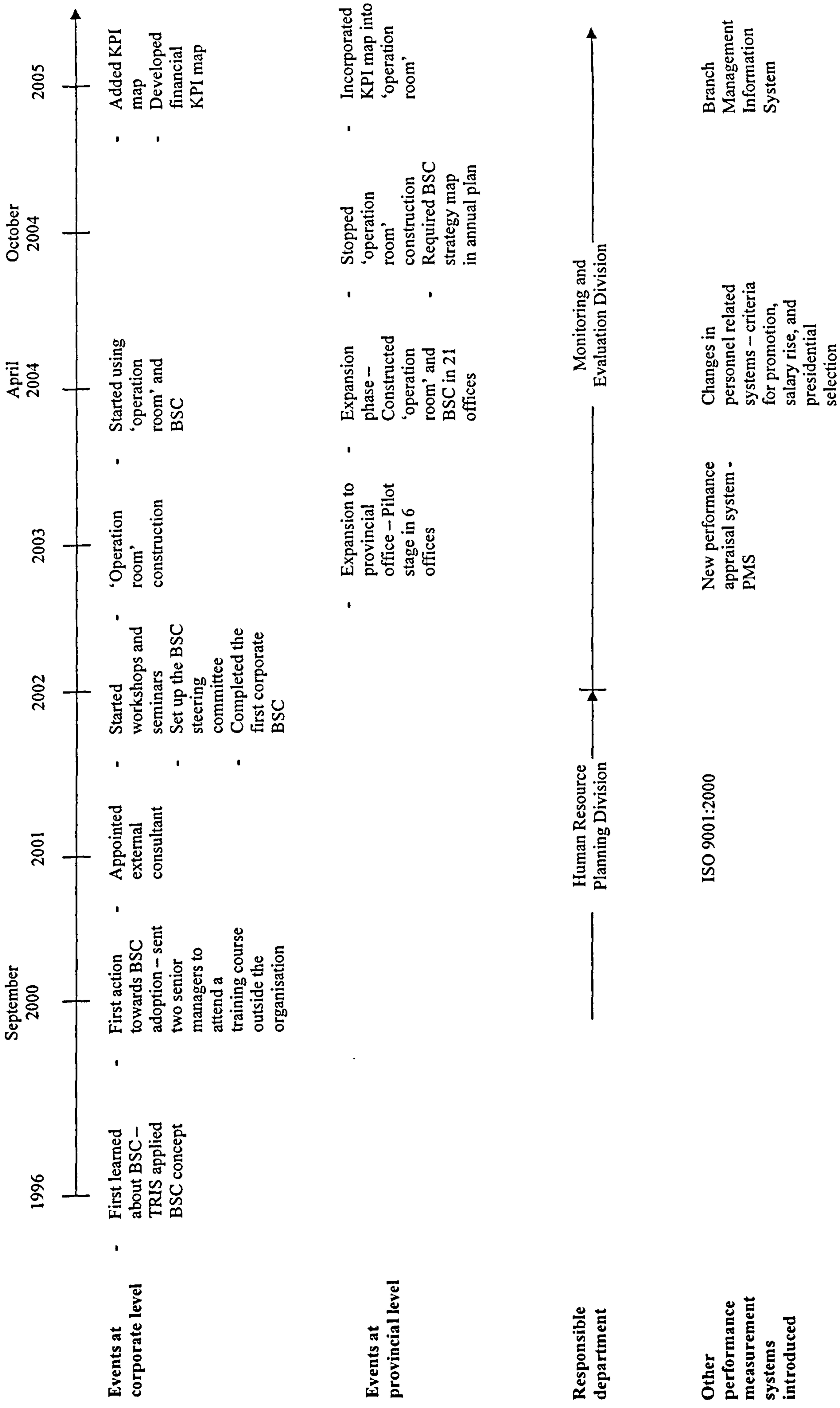


Figure 6.1: Overview of BSC construction process

6.3.1. BSC as an Attractive Idea – Connecting to the Networks of Support of the BSC in the Thai Communities

The introduction of the BSC concept into the AgroBank can be traced back to 1996, when the bank joined the ‘state-owned enterprise performance evaluation programme’. As discussed in the previous section, BSC was one of the concepts that TRIS applied to form the performance evaluation criteria for the AgroBank. It was the first time that several senior managers had encountered the idea of BSC.

During the late 1990s, the BSC concept began to spread, and networks of support for it started to emerge in Thai business communities. A number of BSC papers and books, particularly those written by Kaplan and Norton, were translated into Thai. Academic consultants regularly published articles, discussing the BSC concept and experience of Thai organisations that had ‘successfully’ implemented the BSC in local leading business newspapers. In addition, leading business schools organised executive training courses which integrated BSC into their courses and incorporated BSC as a part of the syllabus for their MBA courses. Many MBA dissertations on BSC can be found in the schools’ libraries. Moreover, a number of consultancy companies, including TRIS, promoted BSC adoption and offered a service to facilitate the BSC implementation process for organisations.

BSC has become the most popular recent performance measurement and management concept in Thailand. In an interview with one particular academic, often regarded by practitioners as well as academics as an expert in performance measurement and management in Thailand, he suggested, “In Thailand most people know only balanced

scorecard. In the UK, you may have the performance pyramid and other models but here, nobody knows about those models.”

Many leading organisations, both in private and public sectors, claimed to have adopted BSC. In the banking sector in particular, many large commercial banks published their strategy map based on the BSC approach in their annual reports, partly to demonstrate their attempts to employ ‘good’ management practices to improve performance, in order to gain confidence from shareholders and the public after the 1997 financial crisis.

With the growing popularity of the BSC in Thailand, the president of the AgroBank at the time expressed great interest in applying the BSC concept for banking management purposes. Within the AgroBank, an increasing number of managers became aware of the BSC. Some of them learned about BSC from MBA or executive training courses, while others learned about it from local newspapers. Translated books and articles about the BSC and its implementation were also kept in a separate section in the bank’s library.

At the time the BSC began to be disseminated into the Thai business communities, the BSC idea was promoted as a strategic management system (see Kaplan and Norton, 1996a, 1996b, 2001a, 2001b, 2001c), rather than a multidimensional performance measurement system. Among Thai organisations, therefore, BSC is often perceived as a management tool that will help translate strategy into action, rather than a performance measurement tool that integrates non-financial indicators into the system. This is also the case for the AgroBank. However, different organisational members had different views on what a strategic management system meant.

6.3.2. Problematising the BSC at the Initial Stage – BSC for Vertical Alignment, Functional Integration, and a ‘Balanced’ Strategic Plan

At the early stage of the BSC implementation process, there were two key phrases suggested by management and organisational members of the AgroBank as to what the purposes of BSC were – ‘to translate strategy into action’ and ‘to create alignment and focus’. Although suggesting similar phrases when asked what the BSC was for, organisational members had different views of what they expected from the BSC.

For top management, BSC was seen as a tool that would help communicate strategy to lower levels, and therefore, enhance employees’ understanding of how their work contributed to the corporate goals and create vertical alignment. As the president of the bank at the time argued, in his view, BSC would help alleviate 3 critical problems commonly found in any organisation – communication, co-ordination and control. He suggested,

We are a big organisation with many branches located in remote areas. If we don’t communicate well, vision and strategy will become blurred once they get down to lower levels.

A senior executive inspector, another BSC proponent, gave a similar comment. In his view, BSC would help staff focus more on strategy and understand how their work contributed to the corporate objectives and performance. He argued,

We have started to decentralise our operations. We need some tools to communicate the strategy of the organisation, so that they can perform their jobs without a need to wait for

commands from the central office. We also need something to provide them with feedback on how well they have done their job and how that contributes to corporate performance.

While top management perceived communication and alignment between different hierarchical levels as the main problem that BSC would help alleviate, another group of managers suggested that co-ordination between different functional units was a major concern. A manager of the monitoring and evaluation division argued,

We used a bottom-up approach when planning but it didn't work; plans were not aligned. Each department just did their own jobs without thinking about the whole picture. This is not right. However, for a balanced scorecard, we need to have workshops together to agree on the overall plan first. Every department needs to know what the others will do and how our job will affect the others.

While some managers focused on problems of communication and cross-functional integration, another group of managers was concerned with the 'balance' between the bank's two key objectives – financial and development – in the organisation's strategic plan. For them, the value attached to the BSC was its capability to focus and balance the interests of the bank's two key stakeholder groups – shareholders and customers – concurrently.

As a state development agency, the AgroBank needs to undertake a number of projects which are not profitable but beneficial from a social and economic development perspective. On the other hand, as a financial institution, the AgroBank needs to maintain strict financial discipline and financial stability, in order to gain trust and confidence from

its fund providers and meet the financial regulations set by the central bank. A senior executive vice president of the bank argued,

We are different from commercial banks. Their goal is to maximise profit. They will do anything that is profitable for the shareholders and their organisation will grow. But the government set us up for developing people and communities in rural areas. We focus on the social dimension. But we are also a bank. We are a state enterprise. We must not make a loss. So we are hybrid. We need to be balanced for development. It is difficult to manage...We need to balance between financial and development activities, and the balanced scorecard does just that.

Another manager from a human resource planning division commented,

In the past, we focused too much on numbers; financial numbers. But business is not our position. Sometimes our staff are confused about our role, whether we are commercial or a development bank. Local staff said we told them to help develop rural areas. They can't charge customers too much. But at the same time, we told them we are a bank. We need to take care of our shareholders and depositors... the balanced scorecard will help us focus on both. We will see how well we balance the two.

A manager from the monitoring and evaluation division also gave a similar view that the BSC could capture both financial and customer performance, the two most important aspects of the bank's performance. In his view, although the BSC does not directly measure development performance, how well the bank achieves its development objectives can be captured by the customer performance indicators. By incorporating the BSC concept into the strategic planning process, he believed that the bank would get strategic plans which 'balance' the interests of shareholders and customers, and

organisational members would be able to focus their attention on both financial and customer performance.

In line with the information from the interviews, three key objectives of BSC adoption were identified in the bank's internal document. These three objectives are: (1) to formulate a corporate strategy map which would enhance management's understanding of the bank's strategy and align personal objectives with the corporate strategy; (2) to identify corporate KPIs which represent key perspectives of performance of the organisation; and (3) to align the work and policies of departments towards the same direction.

While vertical alignment, functional integration, and balances between business and development objectives were key issues senior managers expected BSC to achieve, throughout the BSC construction process, various actors involved in it acted in different ways. In order to make it operable, the BSC was re-designed and re-defined, prompting the emergence of new identities and meanings of the BSC.

6.3.3. Designing the BSC

When BSC was introduced into the AgroBank, it encountered other prevailing performance measurement practices which had long been institutionalised in the organisation, one of the most important being budgetary control. Although budgetary control and the BSC had different emphases, some areas overlapped. To reconcile the BSC with budgetary control, BSC was modified.

6.3.3.1. Mediating the BSC with Budgeting Routine – BSC Became Disconnected from a Strategic Planning Process

Within the AgroBank, there has long been a strong emphasis on budgetary control. During the budgeting process, corporate strategies and strategic plans are formulated, as discussed in Section 6.2.1. This process involves members of the board and several key executives of the bank. The president of the bank at the time claimed that a tradition of strong emphasis on budgetary control helped reduce disputes over the BSC to some extent, as benchmarking had long been institutionalised as practice within the organisation. However, it also led to another difficulty in implementing the BSC, that is, how to ‘fit’ the BSC in with the budgeting process, and how to draw the attention of managers and organisational members to BSC indicators.

In order to reconcile the BSC with the budgetary control, the bank chose to keep the budgeting process and compromise the BSC. That is, to formulate a strategy map, the bank extracted strategic objectives and key plans from its annual business plan and budget, re-classifying them into four dimensions of performance according to the BSC concept and placing them into causal chains. As the strategy map and BSC developed from the bank’s annual business plan and budget, BSC was simply a highlight of key plans and budgeting targets of the bank.

The approach taken by the bank to reconcile BSC with the budgeting process led some organisational members to question whether the bank would get the full benefit from the BSC, as the BSC concept was not used in formulating strategic plans. A manager from the monitoring and evaluation division observed that BSC came after budgetary control;

thus, the bank had to find a place for the BSC. Nevertheless, in his view, this could be changed if it were deemed appropriate and important.

By compromising the BSC design process, the bank could avoid complexities of the strategy map formulation (cf. Kasurinen, 2002). With the strategic plans and objectives having been already agreed during the budgeting and planning process, the bank could simply classify them into four perspectives according to the BSC approach. A manager from the monitoring and evaluation division argued,

At the beginning, we thought about combining BSC with the annual strategic planning process, so that everything would be aligned and our plan would not miss any important areas. That is certainly a good way. In principle it should be like that. But we didn't have any experience. It's complicated. Formulating a strategic plan is a complex process. But if we take plans from the normal annual business planning process, it's easy; it's clearer. Those plans are already approved by board members and everyone in provincial offices has already agreed, so it's easy for us. Nobody can say that they don't agree with it.

The timing of events in the financial year has proved to be a key issue in making the BSC operational, since it has meant that in practice the organisation has been focussing on formulating its annual business plan and budgeting targets prior to developing the BSC strategy map, indicators and targets for the year. This largely because of having to be responsive to external parties, in particular certain government agencies concerned with rural and more general political issues. As the bank's operations have an impact on the well-being of farmers, who are the major population of the country, such agencies have great interest in the bank's operations and plans. These government agencies often require the bank to submit its annual plans and budgets early, for example, in late

November, for the Ministry of Finance. Meanwhile, the bank does not need BSC indicators and targets until April, the beginning of the fiscal year. In this respect, the bank in practice finalises its plan and budget earlier, in order to meet the external deadlines.

Moreover, BSC failed to enrol the interests of all the members of the board involved in the strategic planning process. As a manager of the system development and analysis division argued, the annual business plan and budget was formulated by the committee, which comprised members of the board who were primarily representatives of government agencies. The major concern of the board members revolved around the issue of how the bank could respond to the relevant governmental policies. Implementing new management systems was not their major concern. Furthermore, BSC did not demonstrate how it would help the bank better respond to government policies. He commented,

If we have [the academic consultant who was a board member of one private commercial bank and introduced BSC to that bank] or [another academic consultant who provided a service for BSC implementation in another state-owned commercial bank] as our board, we might be using BSC for strategic planning now. But our board have their own expertise. We have to respect them. We can't put them in a classroom to learn about BSC.

With the attempt to reconcile the BSC with the budgeting routine, the BSC was disconnected from the strategic planning process. It became primarily a tool to monitor the performance of strategic plans formulated during the budgeting process.

6.3.3.2. Negotiating the BSC Content

Although the decision to import the strategy and strategic plans formulated during the budgeting process to the BSC design process helped reduce complexities in designing the BSC in certain respects, the bank encountered other technical difficulties in its design. Two major issues, as indicated in Chapter 2, concerned the dimensions of performance and cause-and-effect relationships.

6.3.3.2.1. Should It Be Four Boxes or More?

The nature of the BSC, which attempts to encompass all operations and customer related issues, provoked a debate within the AgroBank, namely, what dimensions of performance should be included in the scorecard? This problem arose largely due to the dual, but sometime conflicting, roles of the bank.

As discussed in Section 6.3.2, the AgroBank needed to undertake a number of projects that were not profitable financially, but beneficial for society. Examples of these projects included the farmer life quality and potential development project, which comprised a number of training courses such as ‘strong community and group creation’, ‘life creation’, ‘leader creation’ and ‘truthful principles of life’, the creation of a community learning centre, and a writing-off of the debts of dead or missing farmers after the tsunami hit the six provinces in the south of Thailand in December 2004. In addition, the presence of public officials as the majority of the board implied a number of policies that were primarily short-term agenda which did not support long-term financial sustainability. For instance, the bank was required to provide loans at rates considerably below those of commercial lenders, and in many cases, the bank was required to lend, even where an investment project had been deemed not viable from a financial point of view. Although

the bank received subsidies from the government for some projects, the bank needed to rely on its own resources to conduct a number of other activities.

On the other hand, as a financial institution, the AgroBank needed to maintain strict financial discipline. Although the government would inject more capital into the bank in the case of financial distress, the bank had to retain its financial viability in order to gain confidence from its customers and fund providers, both depositors and lenders. As discussed in Chapter 5, the bank had attempted to reduce its reliance on external sources of funds. It was, therefore, necessary to assure the depositors that their money was safe with the bank. In addition to an attempt to gain the trust of the depositors, the central bank had recently imposed tightened rules on the capital reserves of the bank. It became imperative for the bank to meet the financial standard required by the Bank for International Settlements, which the central bank had adopted and applied to the AgroBank as well as to other commercial banks.

The dual, and sometimes conflicting, roles of the bank provoked a debate on what dimension of performance to emphasise – financial or development performance? If the development performance should be measured and emphasised, how would the bank measure it? Should development performance be another dimension, for example, social performance added to the original four perspectives of the BSC, or could it be incorporated into the customer performance dimension? Should other aspects of performance, such as environment, be added?

With the main mission of improving the quality of life of farmers and rural people, some organisational members believed that the bank should incorporate social and

environmental aspects as additional dimensions into the scorecard. However, the other group of organisational members argued that the bank's performance from a development perspective could be included in the customer aspect because the majority of the population in rural areas were farmers who were customers of the bank. From this standpoint, customer performance could include not only customer satisfaction, but also customers' well-being. As the majority of people in rural areas were customers of the bank, it was argued that measuring customers' quality of life would provide a good indicator of the quality of life of farmers in rural areas in general.

Similar arguments were discussed around the issue of environmental performance. Promoting replenishment of natural resources and conservation of the environment was one of the main missions of the bank, as explicitly indicated in the bank's annual report and corporate plan (see Figure 5.1 in Chapter 5, Section 5.2). In addition, the bank implemented a number of policies promoting environmentally friendly farming production; for example, in considering loan applications, the bank would evaluate possible environmental impacts, and would not authorise loans if negative impacts were expected. Some management staff argued that the bank should add the environment as another dimension in the BSC.

However, many organisational members disagreed. One provincial director, who was a member of management staff in the monitoring and evaluation division and had been involved with BSC construction since the early stages, suggested that there were many uncontrollable factors that might have an impact on environment performance. For instance, the operations of the bank were related to agricultural production, which involved the considerable use of fertilisers, but the bank could not force all farmers to

replace chemical fertilisers with organic. By having a number of farming customers using chemical fertiliser, the bank would lose its score on environment performance. In his opinion, inability to control farmers and other agencies was one of the reasons for many members of staff not wanting to measure environmental performance.

In addition to the debate about the dimensions of performance to be included in the scorecard, there were also concerns over how to measure development performance. A number of questions were raised on appropriate KPIs for representing development performance. Many organisational members argued that it was difficult to measure the impact of the projects and activities undertaken by the bank on the quality of life of the people. Some organisational members expressed doubt about how to identify whether the improvement in the quality of life of customers was the result of the bank's projects. The question of what was meant by quality of life was also raised; does it pertain to GDP per head, or it is happiness in life that better represents a 'good' quality of life?

Many of the banking staff also expressed concern that there could be many other factors affecting bank performance beyond the control of the bank; in particular, farming activities, which depended substantially on natural environment and climatic conditions. Concerns were raised about how to incorporate these risks associated with farming activities into the BSC indicators and targets. A senior executive of the bank argued,

Sometimes, we can't measure it; we have to accept it. We are not God; we can't control rain and other things. Agriculture is a risky business. Sometimes, we have to accept that it is not fair to measure everything we want.

