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## Exploring the Use of Balanced Scorecards in a Transport Public Administration in Albania

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### ABSTRACT

*The board of the Directory of transport decided to implement Total Quality Management in the beginning of the 2013. In 2013 the Directory decided to implement the Balanced Scorecard (BSC) as a new way of following up the units' results. The BSC implementation has led to that all production units write their follow-up reports according to the perspectives suggested in the BSC framework. The head of the production units are responsible for the dissemination and implementation of the BSC in their own units. The purpose of the thesis is to increase the understanding of the use of the BSC in an organization in the Albania. Two research questions derive from the purpose: (1) How is the BSC designed, implemented and used in the organization? (2) What factors enable or constrain the use of the BSC in the organization? Findings from the case study show that the BSC is used in the annual planning, in reporting measures to superiors and in following up the activities in the transport organization. The BSC is also used in discussions between employees, to disseminate information within and outside the organization, to create orderliness and understanding of the annual activities, and in developmental activities. The findings indicate that the BSC has been adapted to the current conditions of the organization with regard to the existing terminology and organizational structures. The BSC is not primarily used as a strategic management system, but rather as an information system that aims to communicate measurable information within and outside the organization. The autonomy of the department and units enables people to develop their own scorecards without considerable influence from superiors. The emphasis on employees' participation is also identified as an important aspect in making people accept the new concept. In addition, the case shows that change agents play a major role in how the BSC is used in the organization today. Several adaptations have been made to current conditions, that both enable and constrain the use of the BSC in the transport organization.*

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## **1. Purpose and Research Questions**

The purpose of this study is to increase the understanding of how the Balanced Scorecard is used in an organization in Transport. Understanding the use of the Balanced Scorecard (BSC) involves how the BSC is designed, and being implemented in the organization. One way of describing the distinction between the design, implementation and use dimensions is to view them from David Marr's Levels of Description (Marr 1982). Marr's framework was developed as a way to understand an information-processing system, and focused on cognitive processes that take place inside individuals. The framework encompasses three levels that are important to consider in an information system. Firstly, the computational theory of the task that the system performs is taken into account. This level focuses on what the system does, and why it does it. Secondly, the choice of representation and the transformation by which it is transformed in the system is thus considered in this level. Thirdly, the details of how the system is physically realized in the organization are considered. In this study, the design of the BSC corresponds to the first level of description and investigates what the system does and why. The implementation of the BSC reflects the second level of description and focuses on how the BSC was transformed and evolved in the organization. The choices of BSC representations are illuminated through describing how the BSC was built, deployed and disseminated throughout the organization. The study of the implementation reflects a historical aspect of an organization, and is a useful consideration in understanding how the BSC is used today. The focus is on how the BSC is transformed from the initial introduction to the fully integration into the organization. The use of the BSC focuses on the physical realization of the system in the organization and thus represents the third level of description. The use dimension explores activities, such as documentation of measurements, reconstruction of strategy, reporting of results and communication within units, dissemination of information, and strategic planning all related to the BSC realization. Thus, the use dimension focuses on how people make use of the BSC in their day-to-day practices. Based on the previous discussion, the first research question in this thesis aims to describe the design, implementation and use of the BSC in the organization: (1) How is the BSC designed, implemented and used in the organization? There are many choices available at each level of description presented by Marr, and the choices made at one level may constrain what will work at other levels (Hutchins 1995). In other words, what the BSC emphasizes, why these choices are made, and how the BSC was transformed and developed in the organization influence how people use the BSC in practice. In order to understand the use of the BSC it is thus important to investigate how the BSC was implemented and designed in the organization. The second research question aims to explain the use of the BSC through investigating factors that encourage and constrain the use of the BSC. (2) What factors enable or constrain the use of the BSC in the organization? information is propagated through many scholars in the field of Quality Management focus on design and implementation of quality management tools. Most research in this field is devoted to the development of methods for implementation in organizations (see e.g. Ekdahl 1999; Ekros 2000; Kammerlind 2000; Schütte 2002; Arvidsson 2003). Kaplan and Norton mainly focus on the design of the BSC, what the BSC does and why. They also describe how the BSC is transformed in organizations.

## **2. The Balanced Scorecard**

In 1992 Robert S. Kaplan and David P. Norton introduced the Balanced Scorecard (BSC) in order to provide organizations with the opportunity to expand their financial performance measurements with non-financial performance measurements (Kaplan and Norton 1992). In addition, the BSC is intended to provide executives with a comprehensive framework that translates the company's vision and strategy into a coherent set of performance measurements (Kaplan and Norton 1993; Kaplan and Norton 1996b). Thus, the objectives and measures on a BSC should be derived from the organization's vision and strategy to become a new tool for managing strategy (Kaplan and Norton 2001). The results from the search showed that the main part of the research about the BSC originates from the accounting research area. The findings also confirm the ambiguity on how to define the BSC. For example, Nørreklit (2000) describes the BSC both as a strategic measurement system and a strategic control system, while Lawton (2002) suggests the BSC to be a management decision tool.