Another senior executive also raised some concerns regarding the length of time needed to measure and observe results from the development projects. He argued,

Some projects take a long time before we can see the results. For example, we once had the oil palm tree project at Ao Luek. We provided financial and knowledge support for local people in that area to grow oil palm trees; but it took a long time for the trees to grow and be cultivated. During the first few years, we couldn't measure the impact of our project. We had to wait for some time before we could start measuring how much our project helped improve the economic situation of the people there.

After all the debates and discussions about the dimensions of performance and performance indicators to be included in the scorecard, the bank decided to develop its corporate BSC with four dimensions of performance, in accord with the original BSC concept, namely, organisation and learning, internal process, customer, and financial. Performance indicators concerned with development performance were included in the customer perspective. No weight was given to any particular dimensions, as, from the perspective of a number of staff members, all corporate KPIs chosen were critical. It can be seen that while some actors attempted to construct the BSC linkages to cover wider areas of performance, others attempted to block them. It was inevitable that the BSC could not cover all areas that some actors might have expected.

6.3.3.2.2. Cause-and-Effect Relationships and Strategy Map – Another Area of Controversy

In addition to dimensions of performance to be included in the BSC, another concept crucial to the BSC design which provoked debate within the AgroBank was cause-and-effect relationships among dimensions of performance, the most disputed issue being

around the relationship between customer and financial performance. Many senior managers believed that customer performance, including customers' quality of life, was a leading indicator of financial performance. They argued that if the farmers' quality of life were enhanced, they would repay their loans, and therefore, the financial performance of the bank would be improved. A senior manager of the programme and budget division suggested,

We see money we spend on developing customers as an investment. If our customers are stronger and have better abilities, it will reflect in our financial performance. Our loan quality will improve.

However, a manager from the monitoring and evaluation division contended that an improvement in customer performance did not necessarily lead to better financial performance. On the contrary, it might even impair the bank's financial performance. He argued,

Improved customer quality of life doesn't mean that our financial performance will improve. We have to spend a lot of money on development projects. They generate more losses than profits.

A senior executive of the bank also gave an example of the situation when the improvement in customers' quality of life did not lead to better financial performance of the organisation. He argued,

The oil palm tree project at Ao Luek I mentioned earlier is our classic example of this. Those local people came to us empty-handed. We gave them loans and all the support for them to grow the oil palm trees. We granted them loans without any collateral, just personal

guarantee. They really had nothing at that time. After few years, it became a very developed community. People built houses, and bought cars and televisions. They had everything. If you ask whether the project was a success, oh yes, it was a great success. But did they pay back any loan? No, they didn't. We incurred a lot of bad debts from this project. That worried me a lot.

This senior executive suggested that the relationship between customer and financial performance were complicated and by no means unidirectional. He argued,

Sometimes, timing is a very important issue. Like the case of the oil palm trees I referred to, after several years, these people wanted to expand their plantations. They also needed to replace some of the trees that no longer produced anything, or those that had died. At the time they needed more money, they started thinking about us. So they came to us and paid money back to us in order to get a new loan. So you can't say that if customers' quality of life improves, the financial performance of the bank will improve; it is not that simple. I think timing is another important dimension that we need to consider. We need to understand this.

Another senior executive also added that the relationship between customer and financial performance was two-way. He argued,

It's not easy to say whether customer performance leads to financial performance, or financial performance leads to customer performance. Financial performance is crucial; it's like bread and butter. We have to survive before we can help others. If we are not strong, how can we help others? However, we can't focus on our financial performance without thinking about our customers. Our customers are like our fundamental; if the grassroots can't survive, we can't survive either.

Despite debate over which dimension was a leading or lagging performance, the bank eventually followed the BSC causal chains proposed by Kaplan and Norton (2001a, p. 135) for non-profit and government agencies. Therefore, the strategic objectives on the strategy map were linked in the following causal chain: organisation and learning → internal process → financial and customer → mission (see Figure 6.2 for the AgroBank's first strategy map). The external consultant suggested that relationships between strategic objectives on the strategy map were established based on logic and the experience of the bank's managerial staff.

After the corporate strategy map had been formulated, corporate KPIs were identified. Then, a BSC steering committee was established to develop a detailed definition and to set the target of each corporate KPI. The BSC steering committee identified relevant departments which should be responsible for each corporate KPI. A series of interviews and discussions with the management of relevant departments was organised to discuss the detailed definition and performance targets of each KPI. By the end of 2002, the bank's first corporate BSC, with a detailed definition of each KPI and target, was completed. It consisted of 36 KPIs, including 8 financial indicators, 6 customer indicators, 13 internal process indicators and 9 organisation and learning indicators. At this stage, some of the KPIs were taken from 'TRIS measurement' and budgeting targets. The document presenting the strategy map and detailed corporate BSC was called the 'KPI dictionary'.

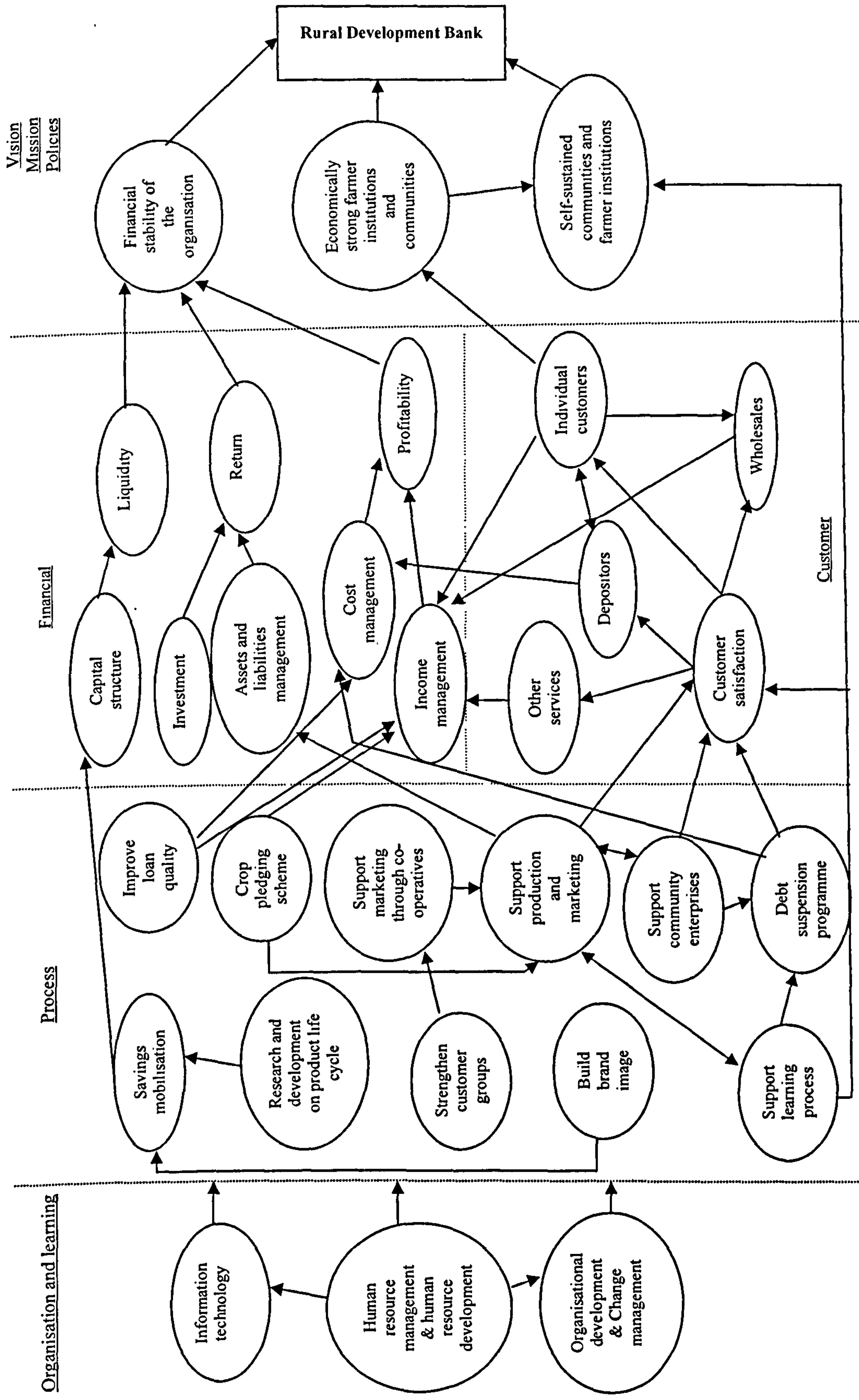


Figure 6.2: The AgroBank's first corporate strategy map (Internal document)

6.3.4. Initial Networks of Support

During the initial stage of BSC construction, several actors attempted to create networks of support for BSC; several events and activities were organised to direct the attention of the AgroBank's staff to BSC. In addition to the president and the director of human resource planning division at the time, who provided strong support for BSC development, the external consultant played a pivotal role. He led a number of workshops and helped settle debates on BSC design. In addition, he played an important role in mediating between a senior vice president, policy and planning department⁴⁸ and managers from other departments when negotiating targets.

Another important actor reinforcing BSC implementation was TRIS. Progress of the BSC development project was set as one of the KPIs, accounting for 5 percent of the total score in the 'TRIS measurement' for fiscal year 2002. As results from the 'TRIS measurement' would have an impact on bonuses for all the banking staff, it was expected that setting the progress of the BSC project as one of the TRIS indicators would motivate staff to work hard to make BSC work.

Academic and professional communities also played a vital role in promoting the learning of BSC. In 2002, the Thai Bankers' Association organised a training course for management and executives of Thai banks at a business school, and part of the course was concerned with BSC. With strong support from the bank's president at the time, the AgroBank sent its entire head office senior management staff to attend the course.

⁴⁸ The department was renamed as a policy and strategy department in fiscal year 2004.

Moreover, in 2003, the human resource management department has integrated questions on BSC into the examination for staff promotion, in order to force employees to acquire knowledge about BSC. Translated BSC books, along with articles from local journals, magazines and newspapers about the implementation and use of BSC in Thai organisations, were also kept in the bank's library for staff to review in their own time.

With the popularity of BSC in the Thai business communities at the time, some senior managers and staff involved in the early stage of BSC development recognised the legitimation that the bank obtained from adopting the BSC. An executive vice president suggested that BSC was a well-known performance management concept; therefore, it would be easy for the bank to discuss and present its performance to interested parties, including the Ministry of Finance, if the bank used BSC. He argued,

Although we have already focused on financial and customer dimensions, it has not been systematic. When we tell people we do this and that, it's like we just speak to ourselves. Nobody understands how we balance between financial and customers. But if we say we use BSC, others will understand and accept.

One manager of the monitoring and evaluation division made a similar comment:

When you asked me how we monitored performance before using the BSC, I couldn't answer. I didn't know how to explain. But now I can tell you and others that we are using the BSC.

Another member of staff from the system analysis and development division claimed that the BSC would help the bank improve its image. She argued,

People used to see us as a slow, dated, conservative organisation. But now with modern management techniques like the BSC, they see us as being more modern. It helps us achieve our vision of being a modern development bank.

A number of the bank's management team were proud that the bank was among the first in Thailand to implement the BSC, and various organisations, particularly government agencies, have come to visit the bank to learn about its BSC.

Although top management had positive feelings about technical benefits and legitimacy the bank could gain from adopting the BSC, which helped create networks of BSC support at the initial stage, BSC did not manage to enrol all relevant actors. The all-encompassing nature of the BSC connected it to various groups of actors, some of whom inevitably attempted to block various linkages in the assembly. Some organisational members questioned benefits the bank would receive, in view of the time needed to be spent on the collecting of actual performance data from the bank's dated information systems.

BSC was one of the management control systems that attempted to encompass many areas, from strategies to operations. Inevitably, there were some other existing management control systems in place that had already played roles in monitoring and managing performance in certain areas that BSC was now covering. For example, a quality management system ISO 9001:2000, which the bank implemented in 2001, had already measured customer and internal process performance, and financial performance was already monitored and managed by the budgetary control system. This led some

organisational members, particularly those at operational level, to question why BSC was needed while other prevailing systems were adequately performing the job.

Although some of the organisational members did not perceive the benefits obtained by the bank from implementing BSC, they did not express negative responses towards it; instead, they simply disregarded the BSC. When the director of the monitoring and evaluation division at the time started to collect information on performance measured by 36 corporate KPIs on the bank's first BSC at the end of fiscal year 2002, a number of departments said that they could not provide such information. Many of them claimed that they had not been informed about BSC until almost the end of the fiscal year. This was partly because the BSC was not completed until the end of 2002, whereas the bank's fiscal year 2002 ended on 31st March 2003. To address this problem, another performance monitoring technology – the 'operation room' – was introduced as the 'interessement device'⁴⁹ (Callon, 1986), to help enrol interests of various actors in the BSC.

6.3.5. Constructing the 'Operation Room' – An Interessement Device

When staff from the monitoring and evaluation division attempted to collect information on actual performance based on the BSC's KPIs, relevant departments did not respond well. The president of the bank at the time believed that some organisational members simply ignored the BSC because they considered it as another report on paper to which not many people would pay attention, and the collecting of performance data to feed into the BSC was just additional paperwork that they could put off until later. In his view, having a meeting room to present the BSC's KPIs and actual performance results on a

⁴⁹ The interessement device is a device "which can be placed between [actors] and all other entities who want to define their identities otherwise", in order to enrol the interests of the actors (Callon, 1986, p. 208).

board would force staff to pay more attention to the BSC, as other departments would see how well they were performing. If any targets were not met, responsible departments would be ashamed. Therefore, he introduced the idea of building the 'operation room' to present the BSC.

The 'operation room' idea was based on the Management Cockpit[®] or War Room concept initiated by Patrick M. Georges, a neurosurgeon and professor of management at HEC Paris - CRC and Solvay Business School, Brussels. The management of the AgroBank first learned about the Management Cockpit[®] concept from the training course for senior management organised by the Thai Bankers' Association at the business school⁵⁰ mentioned in the previous section. Some of the AgroBank's management staff also visited the room at Krung Thai Bank Public Limited Company, a state-owned listed commercial bank, where the Corporate War Room was built in 2000.

According to the original Management Cockpit[®] concept, performance indicators are presented on three walls in the meeting room. Strategic objectives, which are usually related to financial indicators, are presented on a 'black wall', whereas external factors that may prevent the organisation from achieving its objectives are shown on a 'red wall'. As for indicators related to internal resources, they are displayed on a 'blue wall'; and a 'white wall' can be used to exhibit big plans or projects. The black, red and blue walls each present 6 questions posed by management about financial, external and internal performance respectively. Then, under each question, 6 performance indicators that would answer the questions are identified and presented (see Figure 6.3). N.E.T.

⁵⁰ This business school may be considered a leader in Thailand for the development of Management Cockpit[®]. Within the school, the room was first constructed for educational purpose but later, a number of organisations, both public and private, visited and attended the training course in order to implement the Management Cockpit[®] in their organisations.

Research, a consulting company established by Patrick M. Georges, claimed that by presenting key information of the organisation on four walls as such the risk of making wrong decisions would be limited because this would help improve the brain's performance (N.E.T. Research website).

Fascinated by the idea of Management Cockpit[®], the president of the bank at the time decided to construct the Management Cockpit[®] at the bank. Nevertheless, every translation involves transformation, and this was the case when the bank constructed its Management Cockpit[®]. The president of the bank believed that it was too costly to construct the room with full software functions. In his view, it would be more useful and economically viable to adapt the room to suit the bank's operations. He argued, "In my opinion, substance is more important than form". The Management Cockpit[®] idea, thus, was modified by bundling it with BSC and 'TRIS measurement' and was named the 'operation room'.

To implement the president's initiative, the monitoring and evaluation division organised a series of workshops to review vision, strategies, action plans, activities, projects and corporate KPIs for fiscal year 2003. The 'operation room' was built with corporate KPIs from the BSC presented on one of the walls, called the KPI or BSC wall.⁵¹ On the opposite wall, TRIS wall, KPIs from the performance agreement with the Ministry of Finance were exhibited. The third wall, the computer wall, presented information by using computers with advanced drill-down features to allow staff to see detailed information behind each KPI (see Figure 6.4). The construction of the 'operation room'

⁵¹ In the AgroBank, the terms 'balanced scorecard' and 'KPI' are sometimes used interchangeably.

did not finish until several months of fiscal year 2003 had passed; thus, the room and the BSC were not fully used until April 2004.

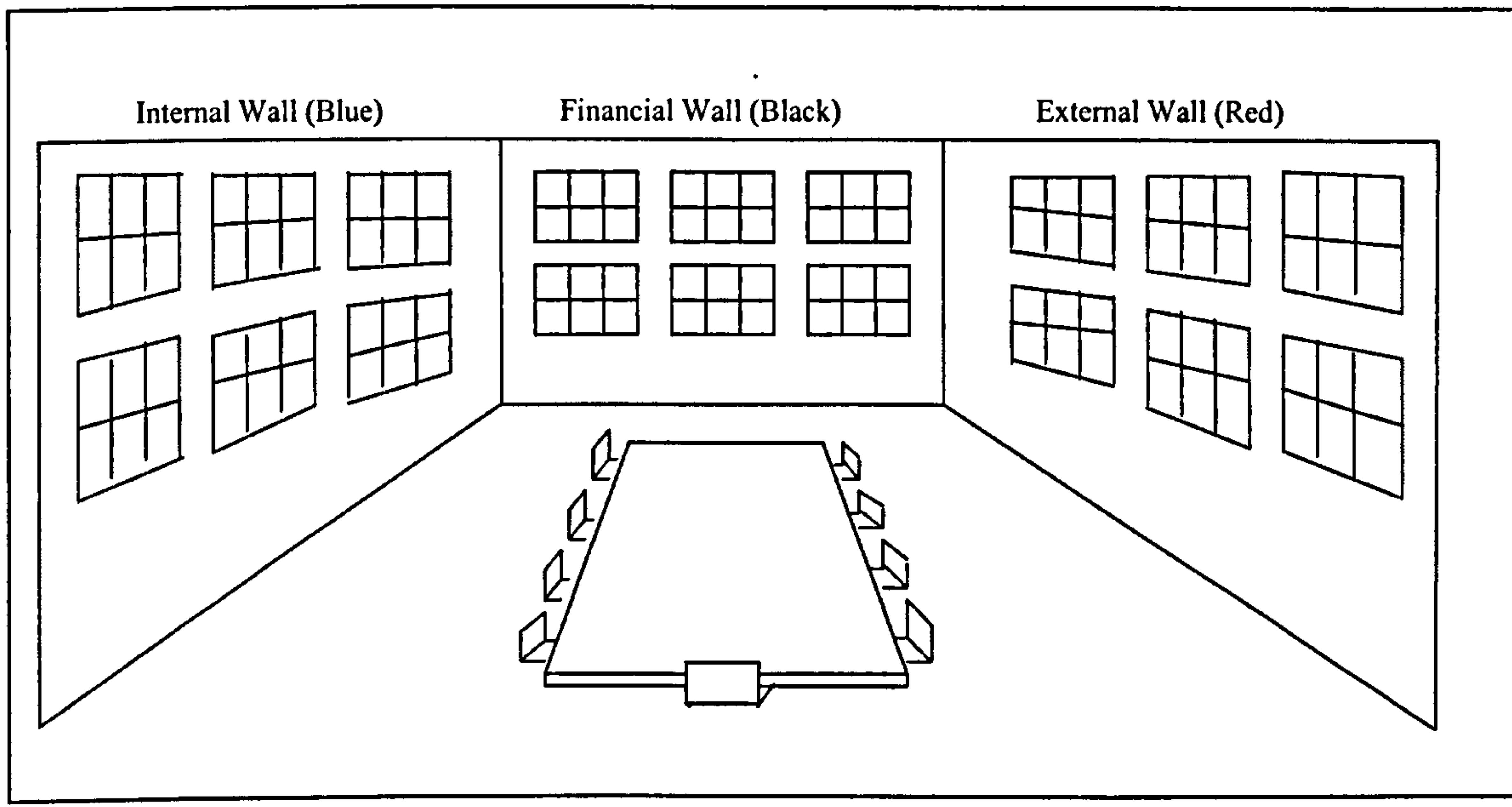


Figure 6.3: Original model of Management Cockpit®

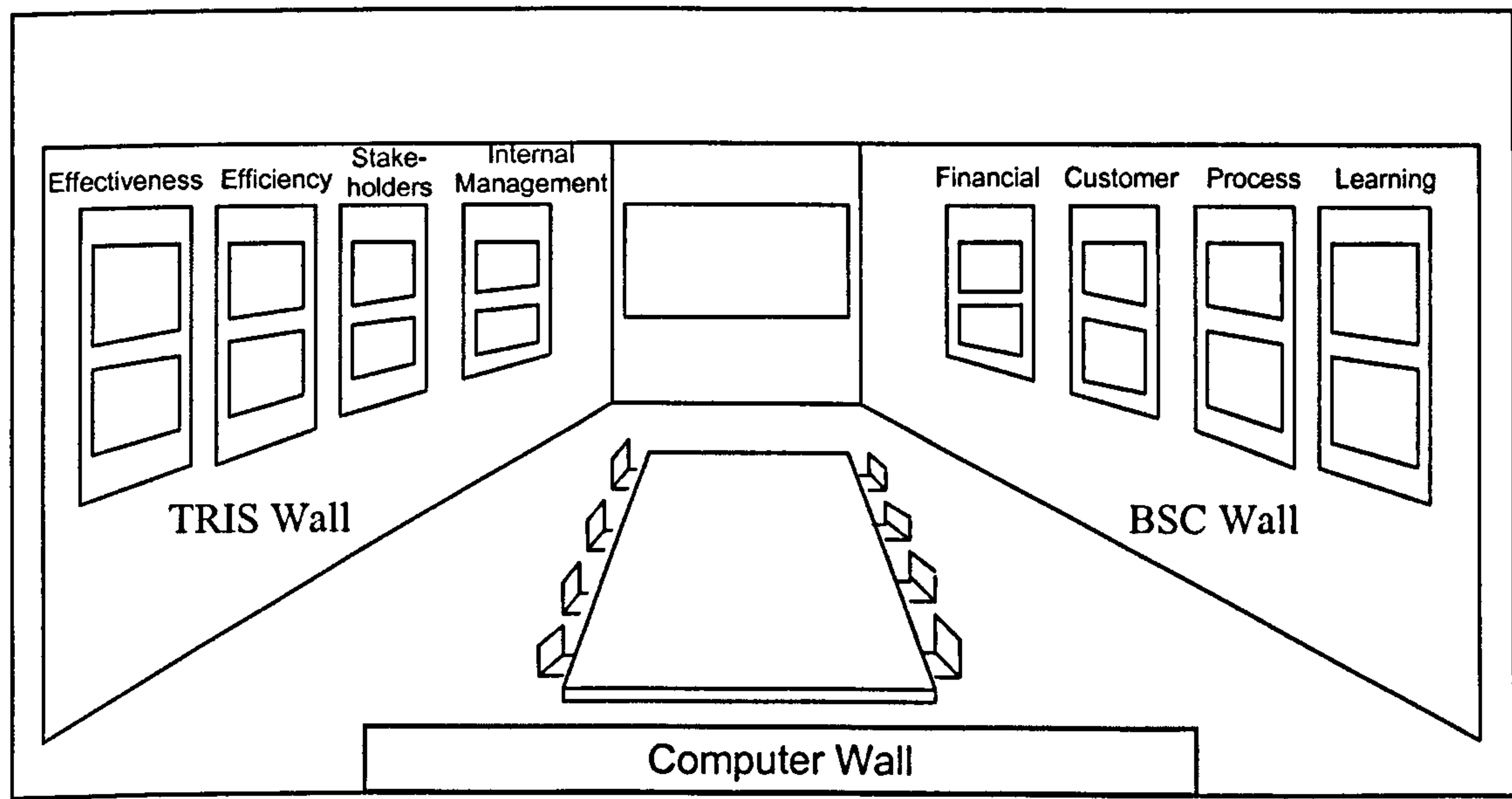


Figure 6.4: Plan of the 'operation room' in the head office of the AgroBank

After the 'operation room' was completed, the monitoring and evaluation division organised a meeting to review corporate performance in the room on a monthly basis. The 'operation room' became the centre of discussion and debate about the bank's performance of management from various departments. The discussion covered not only the aspects of performance measured by the BSC, but also those measured by TRIS. As the TRIS's KPIs had an impact on the bonuses of all staff, the 'operation room' and information presented in the room received great attention from all organisational members.

Some organisational members claimed that co-operation between departments started to emerge. They suggested that after having the 'operation room', each department could see the extent to which the other departments were achieving targets. If any departments had problems, other departments could find a way to help before the end of the fiscal year. A member of staff from the human resource planning division observed,

We are now working more as a team. We see how our work has an impact on the others; and if anyone has a problem, we can try to see how we can help.

Another manager from the monitoring and evaluation division added,

Like yesterday, we just had a meeting here [in the 'operation room']. Management from one department said that they couldn't collect the loans to meet the target. Management from the other department asked if you can't meet the loan collection target, can you find more fee-based income for us and we will take some of your loan collection targets.

When the bank started using the BSC to monitor performance, it may have seemed as though the BSC had been stabilised. BSC's KPIs were monitored on a monthly basis, and actions were undertaken if the bank could not achieve any particular targets. However, the BSC was not yet institutionalised. The translation process continued; the corporate BSC was further modified. New elements were added by BSC users with different interests.

6.3.6. Translations Continued – Introducing a KPI Map and BSC Became More Than Just a Set of KPIs to Monitor

In fiscal year 2004, the monitoring and evaluation division monitored BSC KPIs on a monthly basis, to ascertain the extent to which targets were being achieved. However, by measuring each KPI separately, managers of the monitoring and evaluation division believed that the BSC did not provide a clear picture of how each KPI affected the others. Although the strategy map provided a picture of how each strategic objective may relate to the others, the link was not sufficiently clear to be useful for management purposes. As a consequence, in fiscal year 2005, the division formulated a KPI map presenting corporate KPIs linked in causal chains to supplement the strategy map, which showed only causal chains of strategic objectives. Instead of monitoring each KPI individually, the monitoring and evaluation division started to identify causes of failure to achieve any corporate BSC targets by tracing back through the causal chains on the KPI map. By identifying cause-and-effect relationships among corporate KPIs, staff in the monitoring and evaluation division claimed that BSC provided a better picture of how each target was related, and where to make improvements in order to achieve the final goals. In this sense, for them, BSC became more than a set of KPIs to monitor.

Although the KPI map was incorporated as a part of the bank's 'KPI dictionary', it did not receive much interest from people outside the monitoring and evaluation division. Often, they tended to focus only on achieving their own targets. Nevertheless, one manager from the risk management office expressed great interest in the financial KPI aspect of the KPI map. He argued,

I don't think there is a link between non-financial and financial performance. But I think for the financial part, we should be able to link them. These financial KPIs are calculated from mathematical formula, so they should all be linked. We have never tried to link them but once we link them, I'll show you some flaws in our financial plan.

With great interest in the link between financial KPIs, he and another manager from the monitoring and evaluation division discussed and drew a map showing the cause-and-effect relationships of financial KPIs, and linked the map to various elements of the bank's financial statements. In his view, the financial KPI map would help him formulate a financial plan and manage financial performance in a more meaningful way. Although the financial KPI map he developed may not be qualified as a BSC from other people's perspective, as it contained information on financial performance only, it reflected how actors could mobilise their own interest to make sense of the part of BSC relevant to them.

While the corporate BSC was still being modified and new elements were being added, the bank started to expand its BSC and 'operation room' to the operational level. During that period, regional offices were not yet established; therefore, BSC expansion was carried out at the provincial level.

6.4. Translating the BSC at the Operational Level

The bank started to expand the BSC and ‘operation room’ development project to provincial offices in late 2003. According to the original plan, the provincial BSC and ‘operation room’ development project would be carried out in three phases – the pilot phase in late 2003, the expansion phase in 2004, and the completion phase in 2005. Although the BSC and ‘operation room’ development was a directive from the head office, it was largely left to the discretion of local managers as to how to design and implement it. With different attitudes and actions towards the BSC and ‘operation room’, different versions of BSC emerged.

6.4.1. Imitating the Head Office – BSC with the ‘Operation Room’ as a Performance Monitoring Tool

At the beginning of the project to expand the BSC and ‘operation room’ concepts, six provincial offices were chosen as pilot offices. To select the pilot offices, provincial directors who had an interest in applying BSC for management purposes at their local offices nominated their own offices. Then, senior managers in the head office considered the capability of the provincial offices and personal ability of the provincial directors in their selection of the six pilot offices. Among the provincial offices chosen, two of them had a director who was working in the head office and had been involved in the corporate BSC development process since the early stages.

In these six provincial offices, BSC and ‘operation room’ was developed at one office at a time because senior management believed that staff from other provinces would be able to learn from the other offices’ experience. To convey the importance of having the BSC

and 'operation room' at every provincial office, the president of the bank at the time personally inaugurated the 'operation room' as it was completed at each provincial office.

In the six pilot provincial offices, the way in which BSC was developed was similar to that at the corporate level. Although top management in the head office claimed that the design of the BSC and 'operation room' was left to the discretion of the provincial directors, they did not grant total freedom to provincial offices. Teams of staff from the head office were sent to advise provincial offices on how BSC should be developed. There was some debate around the issue of what dimensions of performance should be included. In similar vein to the debate during the BSC development at the corporate level, some provincial directors believed that social and environment performance should be incorporated as separated dimensions on the scorecard. However, the BSC team insisted on the four dimensions according to the original BSC concept. One provincial director commented,

A lot of our work is for local communities. It's about social development. I think social and environment performance should be added; at least, social performance should be added. But they [the BSC team from the head office] said social performance can be included in customer performance, so we didn't add social performance. But I still think we should add it.

After the debates, BSCs for the six pilot provincial offices were developed, with KPIs classified into four dimensions of performance – financial, customer, internal process, and organisation and learning. The corporate BSC indicators and targets were not allocated to provincial offices; rather, provincial offices identified their own indicators and set their own targets. One of the reasons for allowing provincial offices to identify their own KPIs

was the complex nature of the operations of the organisation. Within the AgroBank, the nature of the operations of provincial offices in different areas tended to vary significantly, due to the differences in customers and types of crop. Moreover, the provincial offices needed to co-ordinate with other local government agencies when planning and organising development activities. The AgroBank was only one of the organisations playing a particular role in developing communities; other government agencies also played a significant role in developing rural areas. As local government agencies in different areas tended to have different policies, it was important for provincial offices to consider the requirements and needs of these organisations in formulating their strategic plan, as well as in identifying KPIs.

Most of the pilot provincial offices simply imitated the corporate BSC and 'operation room' of the head office; that is, the strategic plans and strategic objectives formulated during the annual strategic planning process were classified into four dimensions according to the BSC concept, after which BSC KPIs were developed. KPIs from BSC, budgeting and performance agreements were then monitored separately. However, in one provincial office, local managers reconciled the BSC with the prevailing performance measurement systems in a different way. Instead of developing a new set of KPIs based on the BSC concept, the provincial office took KPIs from the performance agreement, signed by the provincial director with the branch administration department, and reclassified them into four perspectives according to the BSC concept. Thus, for this provincial office, there were only two sets of KPIs – budgeting KPIs and BSC KPIs – the latter being the same set as those found in the performance agreement. An example of KPIs on the BSC of three pilot provincial offices can be seen in Table 6.3.

Table 6.3: KPIs on the BSC of three pilot provincial offices, fiscal year 2004

Office A	Office B ⁵²	Office C
<u>Financial</u> 1. Return on assets 2. Net profit 3. Revenue – interest and non-interest 4. Expenses – interest, bad debt, non-interest 5. Revenue to expense ratio 6. Loan to deposit ratio	<u>Financial</u> 1. Return on assets 2. Fee-based income 3. Income growth 4. Loan interest rate margin 5. Deposit interest rate margin 6. Structure of deposits 7. Operating expenses 8. Income per employee 9. Operating expenses to total income	<u>Financial</u> 1. Return on assets 2. Net profit 3. Profitability ratio 4. Total income 5. Income structure 6. Income growth 7. Operation expenses to total expenses 8. Expense structure 9. Asset structure 10. Loan to deposit ratio 11. Spread 12. Loan repayment rate
<u>Customer</u> 1. Fee-based income 2. Deposit amount 3. Loan disbursement for village funds 4. Loan growth rate 5. Strengthening of AMCs 6. Customer satisfaction	<u>Customer</u> 1. Deposit growth 2. Loan disbursed to micro enterprises compared to target 3. Growth of wholesales loans 4. Percentage of village funds in the province that have transactions with the office 5. Growth in disbursing loans through buying discounted cheques 6. Loan repayment rate excluding policy loans 7. Loan repayment rate – policy loans 8. Number of customer groups attending meeting about the bank's products and activities	<u>Customer</u> 1. Deposit structure 2. Loan structure 3. Loan growth rate 4. Debtor classification 5. Customer groups attending training courses 6. Loan disbursed to micro enterprises 7. Number of village funds conducting business with the office 8. Volume of AMCs' business 9. Percentage of customers conducting business with the AMCs 10. Customer satisfaction 11. Percentage of customers conducting business with the office to total customers
<u>Internal process</u> 1. Repayment rate of due loans 2. Repayment rate of overdue interest 3. Overdue loan to total loan ratio 4. Overdue interest to total loan 5. Repayment rate of overdue principal 6. Repayment rate of loan under Debt Restructuring project	<u>Internal process</u> 1. Loan to deposit ratio 2. Overdue loan to total loan ratio 3. Loan growth rate 4. Deposit per employee 5. Repayment rate of loans under Debt Restructuring Project 6. Repayment rate of loans under Debt Suspension Project 7. Performance of people sector debt solving project 8. Active customer groups 9. Number of village funds attending training courses organised by the office 10. Purchasing and selling amount of AMCs compared to target	<u>Internal process</u> 1. Loan repayment rate 2. Performing loan to total loan ratio 3. Non-performing loan reduction 4. Overdue interest reduction 5. Repayment rate of loan under Debt Restructuring Project
<u>Organisation and learning</u> 1. Progress of ISO implementation 2. Progress of PMS implementation 3. Number of meetings – management, ALCO, staff 4. Number of training courses 5. Activities to promote ethics 6. Employee satisfaction	<u>Organisation and learning</u> 1. Progress of PMS implementation 2. Number of branches that have updated database 3. Number of training courses for employees undertaken compared with target 4. Expenses for employee development to total personnel expenses 5. Number of employees attending at least one training course to total employees 6. Number of employees attending training courses provided through Thailand Training Network 7. Percentage of employees undertaking further study	<u>Organisation and learning</u> 1. Employee satisfaction 2. Training courses provided for employees 3. Number of districts attending training course on 'Truthful principle of life' 4. Percentage of customers who are members of Funeral Aid Association 5. Number of villages attending training course on recovery and expansion of farmers' families' occupations 6. Number of activities organised under the Peer Assist Programme

Source: KPI dictionary of provincial offices

⁵² Office B is the office which re-classified KPIs from the performance agreement.

To present the BSC indicators in the 'operation room', with the exception of one, all pilot provincial offices mimicked what was done in the head office. That is, KPIs from the office's BSC were presented on one of the walls, and another wall exhibited KPIs from the performance agreement, which was equivalent to the TRIS wall at the head office. However, in the office that re-classified KPIs from the performance agreement into four dimensions, these KPIs were presented on two of the walls in the 'operation room'. In these offices, maps showing agricultural products in areas of the province were also presented. Although the way to identify KPIs for BSC and present the KPIs in the 'operation room' in the six pilot provincial offices might have been slightly different, for them, BSC was a performance monitoring tool which was part of the 'operation room'.

While the BSC and 'operation room' was constructed in the six provincial offices, management in other provincial offices started to discuss the costs and benefits of developing the BSC and building the 'operation room'. These debates focused around the 'operation room' rather than on the BSC.

6.4.2. As Controversies Emerged, Construction Continued

The 'operation room' construction drew great attention from managers at the provincial level. 'Operation room' is an object that can be seen physically; while it attracted more attention compared to the BSC, it also attracted more criticism. A number of staff at the operational level suggested that updating information in the 'operation room' every month was time-consuming, particularly when the bank's information systems were still poor. They argued that provincial offices already had other performance measurement tools that were more effective and efficient.

One of the provincial directors argued,

I am not sure whether building an operation room is beneficial. A number of branches have complained that it is time-consuming to update information manually every month. We already have other tools which can help us manage.

A vice president of one regional office also gave a similar comment,

When I was working with the loan department, we also had graphs to show a trend of performance and actual performance against targets. We drew charts to show staff how well we did, and encouraged them to achieve the targets. The operation room does the same thing, but just in a more appealing format. It would be great if the IT system could link actual performance to present in the operation room automatically. But with our IT systems, every month after receiving information on actual performance, it takes a week to change information into a graphic format, cut papers and put them in the room. It is really time-consuming.

A senior vice president of another regional office observed,

From discussing with management at provincial and branch levels, I think it is not necessary to set up the operation room at the operational level because we have all the information in paper format for management already. It is not necessary to present it in the room because we don't look at the data presented in the room, even though we have it. We still need to look at the paper reports anyway. It is more convenient.

Despite controversies over the costs and benefits of the provincial BSC and 'operation room', the BSC and 'operation room' construction in provincial offices continued in many offices, with strong support from some top managers in the head office. In 2004,

an additional 21 provincial offices developed BSC and constructed their own 'operation room'. For these provincial offices, prior to developing their BSC and 'operation room', their management staff visited the 'operation room' at one or more of the six pilot offices. Most of them chose to go to the offices located in the same region out of convenience. At the same time, however, they also learned about the BSC and 'operation room' in other offices they did not visit when they met and discussed ideas with the management of other provincial offices in meetings. In addition, as in the pilot stage, teams of staff from the head office were sent to facilitate the BSC and 'operation room' construction in these provincial offices, the teams imparting their experience from the head office and other provincial offices to the 21 provincial offices. Therefore, the BSC and 'operation room' constructed at this stage remained, by and large, similar to that at the corporate level in the head office, and BSC was regarded as a performance monitoring tool.

At this stage, BSC development at the provincial level was always bundled with the 'operation room' construction. However, following the retirement of the president, who had strongly advocated the BSC and 'operation room', in October 2004, the BSC development and 'operation room' construction became separate issues. The 'operation room' expansion project was suspended, while the BSC development continued.

6.4.3. Re-fabricating the BSC – BSC was Disconnected from the 'Operation Room' and Became a Planning Device

As discussed earlier, among management staff at the operational level, the 'operation room' attracted greater attention as well as more criticism than the BSC. A number of complaints about resources and time needed by provincial offices to spend on building and maintaining the 'operation room' were sent to the new president, who, therefore,

reconsidered and introduced a new 'operation room' policy at the operational level. The 'operation room' would now be constructed at regional offices instead of provincial offices. With regard to further expansion (i.e. to provincial offices and branches), this decision was left to regional office management. In view of the fact that at the time the fieldwork was conducted, none of the regional offices had constructed their 'operation room', there is no discussion of the 'operation room' at regional offices in this study.

Despite the suspension of 'operation room' expansion, the BSC development at provincial level continued. The new president believed that BSC development was less costly, and that BSC would help employees at provincial and branch levels to focus their attention on both financial and non-financial performance. Therefore, in fiscal year 2005, all provincial offices were required to adopt the BSC approach to draw a strategy map and identify KPIs when formulating their annual action plans. Provincial directors who attempted to have minimal engagement with the 'operation room' construction at the early stage could no longer avoid the BSC. They had to incorporate BSC into their action plans and submit it to their respective branch administration departments on an annual basis. Nevertheless, these provincial offices tended not to pay much attention to BSC targets. Rather, they focused on achieving targets from the performance agreement and budgeting. For them, BSC was merely a concept driving them to consider four perspectives of performance when formulating their annual plan.

6.4.4. Further Translation – Adding a KPI Map and Making BSC More Than a Performance Monitoring Tool

While many provincial directors used BSC only in the planning process, as required by the head office, and continued to use performance agreement and budgeting as major

tools to monitor performance, some provincial directors still attempted to construct an 'operation room' and develop BSC.

In one of the provincial offices visited, the provincial director attempted to develop BSC further. He suggested,

Other provincial offices just copied it [the format of the 'operation room'] from the head office. To do that they have to draw a graph or diagram which is complicated. I think we can just link the KPIs into causal chains, present numbers [actual performance compared with target] in boxes and use the colours red, yellow, green. Then, we can see why this one is green, and why this one is red...

In this provincial office, a KPI map was formulated as a trial. The director of the office suggested that he was considering presenting a KPI map, rather than just a set of BSC KPIs, in the provincial office's 'operation room' under construction. He claimed that he had learned about the KPI map from the external consultant while he was working with the monitoring and evaluation division in the head office, but the idea of such a map had not yet been picked up and developed for actual use by any other organisational members that he was aware of.⁵³

He also showed the provincial KPI map and explained,

⁵³ At the time of discussion, a KPI map at corporate level was already formulated and incorporated in the corporate 'KPI dictionary'. However, the provincial director was not aware of it. As discussed earlier, the corporate KPI map received only scant attention from managers outside the monitoring and evaluation division.

We'll see that if we manage bad debts well and can control loan quality, costs will be low. And if we can also find a deposit to meet our target, our costs will also be low. If we can reduce costs and meet revenue targets, then our profit will improve.

In his view, it would be more useful if his staff could see how one KPI might have an impact on the other(s). Nevertheless, he also found it difficult to develop a KPI map because it was hard to identify the cause-and-effect relationship among KPIs. Thus, instead of classifying KPIs into four dimensions, he suggested that he would classify KPIs into only 2 dimensions, financial and non-financial indicators, so that it would not be too complex.

For this particular provincial director, it can be seen that BSC was more than just a planning tool and a set of KPIs to monitor. Rather, it was a tool that helped him identify where to make improvements to achieve the return on asset target, which was the ultimate KPI in the KPI map and also the KPI with the greatest weight in the performance agreement of the provincial office.

6.5. Different Views and Understandings of BSC

After the BSC had been developed and used for several years, organisational members developed different views and understandings of it. Some organisational members in the head office believed that BSC helped create shared accountability. As discussed in Section 6.3.5, staff from different departments met in the 'operation room' to discuss their performance more often and attempted to help other departments that were unable to not meet the targets.

Although BSC may have brought more inter-departmental coordination, it has also brought to light a number of complexities. With the attempt to quantify non-financial performance, difficulties of identifying quantitative measures that could reflect some aspects of non-financial performance emerged. A number of managers argued that the bank's performance indicators reflected business performance rather than development performance. As a vice president of one regional office commented,

I don't think performance indicators reflect how well we help farmers. If we look from the business perspective, the bank can reduce non-performing loans and get higher profit. But to repay their debt, farmers might need to create more debt with private moneylenders to repay the bank. So if we look from a development perspective, it is not reflected.

The ex-president of the bank also commented that it was difficult to identify performance indicators that could reflect the impact of projects undertaken by the bank on farmers' quality of life, as there were many other factors involved. Difficulties in identifying and measuring non-financial performance also led to the exclusion of some aspects of performance. A vice president of one regional office observed that the current internal process indicators were concerned with customer performance rather than process performance. Indicators capable of reflecting internal process performance, such as reducing steps and time of work process and new product launches, were not measured. This view is consistent with that of a manager of the risk management office who argued that the indicators in the customer category were concerned with the bank's financial performance, while indicators in the internal process category were related to customer performance. In his view, there was no indicator on the bank's BSC that could capture the extent to which the bank had improved its work process.

Whereas some managers were concerned with the representativeness and comprehensiveness of the performance indicators, others expressed doubt about the method used by the bank to measure some aspects of performance. For example, the validity of customer satisfaction survey results was questioned. A vice president suggested that the bank might not obtain a true view of customers, as it was easy to manipulate the questionnaires, particularly when the majority of the respondents tended to be poorly-educated. "Many respondents tended just to say what they are told to say", he commented. This comment was in line with the opinion of TRIS, which believed that it was highly possible that the results from the customer satisfaction survey were biased. One branch manager stated that he did not rely on the survey results. Rather, he regularly observed how his staff dealt with customers, to ensure that customers were happy.

Although BSC, and other performance measurement systems, may not comprehensively represent aspects of performance critical to the operations of the bank, organisational participants employed other methods to ensure that these aspects of performance were achieved. As a branch manager commented,

Most of our indicators focus on financial performance. I think the current performance measurement systems adequately reflect financial performance but they do not comprehensively measure all crucial areas. For example, strengthening customers and customer groups receives only little attention. In the performance agreement, it carries only little weight. In some branches, they might pay more attention to achieve other targets which carry more weight. But for us, we can't neglect this issue. I have to try to communicate with my staff that our vision is to develop local communities. I always emphasise that strengthening customers is at the heart of our job. If our customers are strong, we will be strong.

She also commented,

We measure how many customers attend our training courses. But from such indicator, we can't tell how well the customers apply knowledge they learn from our courses in their day-to-day life. So I have to follow up. For example, we provided training course on how to make organic fertiliser. Few months after the course, I went to ask suppliers which supply effective microorganisms [which is one of the key raw materials for making organic fertiliser] how much our customers had ordered effective microorganisms from them.

Another branch manager made a similar comment,

We taught them how to make soap, shampoo, washing liquid and detergent at home so that they can save some money. To follow up whether they actually use this knowledge, we check how much chemical agent they have bought from us. If they buy more of the agent, it means that they use it to make soap, shampoo, washing liquid and detergent as we taught them. This shows that they apply what we taught in their day-to-day life. So we can tell that the course is a success.

While representativeness and comprehensiveness of the BSC, as well as other performance measurement systems, is one of the issues of concern, another area of complexity lay in the issue of cause-and-effect relationships and strategy map. Organisational members expressed different perceptions of the causal chains and the bank's strategy map. As discussed in Section 6.3.3.2.2, the bank put customer and financial performance at the same level on the strategy map. Management staff involved in the early stage of BSC development believed that the strategy map was designed as such because customer and financial performance were equally important for the bank. However, others suggested different views.

When discussing a strategy map of the organisation, a director from one division simply drew financial performance as an effect of customer performance. He argued that an improvement in organisation and learning performance would lead to better internal process performance; and better internal process performance would enhance customer performance, which, in turn, would lead to better financial performance; and finally, the bank would achieve its missions and vision.

Another manager from the monitoring and evaluation division suggested a different view. He argued,

We put the strategy map this way just because there is not enough space on a single A4 sheet. It does not mean anything. Actually, it should be a continuous chain from organisation and learning to internal process to customer and eventually to financial, but the space on the paper does not permit it.

He further argued,

Actually, if you look carefully, everything is connected. It depends on where you want to start. We put it this way but we are not trying to say what will lead to what or what is more important than what.

Since the bank started using the BSC, the bank had not examined statistically whether the cause-and-effect assumptions established were valid. Some staff claimed that the bank tested the existence of cause-and-effect relationships on the strategy map, but when being asked for examples of how the bank ensured that the causal chains formulated were valid,

the answers were unclear. For example, a member of managerial staff from the monitoring and evaluation division replied,

We revise the strategy map every year. We revise our mission and vision every year, see the highlights of our policies this year, and see what plans that will support those policies.

Then, we choose those plans to put in the strategy map in the internal process dimension.

Another member of management from the same division argued that the bank revised and adjusted its KPIs annually but never tested the cause-and-effect relationships they believed to be valid. Nevertheless, he argued that after the KPI map was added in fiscal year 2005, the division started to pay attention to the validity of the causal chains and attempted to validate them. The external consultant commented that, from his view and experience, relationships among strategic objectives determined by most organisations were correct. When the actual results did not confirm the assumed linkage (e.g. the cause KPI is green but the effect KPI is red), it was usually from the result of a mistake when setting the targets. Although the consultant claimed that the causal chains established were largely valid, some staff of the bank started to question the existence of causal relationships between non-financial and financial performance. The debate on the question of the validity of cause-and-effect relationships led some management staff, who were initially convinced by BSC advocates' claims, to cast doubt on BSC after it had been used for certain periods.

6.6. Concluding Remarks

From the process of constructing the BSC discussed in this chapter, it can be seen that the BSC networks were slowly constructed. BSC received initial support from top management and some external actors who had different interests and concerns.

Managers involved in the early stage of BSC interpreted the concept in different ways and expected BSC to serve different purposes. Throughout the design and implementation process, BSC was further translated. As one would expect to find in the introduction of any new management system, the process was complex and non-linear, and resistance from some organisational members arose. Nevertheless, despite the resistance, BSC survived; resistance led to re-fabrications of the BSC rather than a total abandonment. The all-encompassing nature of the BSC meant that it encountered other competing management control systems, and the attempt to reconcile the BSC with the prevailing management control practices led to re-fabrications of the BSC. Although the organisation started to use the BSC and BSC inscriptions were produced, it was still challenged. In other words, BSC had not yet become institutionalised as a set of taken-for-granted management practices; the translation of the BSC was still ongoing.

After BSC adoption, the AgroBank continued to implement new performance measurement tools. A similar performance management philosophy at the employee level was adopted. As discussed in Chapter 5 Section 5.5.3, the subjective performance appraisal system based on 'trust' was replaced by a new system focusing on objective and quantitative KPIs. Although some managers believed that BSC helped direct the attention of employees towards non-financial performance, an increase in emphasis on financial performance within the AgroBank was observed. At corporate level, the assets and liabilities management committee was established to focus on financial management. At the operational level, the assets and liabilities management committees were also created in every provincial office. The bank also introduced the Branch Management Information System (BMIS), a performance measurement system focusing exclusively on the financial performance of provincial offices and branches.

Chapter 7

Discussion

7.1. Introduction

The preceding chapter presented the introduction and construction process of the BSC within the AgroBank. It demonstrated the way in which the BSC idea was brought into the organisation and how it was made operable. The way in which various actors/actants made allies to support, resist, and transform the BSC was described, and the means by which BSC was disseminated and localised in various parts of the organisation was presented. The chapter illustrated the events/actions associated with the process of BSC construction and translation within the organisation, and described the emerging and changing characteristics and meanings of the BSC.

The empirical findings described in the previous chapter have shown that different actors mobilised their interests and concerns to translate the BSC in different ways. At the early stage of implementation, it was less than clear what the organisation expected to achieve from the BSC. While rhetorical claims and discourses around the BSC in the business communities influenced organisational members' perceptions of the BSC, the organisational members interpreted these claims in various ways. Throughout the implementation and utilisation process, various attempts to make BSC operable and align it with existing routines led to different combinations of diverse measurement practices. Various versions of the BSC emerged. The narrative, complemented by direct quotations from employees at different levels, demonstrated that during the expansion of the BSC and 'operation room' to the lower levels, actors did not passively copy the head office model. Rather, they modified the BSC to make it suit their local conditions. In the 'case

organisation', the BSC has not yet become institutionalised as a set of taken-for-granted management practices; neither has it disappeared. BSC is used in many parts of the organisation, although with variations in its usage, leading to possible differences between actual BSC adoption and initial expectations.

From the evidence presented, it is apparent that a range of interpretations and reflections arise, concerning the underlying status and nature of the BSC, the impact of local and cultural factors on its implementation, and more generally about the growing use of management accounting and control systems in both operational and strategic contexts. In this chapter, some of these issues are analysed and discussed, and consideration is also given to how the findings from the study are related to the wider management control literature, and how far these findings support, complement or diverge from the extant research in the area.

This chapter is organised into 8 sections. Section 7.2 analyses how the BSC idea came into the organisation and reasons for changes in performance measurement systems. The issue of what the organisation expected from the BSC is considered. Section 7.3 discusses issues relating to the design of the BSC. It analyses how the performance indicators and cause-and-effect relationships were constructed, and how the open and ambiguous nature of the BSC concept has an impact on BSC design. Section 7.4 considers ongoing translations during the BSC implementation and utilisation process. In Section 7.5, the issue of the relationship between the BSC and incentive systems is discussed. Section 7.6 discusses the notion of the 'success' and 'failure' of accounting system implementation. Section 7.7 provides some reflections on the issues of identities

and meanings of the BSC. Finally, Section 7.8 summarises the key issues discussed in the chapter.

Organising the chapter discussion in this way is in no way intended to suggest that accounting change is a linear process, whose result is a new system that is well-defined, designed, and implemented. As will be discussed in this chapter, the design, implementation and utilisation of the BSC are ongoing and intertwined processes, in which the actions of networks of human and non-human actors play key roles. This can be seen in the way that the BSC at AgroBank was developed initially, and then modified and re-designed during implementation and use.

7.2. Introducing the BSC and Fabricating Its Objectives – Dynamic Associations of Global and Local Actors

Empirical findings presented in Sections 6.3.1 and 6.3.2 show that changes in the bank's performance measurement systems were driven by dynamic associations of local and global actors or actants. The organisation did not adopt BSC because there was any reliable and objective knowledge of economic benefits deriving from its adoption. Neither did the organisation adopt the BSC because it was forced to by external factors. I shall argue that change was, rather, a result of diverse actions wherein actors, both local and global, attempted to build actor-networks of associations to support their own agenda and beliefs (Chua, 1995; Briers and Chua, 2001). While global actors played a significant role in disseminating the BSC idea, BSC adoption was initiated by local actors who perceived BSC as one of the possible solutions to the organisation's problems.

As discussed in Section 6.3.1, consultants, business media and business schools have played a significant role in constructing networks of support for BSC diffusion in Thai business communities (cf. Qu, 2004). These actors have engaged in discussions on strategic performance management and the BSC and in publication activity as well. These practices had a significant and widespread impact within AgroBank, as it was largely through books, practitioner journals, newspapers, seminars and conferences presenting and discussing the BSC idea and its 'successful' implementation, that the BSC concept penetrated the organisation. This wave of positive reinforcement seemingly dominated perceptions, overcoming considerations such as the fact that in some organisations that were seen as 'successful' BSC implementation cases, BSC was not yet used to measure or manage performance, and it was still uncertain even as to whether BSC would be adopted. Regardless of that, the AgroBank's organisational members frequently regarded such organisations as cases of 'successful' BSC implementation primarily because the consultants presented them as such. This is in line with a more general perception that actors associated with the BSC network have created a reputation for the BSC in business communities, so that the BSC has become an object which has the image of a 'modern' management tool that is very difficult to resist (Hansen and Mouritsen, 2005).

From reviewing books, articles from journals and newspapers, reports and presentations made by academics and consultants in Thailand, it was possible to conclude that academics and consultants in Thailand have tended to present the BSC concept via a close translation Kaplan and Norton's version of it. They have apparently not sought to bundle the BSC with other local management practices in order to make the BSC more attractive (cf. Ax and Bjørnenak, 2005). Nevertheless, BSC was seen as attractive for many Thai

organisations, including the AgroBank, partly because the notions of ‘balance’, ‘alignment’, ‘focus’ and ‘translate strategy into action’ discussed and presented by the BSC proponents were pertinent to the current concerns of many organisations. At the same time, these notions were broad and open enough to allow organisations to interpret them in different ways that gave the BSC the appearance of being able to solve, or at least alleviate the specific problems they confronted.⁵⁴

Widespread adoption of BSC among Thai organisations attracted the interest of key local actors within the AgroBank, which may help to explain why BSC was the specific performance management model adopted by the bank. However, this does not explain why the AgroBank sought a new performance management system in the first place. Why did the AgroBank imitate other organisations, and why was BSC seen as superior to the existing performance management systems? As Sahlin-Andersson (1996) argues, changes are usually problem-driven; organisations will seek to adopt new management trends if local actors perceive problems in their organisation. From the empirical findings discussed in Section 6.3.2, different groups of organisational members were concerned with different problems. While some of them were primarily concerned with communication and co-ordination across hierarchical levels, others were more concerned with cross-functional integration or the financial emphasis of the existing strategic plans and performance measurement systems. In other words, it was the specific problems that organisational members were having to confront at the time which seem to have had a major influence on their perceptions and expectations of the BSC (Hansen and Mouritsen, 2005). The local problems drove the construction of the formal objectives attached to BSC adoption.

⁵⁴ Briers and Chua (2001) describe these types of concepts as visionary boundary objects, “conceptual objects that have high levels of legitimacy within a particular community...possessing a sacred quality that makes it difficult for a ‘rational’ person to be against” (p. 242).

Beyond that, it is not easy to identify whether the organisation, in confronting problems and thus looking for solutions, regarded BSC as a potential solution to the problems, or whether on the other hand the BSC proponents within the organisation decided first to adopt the BSC and then were able to identify organisational problems justifying the decision. But in either case, the BSC was a broad enough concept to enable local problems to be addressed by it, and this in itself made the BSC attractive.

Whilst there are some technical justifications for BSC adoption in the AgroBank, the specific choice of BSC is also largely influenced by the legitimacy of the BSC established by the global BSC network. As discussed in Section 6.3.4, many organisational members believed that BSC could help the bank create a 'modern' image and gain legitimacy from government agencies. However, this is not to suggest that the organisation was simply forced by external institutional pressures to adopt the BSC for legitimacy purpose. Again, it is not possible to reach a clear decision as to whether the adoption of a particular management model was for technical or legitimacy reasons. In saying this, it is recognised that some accounting scholars have attempted to identify whether the motive for the adoption or imitation of a new management model is based on technical, rational considerations of efficiency, or driven by the desire for legitimacy and based on fad and fashion (e.g. Malmi, 1999; Hussain and Hoque, 2002). However, findings from this study suggest that efficiency and legitimacy forces were intertwined (see Powell, 1991), and it is difficult, if not impossible, to identify which force was stronger (see Section 6.3.2 and 6.3.4, where a discussion of organisational members' expectations of the BSC is presented).

Thus, instead of attempting to identify whether changes in performance measurement systems (in this case, BSC adoption) were the result of economic or institutional force, this study traces activities/actions of actors or actants connected to the BSC, and examines how these actors played roles in constructing and translating the BSC. The study argues that changes in performance measurement systems of the organisation are seen as being influenced by both internal and external actors who may have different interests, motives and agendas.

When a new management accounting idea or instrument is introduced to an organisation, it is usually done so with a degree of ambiguity, vagueness and openness. In the case of BSC in particular, a number of concepts around it are vague and ambiguous, being supported by convincing rhetorical devices, rather than strong theoretically-sound argumentation (Nørreklit, 2003). Although the openness of the concepts around the BSC can sometimes lead to complexities in the designing and implementing of it, in some situations it can make the BSC more powerful. As discussed in this section, it makes the BSC attractive as it can accommodate different meanings and interpretations. The open nature of the BSC also has a significant impact on its design, implementation and utilisation.

7.3. Constructing the BSC – Negotiations, Mediations and Articulations around the BSC Design

Empirical findings discussed in Chapter 6 demonstrate that when the global BSC idea was introduced into the organisation, the process of constructing and translating it into practice involved ongoing negotiations, articulations and mediations of interests, tensions and conflicts (Hansen and Mouritsen, 2005). In the process of designing the BSC,

discussed in Section 6.3.3, debates within the organisation focused on the two key issues – identifying dimensions of performance and KPIs, and establishing cause-and-effect relationships.

Complexities during the design of the BSC arose primarily from the open and ambiguous nature of some of the BSC concepts, which allowed different actors to interpret the concepts in different ways. As Nørreklit (2003, p. 610) has argued, the BSC concept as presented by Kaplan and Norton (1996a) is “an indirect text, which is open to interpretation, intuition and emotions. As a result, the readers’ subjective interpretations of the text determine how they understand it. The effect of this is that, given the broad and imprecise concepts which make it difficult to talk in detail about the model, it is impossible to have a real discussion on the logic of the model...When readers read their own intentionality into the theory, the result is likely to be their own theories rather than that of Kaplan and Norton.” Although the generic forms of the BSC, such as the four dimensions and cause-and-effect logic, seem to be ‘empty’ and capable of causing complexities in its design and implementation, as Nørreklit (2003) has argued, empirical findings from the study suggest that the open nature of these concepts can, on the other hand, be powerful. Such openness prompted some of the organisational problems to become more visible and generated discussions within the organisation focussed on their resolution.

7.3.1. Measuring Non-Financial Performance

Empirical evidence presented in Section 6.3.3.2 has shown that one of the important issues of debate when designing the BSC was related to what dimensions of performance should be included in the scorecard. Debates and discussions around this issue were

driven largely by organisational problems. Within the AgroBank, the problem of how to monitor the extent to which the organisation achieved its development objectives has long been a major concern among many organisational members (see Section 6.3.2). However, the pre-existing performance measurement systems did not allow this problem to be negotiated. Budgetary control focused primarily on financial performance, whereas 'TRIS measurement' indicators were imposed by the Ministry of Finance, through TRIS, leaving little room for organisational participants to negotiate. However, with the openness of the BSC, the possibility of engaging with this problem was made real and negotiation became a real option.

As Kaplan and Norton (1996a) argue, the four perspectives proposed should be considered as a template, rather than a rigid framework, and the choice of perspectives to measure should depend on the industry's circumstances and the strategy of business units. By leaving it open to the organisation to decide what should be included in the scorecard, some of the organisational members of the AgroBank attempted to add social and environment performance as additional dimensions in the scorecard. In their view, these dimensions represented key strategic objectives of the organisation. However, the ambition to cover all strategic issues in the scorecard is difficult, if not impossible, to achieve. With the attempt to extend the linkages to cover wider areas, the BSC inevitably starts to bring in and connects wider groups of actors who may have different interests, some of whom may attempt to block linkages in the assemblage. As shown in Section 6.3.3.2.1, the attempts to include environmental performance in the BSC were blocked by organisational members who were concerned with uncontrollable issues that may impact the score.

Although the open nature of the BSC allowed debate on what dimensions of performance to include in the scorecard, the AgroBank decided to keep the original four dimensions of performance, in line with Kaplan and Norton's suggestion. By so doing, the organisation was able to maintain a certain level of comfort. These four boxes of performance have gained their validity and legitimacy through networks of support from various actors, including Kaplan and Norton, consultants, media, and other organisations which attempt to promote the use of BSC. Although these original four dimensions of performance may not comprehensively represent strategic objectives of the organisation, many organisational members had confidence that it would work for the organisation, as it had been seen to work elsewhere.

Although the AgroBank decided to keep the original four dimensions of performance according to Kaplan and Norton's suggestion, a debate when choosing KPIs to be integrated into the customer and internal process dimensions were largely concerned with social dimensions and issues. Performance indicators which, in the organisational members' view, would monitor the well-being of customers were incorporated into the customer and internal process dimensions on the scorecard. This again reflects the open yet robust nature of the BSC, which allows local problems and concerns to be added, while at the same time, maintaining its identity within the four boxes of performance (Hansen and Mouritsen, 2005).

Whilst Kaplan and Norton (1992) propose a supplement of non-financial performance indicators as one of the solutions to the problem of over-emphasis of the financial performance of many companies, the inclusion of non-financial performance measures in the BSC introduced another problem to organisations adopting it, including the

AgroBank. As discussed in Section 6.3.3.2.1 and Section 6.5, the organisation was confronted with problems of how to measure non-financial performance and how to establish the 'appropriate' KPIs. The issue of when and how to measure results from development activities was also controversial; some activities and projects being undertaken may take time before any results are observable, and some aspects of performance may not be quantifiable or measurable.

These problems are not unique to the AgroBank. They are common to many other organisations and have been well-documented in performance measurement literature (see Neely, 2005; Ahrens and Chapman, 2006b). Within the AgroBank, to deal with these problems, the organisation used various financial indicators related to customers as proxies for some customer performance. The bank also borrowed some KPIs from other performance measurement tools (e.g. budgeting targets, TRIS KPIs) to put in the scorecard. These KPIs may not 'faithfully' represent development, internal process, and learning and growth performance, and may not comprehensively represent all key strategic issues of the organisation. Nevertheless, these numbers can hold together diverse interests, and can gain legitimacy and validity through ties of support from various actors (Briers and Chua, 2001).

Empirical findings discussed in Section 6.5 show that the AgroBank's organisational members were aware that their BSC (and other performance measurement systems) may not comprehensively and faithfully represent all key areas of performance critical for the organisation. In order to ensure that such critical performance areas are taken care of, they did not attempt to 'improve' the performance indicators or performance measurement systems. Rather, they undertook other actions which they believed would

help them monitor and improve such aspects of performance. Results from the BSC and other performance measurement systems were used in combination with other methods. This finding is consistent with Johnston et al. (2002), and Ahrens and Chapman (2007), who found that managers in the organisations they studied recognised that their management accounting and performance measurement systems were imperfect, failing comprehensively and faithfully to represent organisational performance. Nevertheless, enhancing the representational faithfulness of the management accounting and performance measurement systems was not their major concern, as long as the systems were “adequate for the task of rendering visible organisational members’ daily activity” (Ahrens and Chapman, 2007, p. 22). To drive activities and actions, the managers drew upon, but were not limited by, the performance metrics (cf. Vaivio, 1999a).

By not including performance indicators representing interests of some key stakeholders of the organisation, a concern about the ‘balanced’ nature of the BSC could be raised. In the BSC literature, the meaning of ‘balanced’ has been much discussed and debated (see Section 2.3.2), the debate tending to focus on technical elements of the BSC, for example, focusing on what dimensions of performance are included in the BSC (e.g. Kaplan and Norton, 1996a; Atkinson et al., 1997; Nørreklit, 2000; Brignall, 2002), or how different aspects of performance are presented and captured in the BSC (e.g. Otley, 1999). Nevertheless, findings from the study suggest that the notion of ‘balance’ could be seen as part of the ideological management tools, “something to influence the language and thinking of organizational members” (Ahrens and Chapman, 2006b, p. 11).

As presented in Section 6.3.3.2.1, the notion of ‘balance’ and the four boxes of performance measures of the BSC approach have provoked debate on the financial and

non-financial goals of the organisation. BSC differs from other pre-existing performance measurement systems in the organisation, as it clearly presents financial and customer objectives in separate boxes, while, at the same time, integrating and linking them in the same report. The tensions between financial and customer aspects of performance become more visible to organisational members. This has stimulated discussion and consideration of the issues of how to 'balance' the potentially conflicting interests of the two key stakeholders (i.e. shareholders and customers). Workshops and seminars organised to discuss how to design the BSC have provided a forum for organisational members to explore the issue. Findings from the study suggest the notion of 'balance' of the BSC is not necessarily concerned with technical properties of the scorecard. The notion could be mobilised as part of a managerial agenda, encouraging organisational participants to debate and discuss what actions or activities need to be undertaken in order to achieve a 'balanced' performance in line with organisation expectations (Mouritsen, 2005). Thus, to understand what 'balance' means, it is important to examine how the notion of 'balance' is mobilised, and to examine activities that are connected to the process of constructing and using the scorecard in the particular circumstances.

7.3.2. Mobilising Cause-and-Effect Relationships

In similar vein to the notion of 'balance' and the four boxes of performance concept, causal chain logic is another concept in the BSC approach that is open and ambiguous, creating complexities around the BSC design. As discussed in Section 6.3.3.2.2, there was debate about the nature of leading and lagging indicators, particularly between financial and customer performance. There was also debate about the time dimension (i.e. the time lag between cause and effect) which the BSC may not be able to encapsulate (see Nørreklit, 2000 for discussion of the time dimension of the cause-and-effect logic).

Although organisational members did not reach a consensus view on the issue, the organisation still developed causal chains to link strategic objectives based primarily on the experience and logic of organisational members, with advice from an external consultant.

Difficulties in developing the chains have been well-documented in the performance measurement literature. Otley (1999) suggests that little detail is given as to how to map the means-end relationship onto the BSC boxes. Empirical studies have also shown that it is difficult to establish causal chains in practice. Managers tend not to understand the causal relationships between financial and non-financial performance (Ittner and Larcker, 1998b; Malmi, 2001), and only a small number of companies rely on cause-and-effect relationships in their scorecard (Ittner, Larcker, Randall, 2003; Speckbacher et al., 2003).

Empirical findings from the present study are consistent with findings from the above-mentioned studies, namely, that if cause-and-effect relationships were taken as statistical relations in a traditional sense (i.e. correlations between input and output that can be proved empirically by using statistical tools), organisational participants would find it difficult, if not impossible, to establish and verify such relationships. In addition, most of the organisational participants did not attempt to statistically verify the validity of the cause-and-effect relationships on the strategy map, a finding similar to that of Ittner, Larcker and Randall (2003). Nevertheless, findings from the current study also suggest that the cause-and-effect logic of the BSC approach is not necessarily mobilised as statistical relations in a conventional sense. Rather, as Mouritsen (2005) has argued, what is mobilised could be seen as the logical relationships and/or managerial agendas.

As discussed in Section 6.3.3.2.2, a debate on cause-and-effect relationships between customer and financial performance reflects how different organisational members view the operations of the organisation. Discussions among the organisation's management were not based on statistical evidence of the relationships between the two dimensions of performance. Rather, they were based on each organisational member's personal logic and view of how the organisation operates. The causal chains established on the corporate strategy map reflect management's attempt to convey a message that both customer and financial performance are important in driving the organisation to achieve its missions and goals. By attempting to establish causal chains which reflect how the organisation functions, the idea of causality can be interpreted as "logical constructions and possibly ambitions rather than realised relations" (Mouritsen, 2005, p. 107). It can be seen as a means to conceptualise and communicate the business models of the organisation to organisational members, providing a view of what the firm is endeavouring to be.

While much of the BSC literature has criticised the ambiguity of the causal chain logic, findings from this study suggest that such a vague and ambiguous concept can still be a powerful tool both in mobilising commitment and facilitating implementation. The attempt to establish causal chains among strategic objectives has motivated organisational members to think about different stakeholders of the organisation as well as about the relation between the various objectives. It has provoked debate about the kind of activities or projects needed to be undertaken by the organisation in order to achieve both financial and customer goals concurrently. It is a managerial agenda, stimulating organisational members to act to ensure that the relation will look as predicted (Mouritsen, 2005).

Moreover, with the ambiguity of the causal chain concept, the causality idea remained live and active, through being picked up later and interpreted in different ways. Organisational members connected to the BSC mobilised their interests and problems to make sense of the causality, prompting new management tools to emerge. As described in Section 6.3.6 and Section 6.4.4, managers in the monitoring and evaluation division along with one of the provincial directors attempted to develop causal chains to a more detailed level (that is, linking KPIs rather than strategic objectives), with the hope that these links could be tested statistically. Proving the relationships among KPIs as the provincial director had demonstrated was later shown to be difficult. Nevertheless, the attempt to develop a KPI map can reflect the way actors continued to mobilise their interests and modify the design of the BSC.

Another example of how the open nature of the cause-and-effect logic allows actors to mobilise their interests and problems and to modify the concept to suit their purposes was provided when the manager of the risk management office attempted to formulate a financial KPI map, as depicted in Section 6.3.6. Although this resulted in a loss of the integrative character of the BSC, it demonstrated how actors are able to choose part of the BSC and modify it to make it relevant to them.

From the discussion in this section, it can be seen that BSC construction generated a debate that was important for the organisation but had not been much debated before. The BSC rendered some of the problems more visible and created a number of forums for discussion. With the ambiguous, vague and abstract nature of its concepts, the BSC allowed actors scope for interpretation and modification of those concepts to make them relevant to the specific circumstances of their organisation. This does not mean that there

was no negative impact of the openness of these concepts on BSC design and implementation. Indeed, the ambiguity and vagueness of the concepts did lead to some difficulties in designing the BSC. Some of the BSC concepts which Kaplan and Norton proposed as solutions to some of the organisational problems, in turn, introduced other problems for the organisation. Nevertheless, the open nature of the BSC also had some positive aspects that are usually neglected in the extant literature.

7.4. Constructions and Translations as an Ongoing Process

As discussed in the previous section, BSC design involved negotiations, mediations and articulations of conflicts, tensions and interests. The negotiations, mediations and articulations continued when the BSC was being implemented and used. As Hansen and Mouritsen (2005, p. 143) have argued, “[T]he implementation of the BSC is itself a process that involves complements, overlaps, and conflicts between various articulations of what its purpose is to be.” The BSC was not introduced into the organisation in a vacuum; other performance measurement tools were already in place. Therefore, the BSC had to struggle to find its place within the organisation. Although the BSC became a set of practices in many parts of the organisation, the translations did not stop. BSC was challenged, and various actors continued to mobilise their interests, re-fabricating the BSC throughout its implementation and utilisation.

7.4.1. Mediating the BSC with Budgeting Routines

Empirical findings presented in Section 6.3.3.1 have shown that one of the major issues that arose when the BSC was introduced into the AgroBank was how to ‘fit’ the BSC in with the budgeting process. Kaplan and Norton (1996a, p. 224) argue that “Managers should use their Balanced Scorecard to implement an integrated strategy and budgeting

process.” In their view, budgets, including long-term capital budget, strategic initiatives and annual discretionary expenses, should be directed at achieving targets for objectives and measures on the BSC. However, as described in Section 6.3.3.1, the AgroBank did not integrate the BSC approach into their strategic formulation and budgeting process.

For the AgroBank, the budgeting process has strong ties to various actors both within and outside the organisation. Most, if not all, organisational members placed considerable emphasis on achieving budgeting targets, particularly prior to the introduction of the ‘TRIS measurement’ in 1996. Some of the board members were involved significantly in the budgeting process. Moreover, products of the budgeting process (i.e. annual business plan and budgeting targets) were of great interest among many government agencies. Despite strong support of the BSC from the top management of the organisation, the BSC failed to enrol board members into the network. Together with the requirement from external parties to submit the annual plan and budget early, the BSC became disconnected from the strategic formulation and budgeting process.

The AgroBank’s organisational members acknowledged that not using the BSC approach for strategic formulation and as a basis for resource allocation was different from the ‘BSC theory’ proposed by Kaplan and Norton. Nevertheless, by differing in this respect, the BSC design and implementation process became easier, as the bank could avoid complexities in reaching consensus on strategy, which has been found to be one of the difficulties in implementing the BSC in the existing literature (Epstein and Manzoni, 1997; Kasurinen, 2002).

Not applying the BSC concept during the strategic formulation and planning process may not be what the organisation expected at the initial stage of the BSC adoption. Nevertheless, this should not be seen as an unintended consequence, leading to less than full implementation of the BSC, as conventional management control literature may describe. As Latour (1987) has argued, the fate of technology does not lie in the hands of its innovator or in the technology itself. Rather, it depends largely on those who come after. Actors who come later in the chain of association “may act in many different ways, letting the token drop, or modifying it, or deflecting it, or betraying it, or adding to it, or appropriating it” (Latour, 1986, p. 267). Therefore, transformations of the BSC which make the BSC in practice different from what Kaplan and Norton propose should be expected. Disconnection of the BSC from the strategic formulation and budgeting process was a result of the attempt of actors to make the BSC work in their local conditions.

7.4.2. Different Actions towards the BSC

From the empirical findings presented in Chapter 6, it can be seen that BSC construction involved a number of complex issues and processes. Organisational members did not passively copy Kaplan and Norton’s BSC model. Rather, relevant actors translated and modified the model and integrated it with other models and traditions in a way that suited their local conditions and circumstances (Sevón, 1996; Czarniawska, 2002). Whilst Section 7.3 discusses the translations relating to the design of the BSC, the translations of the BSC model were also observed during the implementation process at corporate level as well as at provincial level. As can be expected in the introduction of any new management accounting technology, not all relevant actors agreed with adoption of the new system. Some actors attempted to build networks to support BSC implementation

(see Section 6.3.4), whereas others constructed networks to resist it. In the AgroBank, during the early stage of implementation, much of the resistance to the BSC came in the form of ignorance, rather than negative responses.

There are several plausible explanations as to why not much negative response was observed. One explanation is that in the AgroBank, BSC was not directly linked to any kind of reward or punishment. Neither was the BSC directly associated with any cost control or cost-cutting exercise. A lack of clear link between BSC and rewards/punishment or cost control may help employees feel less threatened by the new system. As Granlund (2001) has argued, changes that create visibility and accountability in financial terms will create more resistance (see also Soin et al., 2002). By not seeing any direct negative impact that the BSC might have on them, organisational members who were not convinced that BSC would benefit them did not express overt criticism of BSC adoption and implementation.

In addition, the BSC has a reputation in Thai communities, both in business and public sectors. Kaplan and Norton have employed rhetorical devices to develop convincing arguments to support the BSC (Nørreklit, 2003). Many actors in Thailand, including consultants, business schools, media and various business organisations, have also created networks of support for BSC dissemination, as described in Section 6.3.1. Although no cost-benefit analysis of the BSC adoption was conducted, BSC has tended to be presented as a 'modern' management tool which is beneficial for any type of organisation with low implementation costs. The BSC has become "an institutionalized object that is very difficult to be against" (Hansen and Mouritsen, 2005, p. 144). With the reputation of the

BSC, it became more difficult for organisational members to argue against it, as those who did so would appear irrational.

Moreover, the introduction of the BSC within the AgroBank was difficult to reject because it was the initiative of the president of the bank. Although process issues such as top management support were not sufficient to make the change occur (Malmi, 1997; Kasurinen, 2002), strong support from the president at the time had a significant influence on the BSC construction process within the AgroBank. Within the AgroBank, the organisational distance between employees at different hierarchical levels is high. As was observed, organisational members address staff in management positions with their positions rather than with their names; and the position of the management staff is used instead of the word 'you'. When referring to any member of management in the third person, organisational members almost always put the position of such management staff in front of his or her name. A strong tradition of high power distance between different hierarchical levels within the organisation⁵⁵ can be one of the plausible reasons why overt resistance was not much observed (Siti-Nabiha and Scapens, 2005).

As the result of translations during the design and implementation process, the corporate BSC of the AgroBank differed from that of Kaplan and Norton. BSC was disconnected from the strategic planning and budgeting process, and was bundled with another technology, 'operation room'. When the BSC and 'operation room' were further disseminated to provincial offices, the BSC, as well as 'operation room', were further translated. As shown in Section 6.4, some provincial offices modified the BSC to integrate it with the local pre-existing performance measurement systems, whereas other

⁵⁵ This organisational norm and value may be influenced partly by national culture. However, to make such a claim, the issue should be explored in more detail, which lies beyond the scope of this thesis.

offices attempted to imitate the BSC and 'operation room' model of the head office. In some cases, organisational members attempted to have minimal engagement until they were required to engage with the BSC construction.

While overt criticisms of the BSC were not much observed during the early stage of its implementation, at the expansion stage more scepticism and resistance emerged. As discussed in Section 6.4.2, many organisational members at operational level developed overt criticisms of the BSC and 'operation room'. After the BSC and 'operation room' had been constructed at the provincial level at the pilot stage, the time and money needed to be spent in constructing and maintaining the 'operation room' became clearer for managers at other provincial offices. The organisation's inadequate information technology was an additional important factor. Although problems relating to data collection and inadequate information technology may be seen as temporary in nature (Kasurinen, 2002), information technology can have a significant impact on the construction of performance measurement systems, as it is one of the actors playing a crucial role in rendering performance measurement systems operable (see Cavalluzzo and Ittner, 2004). During this stage of the implementation, although the criticisms focused around the 'operation room' rather than the BSC, construction of the BSC was inevitably affected because at this stage, BSC was seen as a part of the 'operation room' construction. Although the objections to the BSC and 'operation room' may have slowed down the process of BSC implementation, it did not halt the construction process; rather, it led to re-fabrications of the BSC.

7.4.3. Resistance Leads to Re-Fabrications

In the management accounting change literature, resistance is usually depicted as a negative force inhibiting the development and implementation of the new management accounting and control, which sometimes leads to implementation failure (see Scapens and Roberts, 1993; Malmi, 1997; Kasurinen, 2002). However, as other ANT studies (e.g. Preston et al., 1992; Briers and Chua, 2001; Andon et al., 2007) have shown, resistance does not necessarily lead to failure of the system. Rather, resistance can be a positive force, providing opportunities for relevant actors to modify and appropriate the new management accounting and control technology to overcome scepticism.

Findings from this study support those of the ANT studies, namely, that resistance does not necessarily lead to system implementation failure, but could rather lead to system re-fabrications. For example, as described in Section 6.3.5, when facing resistance in the form of ignorance during the early stage of BSC implementation, the AgroBank supplemented the BSC with a second performance monitoring technology, the 'operation room'. Again, as discussed in Section 6.4.3, when the organisation attempted to expand the BSC and 'operation room' construction to the provincial level but faced challenges from local staff who did not agree with the BSC, senior management in support of BSC implementation re-defined the BSC and un-bundled it from the 'operation room', making BSC construction and utilisation less costly and less time-consuming.

Empirical findings from the present study also show that in some cases, the re-fabrications of the BSC, in order to overcome resistance, can make BSC assemblage more concrete. As discussed in Section 6.3.5, the 'operation room' was introduced as an 'interessement device', and TRIS KPIs were integrated into the room in order to enrol the

interest of the relevant actors in the BSC networks. The 'operation room' provided physical space for organisational members to discuss performance measured by the BSC KPIs. It created a sense of pride (or disgrace) for members of departments if the performance target(s) responsible were achieved (or not achieved), as the actual performance was presented in the room and became visible to other organisational members. In addition, by integrating TRIS KPIs into the 'operation room', where they were presented, the AgroBank was able to attract more attention from organisational members to the room as well as the BSC, as performance from the 'TRIS measurement' would have an impact on bonuses for all organisational members. The introduction of the 'operation room' and the integration of TRIS KPIs into the room helped create stronger ties and stabilise the BSC networks. However, this would not have happened if the BSC had not failed at the outset to enrol the interests of some key relevant actors.

7.4.4. Continuing Translations after BSC Came into Existence

As empirical findings of the study have shown, the BSC construction was not a linear process. The BSC was not clearly defined, designed, implemented and used. Rather, throughout the design, implementation and utilisation process, the BSC was re-fabricated, re-defined and re-designed. In the existing literature, discussion of the re-design, re-definition and re-fabrication of the new accounting model usually focuses upon the time when the model faces resistance or fails to work (see Preston et al., 1992; Briers and Chua, 2001; Andon et al., 2007, for example). Although 'failure' to make the system operable is an important element which can lead to a re-fabrication of the model, as discussed in the previous section, findings from this study have shown that re-fabrications also occurred, even after the new technology under implementation had come into existence and seemed to be working.

As described in Section 6.3.6, after the BSC had been used, staff in the monitoring and evaluation division still attempted to translate the BSC further by supplementing the corporate strategy map and BSC KPIs with a KPI map. These organisational members believed that the BSC would be more useful if cause-and-effect relationships could be identified at a more detailed level than they had been on the strategy map.

Another example is when one of the six pilot provincial offices re-classified KPIs from the performance agreement to develop the BSC, rather than identifying another set of BSC KPIs, as had been the case in the head office and other provincial offices, as presented in Section 6.4.1. Management of this particular provincial office believed that the office already had many sets of KPIs to monitor. Identifying another set of KPIs would be time-consuming and might not be very useful, as there would be some overlap among the different sets. They, therefore, integrated the BSC approach with the performance agreement.

The attempt to formulate a KPI map and integrate it into the 'operation room of one provincial director, as described in Section 6.4.4, provides another example of re-fabrication of the BSC after it had been used elsewhere in the organisation. Although it is not clear whether this re-fabrication was a result of the attempt to improve the efficacy of the BSC, or the attempt to impress top management at the head office for legitimacy purposes, or both, it represents an example of re-fabrication, even when the BSC implementation was already considered a 'success'. The example of the managers from the risk management office and the monitoring and evaluation division who mobilised the causality idea to formulate the financial KPI map for financial planning and management

also represents the further translation of the BSC after it had come into existence. In these particular situations, the translations led to innovations.

Discussion in this section has shown that translations are ongoing throughout the BSC construction process. Translations may involve various types of action, including adopting, imitating, resisting (in the form of negative responses as well as ignorance), adapting, modifying, supplementing and innovating. Empirical findings of the study support Mouritsen's (2005, p. 99) argument that "designs always produce effects that human actors do not like, and therefore human actors have to respond to the propositions made by the management control systems" (cf. Quattrone and Hopper, 2001). "No particular translation was stabilized or institutionalized. Things were in the process of becoming." (Hansen and Mouritsen 2005, p. 130)

7.5. Relationships of BSC and Incentive Systems

The empirical findings discussed in Section 6.4.1 show that within the AgroBank, the corporate BSC targets were not allocated down to lower levels. Furthermore, the BSC targets were not linked to any kind of personal evaluation or incentive system. Although the bank had recently adopted a performance measurement philosophy similar to that of the BSC at the employee level (i.e. the bank replaced the subjective performance appraisal system based on 'trust' with a new system focusing on objective and quantitative KPIs), the bank did not use BSC as a basis for organisational members to develop personal scorecards. Rather, they used the 'TRIS measurement' and performance agreement as a basis to allocate targets at the team and personal levels (see Section 6.2.2).

One of the plausible explanations for the AgroBank's use of the 'TRIS measurement' and performance agreement, rather than the BSC, as a basis for formulating personal scorecards, is that targets from 'TRIS measurement' were used to determine bonuses for all organisational members and the Board of Directors. This incentive system was imposed by the Ministry of Finance, the major shareholder of the bank, and it was difficult, if not impossible, for the bank to negotiate a change. With a monetary reward directly linked to the 'TRIS measurement', 'TRIS measurement' KPIs attracted greater interest from organisational members and the Board of Directors compared to the BSC. Top management and the Board of Directors, thus, chose 'TRIS measurement' KPIs and targets as a basis for personal scorecards and the incentive compensation system, rather than the BSC, to ensure that the 'TRIS measurement' targets were met and large bonuses obtained.

In the AgroBank, although the BSC was not directly linked to any kind of financial reward, many organisational members paid significant attention to the BSC, its KPIs and targets. BSC also generated discussions on important issues which had not been much debated within the organisation (as already discussed in Section 7.3). As presented in Section 6.3.5, the introduction of the BSC, along with the 'operation room', prompted more discussions and co-ordination between departments within the organisation. Whilst linkages to the reward system can be an important element compelling organisational participants to focus on achieving particular targets on the performance measurement systems, this finding suggests that to make the performance measurement systems work in some particular settings, linking it to a reward system may not be as critical as some scholars have argued (cf. Otley, 1999; Kaplan and Norton, 1996b). A performance measurement system can be mobilised in different ways and have other value than

serving as a basis for reward or punishment. The system can work even when the performance targets are not tied to rewards.

However, the absence of a connection between the BSC, performance evaluation at the individual level and the reward system, together with the disconnection between the BSC, strategic planning and the budgeting process discussed in Section 7.4.1, also demonstrate that Kaplan and Norton's ambition to integrate a wide range of management activities into the BSC is difficult (if not in principle impossible) to achieve. It is inevitable that the BSC would encounter other actor-networks which may have stronger ties, therefore causing various linkages in the BSC assemblage to become blocked. Whilst some of the attempts to block the linkages may be the result of deliberate actions, some resulted from random events, and others were influenced by institutional norms (Czarniawska and Sevón, 1996). When the linkages are blocked and BSC differs from expectations or from the claims of Kaplan and Norton, a question one may raise is whether this is considered a failure of the BSC implementation. Findings from the study suggest that it does not necessarily mean that the BSC has failed. Rather, it is re-fabricated, leading to changes in identities and meanings for the BSC.

7.6. The Notion of 'Success' and 'Failure' in the Implementation Process

Empirical findings from the study suggest that to date, the BSC has not yet become institutionalised as a set of taken-for-granted management practices within the organisation. It has not yet become an established fact that organisational members do not question. Neither has it disappeared, or at least, not yet. In other words, the 'black box' (Latour, 1987) still remains open. The contents and meanings of the BSC still

change. One of the questions raised is whether the BSC implementation may be considered a 'success' or 'failure'.

The notions of 'success' and 'failure' have been defined in different ways in management accounting and control implementation literature. Malmi (1997) suggests that in the traditional implementation literature, dominated by the decision-making perspective, scholars often tend to describe the implementation as a 'failure' if no decision is made or no action is undertaken based on results obtained from the analysis by the new system. Nevertheless, he argues that if the management accounting system implemented serves the purpose intended for it by senior management, then it is a success. He argues that the success and failure of accounting systems should be assessed against their diversity of use, as accounting may be used for various purposes and in various ways. In his view, if the new system is introduced to support strategic decision-making, the success of the new system should be assessed in terms of its ability to provide a correct diagnosis of the situation, regardless of whether any actions are taken based on the results. Similarly, Kasurinen (2002) suggests that success should be considered against the explicit or implicit goals of the project.

In the case of AgroBank, if using goals or intended purposes of the senior management as criteria to assess the success of the BSC implementation, it could be considered as a partial success. As discussed in Section 6.3.2, three major purposes of BSC adoption could be identified at the initial stage, namely, to create vertical alignment, functional integration, and a balanced strategic plan. In terms of the vertical alignment objective, the AgroBank did not allocate corporate BSC targets down to the personal level; neither were the provincial BSCs cascaded down from the corporate BSC (see Section 6.2.2 and

Section 6.4.1). Thus, BSC does not play a significant, if any, role in creating alignment between corporate strategy and personal goals.

As for functional integration, BSC has helped create discussion and co-ordination among different departments, as discussed in Section 6.3.5. Although an increase in co-ordination among departments was achieved not solely because of the BSC, but also as a result of having built the 'operation room' as a place for discussion, the bank might not have built the 'operation room' if it had not implemented the BSC. Thus, BSC played a role, albeit an indirect one, in generating co-ordination among departments.

With regard to obtaining a 'balanced' strategic plan, the BSC does not play a role, as it has been to date disconnected from the strategic formulation process. Nevertheless, the BSC concept is used during the planning process at provincial offices. Although this was not the intention of senior management at the initial stage, the BSC may be considered as being a tool for formulating a 'balance' plan in a particular way.

It can be seen that in the AgroBank, BSC has achieved some of the purposes expected by senior management. If assessing the BSC in terms of the suggestions of Malmi (1997) and Kasurinen (2002), it may be considered as a partially successful implementation. Nevertheless, using the intended purposes of the senior management as criteria can be problematic. As shown in Section 6.3.2, it is less than clear-cut as to what senior management expected to achieve from the BSC. Managers problematised the BSC in different ways and expected it to perform different functions. In this situation, which goals/purposes should be used as criteria? Should it be those of the top management, who expected the BSC to communicate strategy and create vertical alignment, or should it

those of middle managers, who were in the BSC team at the early stage and expected it to create functional integration? Alternatively, should 'success' be assessed against the formal objectives specified in the organisation's documents? What if, through the use of the BSC, the organisation obtained some unexpected benefits? Should this be considered 'success' or 'failure'?

Findings from this study suggest that it may not be fair to describe the situation when the new system does not serve the intended purposes of the senior management as a 'failure' or 'not a total success', as the formal objectives of the BSC adoption were also a fabrication (see Ahrens and Chapman, 2007). In the case organisation, BSC continues to exist, although in different forms; BSC inscriptions are still produced in many parts of the organisation, and many organisational members still discuss the BSC, attempting to make it work in their own way. If we see change in accounting technology as a result of diverse actors attempting to build actor-networks of associations to support their own agenda and beliefs, change in the identities and meanings of the new accounting system is something that should be expected. It is inevitable that some actors will block linkages in the assemblage, while others will attempt to construct the linkages to make the model operable. Furthermore, as different actors have different interests and agenda they wish to pursue, it is likely that they will interpret and translate the model differently. For those models like the BSC with abstract, ambiguous and vague concepts in particular, which allow many interpretations, it is highly possible that new meanings and identities will emerge throughout the process.

Findings from the study suggest that 'success' or 'failure' in implementing a new management accounting and control system is fragile and temporary; it is time- and

space-specific, and depends on the strength of the diverse ties of heterogeneous elements (Briers and Chua, 2001; Andon et al., 2007). Describing the implementation as a 'failure' when the new system has not yet disappeared or still leaves some traces could be misleading; at that specific period of time, the system may be under a re-fabrication process and it might be made to work again (Preston et al., 1992). As can be seen from the findings of the study, when the corporate BSC failed to materialise at the early stage, BSC was bundled with the 'operation room' and became more concrete and stabilised. BSC inscriptions were produced and organisational members discussed performance from the BSC reports. Nevertheless, the BSC networks were stabilised only momentarily. The BSC and 'operation room' were challenged and the linkage became disconnected in many other parts of the organisation. However, this was not the end of the BSC. In places where the linkage between the BSC and 'operation room' was disconnected, the BSC was re-translated to become a planning device; the BSC still existed, although in a different form. Therefore, this study supports Briers and Chua's (2001, p. 267) argument, "To the extent that new accounting technologies can be made to hold together traces that make managerial action from a distance possible, it would be seen to work."

7.7. Emerging Identities and Meanings of the BSC

Empirical findings presented in Section 6.3 and 6.4 suggest that the contents, meanings and identities of the BSC were constructed via the relations of the BSC with other actors or actants connected to the ties. As Law (1999, p. 3) argues, "[E]ntities take their form and acquire their attributes as a result of their relations with other entities." Findings from this study have shown that over time, and in different organisational units, different problems, tensions and conflicts were negotiated and mediated, giving rise to the new contents, identities and meanings of the BSC. Throughout the design, implementation

and utilisation of the BSC, different actors mobilised their interests and agendas to translate the BSC and make it relevant to them. This is consistent with Hansen and Mouritsen (2005), who found that in the four organisations they studied, BSC had different value and meanings for different organisations, the value being related to the specific organisational problems informing the design and mobilisation of the BSC. However, this study also extends Hansen and Mouritsen's (2005) findings, arguing that the value and meanings of the BSC also changed over time. Moreover, BSC could take on different forms and different meanings, even within the same organisation.

As discussed in Section 6.3.2, at the initial stage of BSC implementation, the AgroBank's organisational members viewed a BSC as a strategic management device. This was largely influenced by the rhetorical claims and discourses around the BSC in the business and academic communities. However, the meaning of a strategic management system differed among organisational members, this being influenced heavily by internal problems encountered at the time. While Kaplan and Norton have recognised BSC's possibility as a strategic management system through a causal model, empirical findings from the present study suggest that at the early stage of BSC adoption, management of the AgroBank did not expect many benefits from the cause-and-effect logic. Rather, they expected that the BSC would create vertical alignment, functional integration and strategic plans focusing on financial and customer performance. The attempts to establish and meaningfully utilise the cause-and-effect relationships came at a later stage, after the BSC had been used for a certain period; nevertheless, not all versions of BSC in the organisation focused on such relationships.

Through the implementation process, value attached to the BSC changed. While expecting the BSC to play a role in formulating a 'balance' of strategic plans, the BSC was disconnected from the strategic planning process when it encountered the existing budgeting and planning routines that had stronger ties. BSC was re-defined and became a tool to monitor performance. Through the utilisation of the BSC, the cause-and-effect relationship idea was picked up by some organisational members. Again, the causal chain idea was interpreted and articulated differently. As presented in Section 6.3.6, staff in the monitoring and evaluation division picked up the idea of the KPI map which emphasised the linkages of non-financial KPIs and financial KPIs. In contrast, a manager from the risk management office disregarded the relationships between non-financial and financial indicators. Instead, he translated the idea to construct linkages among financial indicators. Although interpreting the causal chain idea differently, for this group of organisational members, BSC had a value beyond being simply a tool to monitor performance. BSC became a performance management tool, helping them to identify where to improve in order to achieve the ultimate goal of the organisation. For the manager of the risk management office in particular, BSC was also a tool for financial planning and management.

While the elements in the corporate BSC were changed over time by actors who attempted to make the BSC more relevant to them, the identities and meanings of the BSC also changed when the BSC was translated and localised at provincial offices. As discussed in Section 6.4, provincial directors and local staff played a significant role in shaping the BSC. In the provincial offices where the provincial directors perceived benefits in implementing the BSC, whether for efficiency or legitimacy reasons, they largely imitated what was done in the head office. For them, BSC was another tool for

monitoring performance. While some provincial offices imitated the BSC of the head office with some adjustments, a number of provincial directors attempted to modify and construct a new meaning for the BSC. As discussed in Section 6.4.4, one provincial director picked up the idea of a KPI map, which had been neglected by most of the other organisational members, and modified it to make it work in his office. For this provincial office, BSC was a performance monitoring as well as a performance management tool.

Although many local staff modified the BSC to suit their own operations, another group of local staff attempted to block the BSC construction (see Section 6.4.3). However, this did not lead to implementation failure. Rather, BSC was further re-fabricated, prompting the emergence of a new identity for the BSC. In other words, the BSC became a planning device in these offices.

Changes in meanings and identities of the BSC are possible, largely due to the open nature of the BSC. The extant literature usually presents the ambiguity and vagueness of the BSC concept as one of its weaknesses, as previously discussed in Section 7.3. Kasurinen (2002, p. 341) argues that “the forthcoming role of the scorecard in the organization should be carefully defined at the early stages of the implementation process. At this stage, it should also be decided whether the focus of the project should be on the measurement system characteristics or on the management system characteristics of the balanced scorecard.” In contrast, findings from this study suggest that the open nature of the BSC could facilitate the process of making the BSC operable. Furthermore, by allowing different meanings and identities to be associated with it, the BSC can become more powerful.

As discussed, the BSC could be moulded to accommodate the various interests of different actors connected to the BSC networks during its implementation and use. It allowed organisational members to translate the BSC idea to fit the specific problems they encountered at the time. When tensions arose, for example, when the BSC encountered organisational members who did not agree with its adoption, or when the BSC encountered other overlapping pre-existing performance measurement systems, it could be re-fabricated to make it operable in specific situations. If the BSC allowed only one specific meaning and identity and the linkages in the BSC assemblage were undone in the process of designing, implementing or using the BSC, then the undoing of the linkage might represent the end for the BSC because there would be no other meanings or identities available. If, however, the linkage were not so strong, i.e. if there were other possible/existing meanings that went beyond, then the BSC might continue to exist in a different form, as was found in the present study.

It can be seen from the study that the contents, value, meanings and identities of the BSC were not pre-determined; neither did they remain fixed. Rather, they emerged through the BSC's design, implementation and utilisation process. The ongoing translations of the BSC changed identities and led the BSC to become something not initially planned. In some situations, for example, in the case of the financial KPI map, the integrative characteristics of the BSC were also lost. The emergent nature of the BSC may help explain why there is little agreement in the BSC literature on what BSC is and what is necessary for the system to qualify as a BSC (see Hoque and James, 2000; Nørreklit, 2000; Mami, 2001; Speckbacher et al., 2003).

Many scholars have tended to focus on a set of techniques within the BSC concept in order to define what it is. However, findings from this study illustrate that the identities of BSC are not fixed; rather, they are constructed and situated in time and space. The identities and meanings of the BSC are made in relation to actors and actants in the BSC tie and their activities around the BSC in a specific time at a particular place. BSC is an open concept with various elements which people can choose and translate to make them relevant to them. Furthermore, a set of techniques integrated in the BSC of any organisation can be changed by various actors involved in the process of constructing and using the BSC. The changing in meanings and identities of the BSC suggests the ability of the BSC to be shaped in different ways to make it work in specific situations.

7.8. Concluding Remarks

This chapter has provided a discussion of key themes emerging from the field study, and has analysed how empirical findings of the present study support, complement or contradict the existing literature in the area. The chapter has shown how the ANT approach adopted in the analysis of the study helps enhance our understandings of performance measurement and management accounting practices as well as the issues of change in MACSs. The analysis in this chapter has shown that MACSs are constructed by heterogeneous networks of humans and non-humans. Changes in MACSs are driven by the dynamic associations between global and local actors or actants. Unlike many studies based on diffusion of innovation or NIS theory, which often describe changes as determined by external pressures, and sometimes attempt to distinguish whether changes are determined by competitive or institutional environment, this study argues that changes result from global and local actors building actor-networks of associations to support their own interests and agenda.

The analysis has also shown that making the BSC operable is a dynamic and complex process, involving various actors who may have diverse interests and concerns. Non-human actors (e.g. the 'operation room', the budgetary control system and process, information technology) also play their roles in shaping the construction process of the accounting technology, although they may not have interest or intention. As one could expect, not all actors associated with the BSC network supported its construction. Many of them blocked linkages in the BSC assemblage in various ways. To overcome the resistance or tensions emanating from various actors, in many situations, BSC was re-fabricated.

The present study has shown that the process of constructing the BSC involves ongoing translations, which could mean adopting, imitating, adapting, modifying, supplementing or, in some cases, innovating. Moreover, the translations do not stop after the technology comes into existence; the BSC is challenged by various actors associated with its network, leading it to be further translated.

The ongoing translations of the BSC discussed in this chapter suggest that the meanings and identities of the BSC are highly contextual and time-specific. In many of the existing BSC studies which attempt to examine the nature of BSC and the way it is used, the emphasis of the analysis is usually placed on technical properties of the BSC. Many researchers often tend to capture only a snapshot picture of the BSC design. Furthermore, in many cases, researchers attempt to take the BSC out of the context in which it operates to obtain a generalisable view of what it is. However, as argued in this chapter, meanings and identities of the BSC emerge via its relations to other actors and actants in the ties.

By observing how the BSC is introduced, constructed, translated and used in a particular setting for a long period of time, the present study helps enhance understanding of how and why BSC has become what it is in the specific setting for a particular period of time.

Discussion in this chapter has shown that in many ways, the empirical findings of the present study are complementary to the existing research which attempts to examine issues related to management accounting change by adopting a processual approach to investigate the change process at the detailed level in a particular organisational setting (e.g. Malmi, 1997; Vaivio, 1999a, 1999b; Burns, 2000; Kasurinen, 2002; Soin et al., 2002, Major and Hopper, 2005; Siti-Nabiha and Scapens, 2005). Consistent with the existing literature, the present study has shown that change is a complex, non-linear process, involving a number of technical, behavioural, organisational and institutional issues. However, the ANT approach adopted in the analysis of the present study allows the researcher to simultaneously capture human and non-human, global and local actors in the analysis. In addition, the approach enables the researcher to capture not only the detailed process of change, but also the characteristics, value and meanings of the accounting technology (in this case, BSC) itself.

Chapter 8

Conclusion

8.1. Overview of the Research

This study has attempted to advance our understanding of the process of how innovative management accounting is developed and used in an organisational setting. The research has involved an intensive field investigation examining the introduction and translation of a strategic performance measurement technology, BSC, into practice within the Thai financial services organisation. It has traced how the BSC idea was introduced, constructed, modified and re-defined over a period of time and in different organisational units. The research demonstrates how a global management idea becomes localised in a different social and cultural context.

Drawing on actor-network theory, the research describes the way in which various actors mobilised their interests and concerns to construct the BSC. The study describes how discourses on strategy and BSC in Thailand, particularly in the banking sector, were connected to some important concerns of the organisation, in particular, problems relating to communication with branches in remote areas, co-ordination between departments, and financial emphasis on strategic plans formulated from budgeting process. The study demonstrates that through the associations of global and local actors which attempted to pursue their agenda, the BSC was brought into the organisation. BSC was seen as one of the solutions to several problems confronting organisational participants, and the adoption of BSC was seen to be consistent with the strategic direction of the organisation – to become a modern, global, strategically- and customer-focused bank. Although the BSC was introduced as one of the solutions to existing organisational problems, the BSC was

not without problems itself. So while it helped in addressing such problems, the BSC also created other issues and problems.

Since the decision to adopt the BSC was made, the BSC has struggled to find its place in the organisation. Echoing the findings of existing literature on management accounting system implementation, this study has found that the process of making the BSC operable is complex and non-linear, involving a number of technical, economic, behavioural, organisational and institutional issues. It also takes time and resources to construct the BSC. However, the all-encompassing nature of the BSC renders the process of its construction distinctive. The BSC encountered other networks of performance measurement and management control, and so to find its place in the organisation, the BSC had to compromise in some situations (for example, when it encountered budgetary control), in contrast to other situations, where other performance measurement practices had to compromise (for example, when it encountered Logframe).

When designing the BSC, different organisational problems were articulated and negotiated. One of the important issues pertained to the measuring and managing of development performance. With the attempt to incorporate non-financial performance measures, issues concerning the meaning of development performance, how to measure it to ensure that it can be managed, and how to improve it were brought into discussions. With the attempt to link different dimensions of performance into causal chains, the BSC brought to light tensions between the financial and development objectives of the organisation.

Throughout the BSC construction process, various actors mobilised their interests and concerns and translated it. The BSC was associated with different groups of organisational participants who had diverse interests. Whilst some of the actors helped support and extend linkages in the BSC assemblage, others attempted to block the linkages. To overcome challenges from some actors, interestment devices (e.g. the 'operation room') were introduced to cultivate the interest of these actors. When the organisation attempted to expand the BSC construction to other organisational units, members of different units responded to the construction in different ways. Some of the participants attempted to use the model used in the head office, while others attempted to modify and develop it. The way in which the BSC was reconciled with the existing performance measurement systems and practices also varied in different organisational units; for instance, in one of the provincial offices, KPIs from the performance agreement were re-classified into four dimensions according to the BSC concept instead of developing another set of BSC KPIs as was done in many other offices. Some of the organisational participants endeavoured to have minimal engagement, thus to overcome their resistance, the BSC was re-defined to become a planning device, and its construction became a requirement imposed by top managers on those at lower levels.

In addition to highlighting translations when the BSC idea travelled to different places, the research has shown that the BSC was also further translated over time. The translation continued even after the BSC had become established. The BSC design created new challenges to the organisation and its members, and these challenges, in turn, led to further modifications, re-interpretation and re-design of the BSC. In some cases, additional elements were supplemented. The development of a KPI map can be one of the examples illustrating this issue. The ongoing translations have evolved the BSC into

something that was not initially expected. The BSC has taken on different designs, meanings and forms. It has been connected and disconnected with other performance measurement practices and technologies, including the 'operation room', budgetary control, and 'TRIS measurement', in various ways. BSC serves different purposes for different organisational members. While it is used as a performance monitoring tool for some organisational members, it can be seen as a performance management tool or a planning device for others.

The re-definitions, modifications and supplementations were possible largely due to the open nature of the BSC. Many of the BSC concepts are abstract, vague and ambiguous, allowing different actors to mobilise their interests and concerns to interpret, modify and construct their own versions. Moreover, as the BSC accommodates different interpretations, it still survives, even when some of the linkages in the assemblage are blocked or undone. Within the organisation, the BSC still retains its identity as a BSC with four dimensions of performance linked in causal chains in some ways. It is the open yet robust nature of the BSC, rather than its superior set of techniques, that makes it powerful.

The above discussion has provided a summary of the research. Section 8.2 discusses how this research contributes to the management accounting and control theory, which is followed by a discussion of managerial implications of the research in Section 8.3. Finally, Section 8.4 discusses the limitations of the research and suggests some opportunities for future studies.

8.2. Theoretical Contributions of the Study

The research offers a critical, systematic investigation and analysis of the development and implementation of an integrated performance measurement system. It sheds light on the process of changes in performance measurement and management practices in an organisational context. It provides insights into the process of how a global management idea like the BSC is introduced into an organisation and influences organisational practices while, at the same time, being localised and shaped by local practices. It also highlights the importance of placing the BSC in contexts in which its design, implementation and use occur. By adopting a 'performative' view to examine BSC concepts and the BSC construction process, the research contributes to management control literature, particularly literature on the BSC and management accounting change, in several respects.

With regard to the BSC literature, this study enhances our understanding of the nature of the BSC. Discussions around what the BSC is and how it is used usually focus on its technical properties (see, for example, Nørreklit, 2000; Malmi, 2001). In addition, much of the BSC literature which attempts to investigate how the BSC is used in practice adopts a large-scale, survey-based approach (e.g. Hoque and James, 2000; Malmi, 2001; Speckbacher et al., 2003). Although large-scale research may provide a broad view of how organisations use their BSC, a survey-based approach can only provide a snapshot of what the respondents believe (or want researchers to believe) about how the BSC is used in their organisations. The current study has shown how BSC meanings and identities are situated in time and space, and how they emerge through the interplay of relations between heterogeneous actors, human and non-human, associated with the BSC. It also shows the significant role played by local conditions, circumstances and practices in

shaping the meanings and identities of the BSC. The BSC means different things and serves different purposes in different places and at different times, yet it is robust enough for people to recognise it as a BSC. If one takes the BSC out of the contexts in which it operates, one can only have limited understanding of how and why the BSC is used in a certain way in a particular place for a period of time. Thus, this research highlights the importance of studying the construction and use of BSC in its context.

In addition to insights into the meanings and identities of the BSC and some of its concepts, this study advances existing knowledge about how the integrated performance measurement model operates in conjunction with other performance measurement and management control systems. The study explains why the ambition of the BSC proponents to integrate all management areas from strategic to operations management issues is difficult, if not impossible, to achieve. It illustrates how some of the linkages in the BSC assemblage were obstructed by human actors who did not buy into the BSC idea, and by such non-human actors as other performance measurement networks which had stronger ties in their assemblages. In particular, the research provides insights into relationships between integrated performance measurement and one of the conventional management accounting controls – budgetary control. The study reveals that mediation between BSC and budgeting takes place in the process whereby various actors associated with the BSC and budgeting networks negotiate their interests and conflicts. In the case organisation, as budgeting had stronger ties of association, it was the BSC that had to compromise.

Furthermore, the study shows that organisational participants are frequently aware that their versions of the BSC differ from the BSC ‘theory’; they also recognise that their BSC

does not integrate all management areas as BSC advocates may have claimed. Nevertheless, this does not mean that their BSC is incomplete; rather, this reflects the ability of the BSC to be moulded in different ways to make it work in local contexts. By not following the exact BSC 'theory', the organisation can sometimes gain unexpected benefits, for example, making the BSC design less complicated.

In relation to the accounting change literature, the research has provided a rich empirical description of how the idea to adopt BSC was initiated, and how the BSC was translated into practice. Whereas much of the accounting change literature often explains changes as driven by the external environment, whether competitive or institutional, the present study, consistent with some other ANT studies (e.g. Briers and Chua, 2001), shows that changes are often the results of heterogeneous actors attempting to build actor-networks of associations to support their own agendas and beliefs. Both local and global actors prove to be connected and play roles in initiating the BSC construction process. The research has also shown, in this regard, that making a sharp distinction between internal and external or competitive and institutional factors may not be very useful in explaining changes.

Differing from many implementation studies, which often tend to regard the accounting technology being implemented as a fixed object, and fail to pay attention to the identities and meanings of the technology, the present research provides a rich empirical description of how the technology is translated and transformed during the construction process. The research shows that the way in which the global management idea or technology works in practice is not known in advance, and that identities and meanings of

the technology are not pre-determined but emerge through continuing translations during the construction process.

While much of the research focusing on the accounting implementation process tends to suggest a passive role of organisational participants who accept the new technology, this study shows that even organisational members who agree with the adoption of the new technology do not passively take it as it is. Rather, they translate and appropriate it to make it suit their local conditions. In the current study, the roles of agencies in constructing networks to support, resist and transform the BSC are highlighted. Agencies here also include non-human objects. Although physical objects may not have intentionality, they act, and are made to act, and as they do they generate and leave traces which have effects and play roles in mediating the BSC network. Physical objects, such as the 'operation room', computers and other forms of IT device and performance reports, can be seen modifying the state of affairs, and making a difference in the course of other agents' actions.

The current study is complementary to other ANT studies on accounting change in certain ways. It describes accounting technology as being constructed by associations of heterogeneous actors or actants, human and non-human. It suggests that the associations are momentary and fragile. It shows that different organisational participants may use accounting technologies in different ways, and meanings of control can change with changing network coalitions and objectives. However, the present study also extends the existing knowledge obtained to date from other ANT research.

One of the key issues relates to the time that accounting change stops. Most of the ANT studies to date are not dissimilar to research studies on accounting change which draw on other theories/approaches in that they stop their analysis either when the technology comes into existence and begins to be used, or when the technology is completely abandoned. Findings from the current research suggest that translations do not stop after the technology has come into existence. In the case organisation, translations still continued even after the BSC had been in existence for more than two years. Organisational participants are not always satisfied with all elements in the design of the BSC, and so the BSC is challenged, re-defined, re-designed and transformed. Change does not stop after the BSC is in place; rather, it continues, turning the BSC into something it was not, and that it was not originally envisaged to be.

The current research has also contributed to showing how a theoretical approach which was initiated from science and technology studies can help enhance our understanding of management accounting and control practices. The research highlights the importance of bringing accounting into an interface with other kinds of knowledge and expertise, and encourages more interdisciplinary thinking about accounting practices. One of the implications of the present research is that there could be opportunities for other critical cross-disciplinary thinking to be applied to accounting research.

8.3. Managerial Implications

Whilst the current research advances our existing theoretical knowledge in terms of the process of change in management accounting and control as well as the nature of management control initiatives, particularly the BSC, theoretical and empirical insights from the research are also relevant to managers and practitioners. The research provides

an overview of the process of BSC implementation that took place in the organisation. It takes managers away from their day-to-day implementation activities and enables them to see from a broader perspective how the BSC was operationalised within their organisation.

The research shows potential complexities in relation to BSC design. It demonstrates how concepts proposed in practitioner-oriented, normative literature may, even though they seem to be attractive at first sight, create difficulties when organisations attempt to make BSC operable in practice. The research also confirms some of the known behavioural implications of the management accounting and control system implementation. The research confirms how, when introducing the new MACSs into the organisation, the organisation frequently encounters non-cooperative behaviour among organisational participants, which may take on different forms (for example, disregard, negative response, or minimal engagement). It confirms how, when employing a top-down implementation approach, the new MACSs may not get total commitment from relevant organisational participants. Frequently, a range of different emotions and interpretations can be observed. This does not suggest that adopting an alternative implementation approach would necessarily avoid these problems. Nevertheless, the current research confirms some of the ways in which a top-down approach is likely to create uncertainties and confusions.

Whilst technical and organisational issues can create difficulties and complexities in designing and implementing the new MACSs, the research demonstrates that such complexities do not necessarily affect the process in a negative way. Difficulties in designing and implementing the new systems can provide opportunities for organisational

participants to modify the system or the process in various ways in order to make it work in their local conditions. This research suggests that what is crucial for organisations is knowledge of how to deal with the complexities and problems that arise during the design, implementation and utilisation process.

Overall, the insights from the study enhance our understanding of the contingent nature of management accounting and control technologies and their implementation. Different organisations have different structures, problems and concerns, implying that the way in which the management accounting and control innovations are designed, developed, implemented and used will also be different. Organisations cannot simply 'plug in' the management innovations that are claimed by their proponents to be universally applicable to any organisation. Whilst a particular set of management innovation techniques may well be important, it is also crucial for organisations to understand their own structure, culture and circumstances in order to make such techniques 'make sense' in their organisational context and adapt them to the specific organisation's local conditions and circumstances.

8.4. Limitations and Opportunities for Future Research

Whilst the present study may have provided theoretical and empirical contributions in several respects, like any research, it is subject to limitations. One of the limitations is that the researcher did not get into the organisation from the beginning of the BSC construction process. Much of the data on the early stage of BSC construction is based on available interviews and documents. The researcher therefore, has had to rely, to some extent, on the memories of organisational participants. In order to enhance reliability of such data, when discussing events that happened a long time ago, the researcher asked for

detailed elaboration, as well as specific examples, whenever appropriate. The researcher also cross-referenced data from the interviews with data from other sources, and further examined issues if data from different sources suggested conflicting evidence. One may therefore argue that the researcher may have missed some important events by not entering the field at the start of the construction process. However, if such events are important, they will arguably leave traces in some form, and key issues or events will become apparent along the way. Even if the researcher had been in the field at all times during the BSC construction process, this would not guarantee that the researcher would have been able to observe every relevant and important event, as important events can occur at the same time in different places.

Although not being present in the field when the BSC construction started may have prohibited the researcher from observing some important events as they occurred, it has given the researcher the opportunity to observe how the BSC is currently used, and to note changes in organisational practices since the organisation started using the BSC. It has also enabled the researcher to observe further translations of the BSC after it came into existence within the organisation. As discussed in Section 3.4.2, given with the limited time that can be spent in the field due to time constraints within the PhD programme, the researcher would not have been able to observe so much of the subsequent use and further translations of the BSC if she had entered the organisation at the start of the BSC implementation, as it took more than two years from the initial decision to introduce a BSC to the establishment of the first BSC.

Another limitation of the research is also related to time. The researcher left the field when the BSC was still being further constructed and translated. As described in Chapter

6, the BSC has not yet become institutionalised as a set of taken-for-granted management practices; neither has it disappeared. It is in the last analysis impossible to anticipate whether (or when and how) the BSC will become institutionalised, or at the other extreme ultimately abandoned. As the empirical findings from the research have shown, the institutionalisation process for the BSC has not been straightforward to date. One may suggest that as long as it is still in use in the organisation, it is likely that new problems will emerge which will lead to further translations and modifications of the BSC. If the researcher had been able to stay in the field for a longer period, it would have been possible to observe and analyse these further developments, but time constraints on research mean that a termination point has to be reached somewhere.

Despite these limitations, the researcher believes that the time spent in the field was sufficient to observe, analyse and interpret various versions of the BSC that emerged through the continuing construction and translation process in order to produce descriptions and explanations of the issue, which provide new insights into management control, particularly management accounting change literature.

In addition to limitations relating to time spent in the field, another limitation of the research is concerned with the theoretical approach underlying the analysis of the study. The ANT approach suggests that all relations which constitute what the world is can be observed; nothing is so deep that it cannot be reached (Mouritsen et al., 2002). ANT implicitly assumes that researchers can capture every connection and actor or actant. However, as Mouritsen et al. (2002, p. 507) have questioned, "Is it possible for a researcher to see all the connections that work in and on a setting with the limited corporeal capacity available?" In other words, it is arguably naïve to assume that

everything can be observed, as there will always be limitations, whether physical or conceptual or both, which will prevent researchers from seeing some connections while leading them to see others.

Inevitably, researchers are selective in identifying what to include in their descriptions of phenomena, not least because researchers becoming, by choosing to do their research, part of the networks they research; this is the context within which they construct their narratives to describe and explain the phenomena. In the iterative process of moving between fieldwork, transcription and interpretation, they inevitably choose, whether consciously or not, actants, actors or relations that seem to make sense for them. It is therefore always possible that researchers may have excluded actants or actors that they have not observed, or have observed but perceived to be irrelevant. Nevertheless, as long as researchers undertake this iterative process recognising their situation within the networks they research and the role that choice consequently plays in the process, they will arguably capture actors and connections which offer reasonably complete descriptions of the phenomena under research, and provide insightful and relevant explanations. Insofar as they do so, their research will arguably have value to the scientific community.

Based on the current study, several future research opportunities can be identified. Firstly, further detailed analysis of the use of the 'operation room' could be fruitful. As argued in Chapter 6, the 'operation room' provides a physical space in which performance indicators can be discussed. A monthly meeting to review performance is organised in the 'operation room' in the head office as well as in provincial offices that have constructed the 'operation room'. It would be interesting to analyse how the design

and architecture of the 'operation room' has an impact on the use of BSC information. It might also be beneficial to compare the perception and use of the BSC in provincial offices that have an 'operation room' with those without one, and/or to compare the perception and use of BSC in provincial offices that have 'operation rooms' but in different formats or designs.

Secondly, the analysis of the current research focuses primarily on the organisational level; that is, why the BSC was brought into the organisation, and how the BSC was developed and used within that organisation. It would be interesting to extend the analysis to a broader level. Also, further analysis on how BSC adoption, implementation and utilisation within the case organisation contribute to a wider discourse on strategy and BSC in Thai communities could be conducted.

Thirdly, it might be useful to re-visit the organisation and observe translations of the BSC in that environment for a longer period. Staying longer in the field would provide an opportunity for the researcher to examine the extent to which the BSC and its identities can be changed. The researcher would be able to observe whether and how the BSC has stabilised and become institutionalised. Alternatively, if the BSC has been completely abandoned, the researcher can analyse why and how it was discarded.

Finally, this study focuses primarily on a development of the BSC, which is only one of the contemporary management accounting and control ideas. It would be fruitful to examine the introduction and translation of other management accounting ideas. Findings from such a study could be used to compare and contrast with findings from the current

study, to examine whether, and/or what part of, the findings from the current study are specific to the BSC.

Appendix 1: Summary of Research Activities

Pilot stage (December 2003 – January 2004)

Main objectives

- (1) To identify and clarify research issues
- (2) To establish initial relationships with potential case organisations

Fieldwork activities

Interviews		
Organisation	Interviewees	Major issues of discussion
Bank A	Senior vice president – Central administration department	Performance measurement systems and practices
Bank B	First executive vice president	Major changes within the bank after the 1997 crisis
	Vice president and manager – Accounting department Vice president – MIS department	BSC, management accounting reports, profitability analysis, transfer pricing
	Senior vice president – HR department Staff – HR department	BSC development and implementation
Bank C	Senior vice president – Investor relations Staff – Investor relations	BSC at corporate level, corporate strategic programme, performance measurement at individual level
	Treasury business strategy specialist	BSC at divisional level
Bank D	Performance measurement manager	Performance measurement systems and current development
	Manager – Asset management	Performance measurement at departmental level
Bank of Thailand	Assistant governor – Operations group	Current issues on regulations and supervisions Current policies on financial services sector reforms and development
Others	Academic	Current performance measurement practices in Thai companies, Literature on performance measurement in Thai organisations
	Member of the Thai cabinet	Current policies on financial services sector reforms and development

Exploratory stage (July – September 2004)

Main objectives

- (1) To further explore issues related to BSC implementation
- (2) To identify the main case organisation

Fieldwork activities (in the organisations that are not the main case organisation)

Interview		
Organisation	Interviewees	Major issues of discussion
Bank A	Senior vice president and manager – Costing and financial statement department	Performance measurement systems and practices, management accounting reports, roles of management accountants, relationships between accounting department and other main business units
Bank B	President	Recent changes after the 1997 crisis, BSC development
	Senior vice president – Training centre	BSC development and implementation
Bank C	Senior vice president – Corporate strategy department	BSC development process
Bank E	Executive vice president – Planning and budgeting department	Development of performance measurement systems, strategic management and business planning process, budgeting process, BSC development, performance evaluation by the Ministry of Finance
	Vice president – Planning and budgeting department (performance measurement)	Performance measurement systems at corporate, business unit, department, and individual levels, BSC development process
	Vice president – Planning and budgeting department (BSC development)	BSC development process
	Senior vice president and manager – Management information department	Profitability analysis, transfer pricing
	External consultant	BSC development process, Management cockpit development

Fieldwork activities (in the AgroBank)

Interviews			
No.	Department and/or Division	Position	Duration (Minutes)
1.	Human resources department	Senior vice president	165
	Human resources planning division	Assistant director	
	Audit department	Senior executive inspector	
2.	Monitoring and evaluation division	Director	60
	Human resources planning division	Director ²	
3.	Monitoring and evaluation division	Assistant director ³	30
4.	N/A	President	30 ¹
5.	System analysis and development division	Director	40
Observations			
Meeting between representatives from TRIS and the AgroBank's management staff to discuss performance criteria, measurement process and targets			
Visit the corporate 'operation room'			

Main investigation (April – August 2005)

Fieldwork activities (In the AgroBank only)

Interviews			
No.	Department and/or Division	Position	Duration (Minutes)
1.	N/A	Ex-president (Retired October 2004)	120
	N/A	Senior executive vice president	
	N/A	Member of board	
2.	Branch administration department	Vice president, Regional office	75
3.	N/A	Member of board	35
4.	Branch administration department	Director of provincial office	60
5.	Branch administration department	Director of provincial office	110
6.	Branch administration department	Branch manager	75
		Chief of finance section	
7.	Branch administration department	Vice president, Regional office	75
8.	Branch administration department	Vice president, Regional office	60
	Branch administration department	Vice president, Regional office	
9.	Branch administration department	Director of provincial office	35
10.	Branch administration department	Branch manager	30
11.	Branch administration department	Chief of business development	30
12.	Branch administration department	Branch manager	30
13.	Branch administration department	Director of provincial office	30
14.	Branch administration department	Director of provincial office	60
15.	Branch administration department	Director of provincial office	90 ¹
	Branch administration department	Branch manager	
16.	Branch administration department	Director of provincial office ³	120
17.	Monitoring and evaluation division	Director	60
18.	System analysis and development division	Director ²	90
19.	System analysis and development division	Non-management staff	75
20.	Consultancy company	External consultant	45
21.	Risk management office	Vice president	165
	Monitoring and evaluation division	Assistant director	
22.	TRIS	Director of performance evaluation division	90 ¹
		Analyst	
23.	Branch administration department	Senior vice president, Regional office	45
24.	Programme and budget division	Director	60
		Non-management staff	
25.	Monitoring and evaluation division	Assistant director	90
26.	Management accounting division	Director	120
		Analyst	
Observations			
Workshop to formulate annual strategic and action plans at corporate and regional level			
Monthly performance review meeting at one provincial office			
Visit 'operation room' at provincial offices			
Visit Management Cockpit® at the business school from where the AgroBank learned the idea			

¹ These interviews were not tape-recorded. Notes were taken.

^{2,3} Interviewees are the same persons.

Appendix 2: Interview Guides

It should be noted that the interview guides were used in a flexible and iterative manner. They were only used as a guideline to ensure that, in overall, interviews covered key research issues. The interview guides were also continually revised to capture new issues emerging from discussions of previous visits.

I. Interview Guide for the Pilot Stage

Introducing the research

Introducing research topic

Purpose of the interview & Confidentiality

Scope of the interview

Focus on the experience of the interviewee

Seek permission to record the interview

Background information

Current position and main responsibilities

How did you come to be in this job? (What was your career before?)

Particular reasons for working with the bank

Are there special things about the bank?

What do you think the bank is particularly good at?

Changes in performance measurement systems

Traditionally, how has your bank assessed whether the bank is performing well?

Have there been any major changes in performance measurement recently?

If yes, follow with questions in the Process of developing performance measurement systems section

If no, ask whether there were any other major changes before and follow up for detail

Process of developing performance measurement systems

Can you explain how the new system has been developed?

Who initiated the change?

In your opinion, what are the important factors for the bank in deciding to change performance measurement systems?

Who has the main responsibility in developing the systems?

Who are involved in the process of designing and implementing the new systems?

How have managers and/or employees in the departments that the new performance measurement systems will apply been involved in the process?

How has the top management provided support for the process?

Have there been external consultants involved in the process? Please explain.

What success have you had in developing and implementing new performance measurement systems? Any difficulties? Please explain.

Current performance measurement system design and practices

What kind of information are you interested in when evaluating whether you bank (or department) is doing well?

Are you interested in any kind of non-financial information?

(Ask for example of performance reports)

Why do you focus on these aspects of performance?

Ask for details on how each aspect of performance is measured

If focusing on more than one aspect of performance, what connections do you see between these performance indicators?

Do you give weight to each aspect of performance? Please explain

How are targets set for performance indicators?

Do you compare your performance with that of other banks?

How are the performance result analysis handled?

How often do you review performance of your bank (or department)?

Who produce performance reports, and to whom are these reports sent?

Do people in different departments focus on different aspects of performance?

Do you perceive any tensions from focusing on different aspects? Please explain

In your bank, how far are rewards, compensation and promotion based on performance? Please explain.

Consequences of the new performance measurement systems (if the organisation recently changed its performance measurement systems)

Please explain how far the new performance measurement system has brought changes to the way you work.

Please explain how far the new performance measurement system has brought changes to the organisation.

How far have there been unexpected consequences from adopting the new performance measurement system?

Opinions on current performance measurement practices

Are you happy with the current performance measurement systems?

What are the key strengths?

Are there any significant problems? What about minor problems?

Is there anything that you want to change? Please explain. Is it reasonable to expect such changes in the near future? Follow for details.

If the bank did not have any change in performance measurement systems recently, does the bank have any plan to change under consideration at the moment and who is likely to be involved?

Closing comments

Thanks for giving time to be interviewed

Is there anything you want to add? Is there anything you expected that you would be asked, but you were not asked?

Is there anything want to ask?

Thanks a gain and explain how their contribution will help the research

Reassure about confidentiality and the use of interview data

Possibility of re-contact if further clarification is necessary

II. Interview Guide for the Main Case Organisation

Introducing the research

Introducing research topic

Purpose of the interview & Confidentiality

Scope of the interview

Focus on the experience of the interviewee

Seek permission to record the interview

Background information

Current position and main responsibilities

How did you come to be in this job? (What was your career before?)

Particular reasons for working with the bank

Are there special things about the bank?

What do you think the bank is particularly good at?

Changes in performance measurement systems

Traditionally, how has your bank assessed whether the bank is performing well?

Have there been any major changes in the way in which your bank measures performance recently? Follow up for details.

BSC development

Reasons for BSC and implementation process

When and how did you first hear/learn about BSC?

When did the bank introduce the BSC?

Why did the bank want to adopt a new performance measurement system? And why BSC in particular?

What did you expect the bank to benefit from adopting the BSC?

Please explain how BSC has been developed within your bank. Issues of discussions should cover, but not limited to, the following:

Who did initiate the idea of using BSC?

Who have had the main responsibility in developing the BSC?

Who have been involved in the process of designing and implementing the BSC?

How have managers and/or employees in the departments that the BSC will apply been involved in the process?

How and how much has the top management supported the BSC developing process?

Have there been external consultants involved in the process? Please explain.

What success have you had in developing and implementing the BSC? Any difficulties? Please explain.

BSC design and usage

At which level of the organisation that the BSC was first developed?

At which level(s) of the organisation that the BSC is applied?

Which aspects of performance are included in the BSC? (Ask to see example of BSC)

How did you decide which dimensions and performance indicators to be included in the BSC?

Ask for details on how each aspect of performance is measured

What connections do you see between these performance indicators? Please explain.

In your opinion, how these indicators are related to the bank's strategy?

Do you give weights to each aspect of performance? Please explain.

How are the targets set for each indicator on the BSC?

Who produce the BSC reports, and to whom the reports are sent?

How often do you review performance on the BSC?

Do you have any particular important target?

What do you do if targets are not met?

Are there any other indicators outside BSC that you regularly review?

Please explain how did you develop BSC at lower level(s)?

How are BSCs of different departments related?

How far are rewards, compensation and promotion based on BSC? Please explain.

How far has the BSC brought changes to the way other control systems work?

How are BSC and other performance measurement tools related? Follow up for details.

Do you continue to use budgeting system the same way as you used it prior to the BSC? If not, please explain how it has been changed.

What would you do if the BSC targets are achieved but budgets are overspent?

Is there any situation when achieving BSC targets is more important than meeting budgeting targets? Please explain.

Opinion on the BSC

In your opinion, how well does the BSC reflect performance of the bank?

How far has the BSC brought changes to the way you work?

What are the major changes you have observed since your bank started implementing and using BSC?

How far have there been unexpected outcomes from the BSC?

In your opinion, are the current performance measurement systems with the BSC better than the systems you had before? Please explain.

Is there anything that, in your opinion, could be improved?

Budgeting process

Please describe your budgeting process

What have been the most significant changes in your budgeting process during the past few years?

Does BSC have any impact on budgeting process?

How are budgeting and BSC process related?

ISO development

When did the bank introduce ISO?

What did you expect the bank to benefit from adopting the ISO?

Please explain how ISO has been developed within your bank.

Who did initiate the idea of adopting ISO?

Who have had the main responsibility in developing ISO?

Who have been involved in the process of implementing ISO?

How and how much has the top management supported the ISO implementation process?

What success have you had in developing and implementing ISO? Any difficulties? Please explain.

Performance measurement at employee level (PMS)

When did the bank start to implement PMS?

Why did the bank change the performance measurement system at employee level?

Please explain how PMS has been developed

Who did initiate the idea of changing the performance measurement system at employee level?

Who have had the main responsibility in developing and implementing PMS?

Who have been involved in the process of implementing PMS?

How and how much has the top management supported the PMS implementation process?

What success have you had in developing and implementing PMS? Any difficulties? Please explain.

Performance measurement practices at departmental/provincial/branch levels

How do you assess that your department/office/branch is performing well?

What are the performance reports that you regularly review? (Ask for examples)

Who determine what to measure in these reports?

In these reports, what are the indicators do you normally focus? Why?

Do you pay attention to non-financial performance indicators?

How are these performance indicators related to the corporate indicators?

How long have you been using this performance measurement system(s)?

In your opinion, what does it mean by having a good performance?

How well do the current performance measurement systems and reports cover and represent these areas?

Is there anything that you think should be measured but is not measured?

Do you have any areas of focus which are not included in these performance reports? Please explain how do you monitor those areas of performance.

Do you have any performance indicators on which you focus but are not determined by the head office?

How much does the head office pay attention to the indicators that you use within your department/division but are not determined by the head office?

How do you set the targets for these indicators?

How do you allocate these targets to your staff?

How often are these targets reviewed?

How do you motivate your staff to work when they have already reached the targets?

If BSC is not mentioned, ask whether the department/office has BSC? And how is BSC used (if it is used at all)?

How do you see the performance measurement systems you focus are related to the BSC?

In your opinion, does the BSC adoption have any impact on the way you work?

For provincial offices with 'operation room'

Why did you decide to build the 'operation room'?

Please explain how BSC and operation room have been constructed in your office.

Who were involved in the process?

Support from the head office

Normally what do you use the operation room for?

Have you observed any changes since the office has built the operation room?

What are benefits/drawbacks of the operation room?

In your opinion, does the operation room construction have any impact on the way you work? Please explain.

For provincial offices without 'operation room'

What is your opinion on 'operation room' at provincial office level?

Do you have any plan to build the operation room in the near future? Why (or why not)?

Opinion on overall performance measurement systems

In your view, what does the vision of the organisation of becoming a modern development bank mean?

How does your work contribute to the bank in order to achieve the vision and goals?

In your opinion, how well the current performance measurement systems can reflect this?

Are you happy with the current performance measurement systems?

What are the key strengths?

Are there any significant problems? What about minor problems?

Is there anything that you want to change? Please explain. Is it reasonable to expect such changes in the near future? Follow for details.

Closing comments

Thanks for giving time to be interviewed

Is there anything you want to add? Is there anything you expected that you would be asked, but you were not asked?

Is there anything want to ask?

Thanks a gain and explain how their contribution will help the research

Reassure about confidentiality and the use of interview data

Possibility of re-contact if further clarification is necessary

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