## **2.1. Contents of a BSC**

According to Kaplan and Norton (1993), the BSC is designed to support and fulfill the company's overall vision and strategies. Their version of the BSC presented in 1992 contains four different perspectives: the financial, the customer, the internal business process, and the learning and growth perspective. These perspectives represent how the company is viewed by its most important stakeholders – shareholders, management, customers and employees. In recent years several companies have started to use the term focuses instead of perspectives in order to emphasize the company's view on its stakeholders (Olve et al. 1997). Within each perspective, critical success factors are developed. Performance measurements are chosen in order to support the critical success factors. The factors constitute the bridge between the vision, strategy, perspectives and the performance measurements, and are critical to the company's future success. Finally, the BSC includes action plans, which describe how the company should act to achieve its vision. Anthony and Govindarajan (2001) describe the BSC as a performance measurement system, which "fosters a balance among different strategic measures in an effort to achieve goal congruence, thus encouraging employees to act in the organization's best interest". A performance measurement system is a system that supports strategy implementation (Anthony and Govindarajan 2001). In building such a system, management selects measures that best represent the organization's strategy. Thus, the focus of such a system is the performance measurements, which is reflected in the early descriptions of the BSC. Kaplan and Norton (1992) primarily discuss the elements of the BSC including perspectives, critical success factors and measures. Although Anthony and Govindarajan (2001) deal with managerial problems that may occur when implementing the BSC, the focus is still on the measurements and the design of the BSC. They describe the performance measurement system as a dashboard with a series of measures, which provide the driver with information about operations of many different processes. The driver, or in this case the manager, receives information from the measures describing both what has happened and what is happening. In addition to their description, Kaplan and Norton (1992) illustrate the scorecard as an airplane cockpit providing the pilot with detailed information about several aspects of the flight.

## **3. The BSC in Shkodra Directory**

In 2013 the directory gave all production units instructions to report their budget according a BSC including five perspectives – the economic perspective, the employee perspective, the customer perspective, the process perspective and the research and development perspective. According to the County Director of Finance, the BSC was aiming at enabling follow-ups of the production units' results. As the directory received the directive to start using the BSC in the follow-ups the Quality Coordinator together with the Quality Coordinators from the five departments at the center started designing a scorecard for the organization. At the same time, the Head of directory gave the departments instructions to report the budget for 2013 according to the five perspectives.

### **3.1. The Design of the BSC**

The vision of the center is illustrated in the left of the scorecard: "Shkodra directory - a learning organization for transport quality". The scorecard is divided into five perspectives: (1) the Customer perspective, (2) the Process perspective, (3) the Development/Future perspective, (4) the Employee perspective and (5) the Production/Economic perspective. Strategic goals and key questions are derived from each perspective. Every strategic goal in the scorecard contains four key questions. The key questions are formulated as critical success factors, which are the most critical issues for an organization's competitiveness and are hence aligned with the vision and strategic objectives (Kaplan and Norton 1996b). Thus, the key questions are aimed for the use of departments in following-up their results. Below the strategic goals and key questions are dealt with in more detail. The strategic objectives, together with critical indicators, help the organization to deploy the over-all vision down to strategically important measurements (Kaplan and Norton, 1993). Hence, in order to analyze the scorecard of the Directory of Shkodra the following discussion emphasizes what the directory focuses on in achieving their vision.

| <i>Perspectives</i>             | <i>Performance drivers</i>  |   |
|---------------------------------|---|---|
| Customer perspective            |   | Do we reach results of high transport quality?<br>Do we have right availability?<br>Do we have right reception?<br>Do we give good information at the right moment?   |
| Process perspective             | Do we systematically improve our processes?<br>Are our processes documented?<br>Do we compare and learn from leading organizations?<br>Is the adverse event reporting system working?   |   |
| Development/Future perspective  | Is the business developing and improving systematically towards clear goals?<br>Does the business have the right competence?  | Do we provide our employee with the right education with the right quality?<br>Do we have the right research level?   |
| Employee perspective            | Do the employees have and do they follow individual development plans?<br>Do the employees participate in quality improvement initiatives?<br>Do we have good leadership and colleague support?<br>Do we have goals and action plan for improving the work environment? |   |
| Production/Economic perspective |   | Do we have right production compared to the budget set in the latest 4-month period and 12-month period?<br>Are there any long-term agreements and are they followed?<br>Do we have balanced accounts?<br>Do we have high efficiency compared to other leading organizations? |

#### 4. The BSC in Durres Directory

In 2013 the management of the Directory was introduced to the BSC during network meetings organized by the Central Organization in Tirana. Thereby, the management of the department started viewing the BSC as a useful tool in linking the different parts of the department. Although the terminology used in the BSC was at first hard to understand, the management team later on got used to the terminology and understood its implications. At the time of the BSC introduction, the department had recently experienced a turbulent situation partly due to economic cutbacks and restructuring in the Central Organization in Tirana

##### 4.1. The Design of the BSC

The scorecard is presented as an arrow including six steps. These steps are interpreted as an illustration of the building process of the scorecard. The first step concerns the department's vision, which is followed by the strategic choices in Step 2. The third step includes the identification of critical success factors, and the fourth step illustrates the key measurements and the targets for each measurement. Step 5 includes the establishment of an action plan. The sixth step is denoted 'measurement and follow-ups. Steps 2-4 are differentiated into five perspectives, namely (1) *the Customer perspective*, (2) *the Process perspective*, (3) *the Research & Development perspective*, *Learning perspective*, (4) *the Employee perspective*, and (5) *the Economic perspective*.

The department's vision is presented to the left in the scorecard: "For the clients, services with high quality, and for the personnel, Knowledge and Empathy" Within each perspective strategic choices are depicted. The strategic choices are interpreted as the management's long-term,

strategic decisions on how the department can realize the vision. In the third step in the scorecard, critical success factors are identified. These are interpreted as factors important for the long-term survival of the department, and aligned with the strategic choices (Kaplan and Norton 1992). In the Customer perspective, the strategic choice contains the statement that “in the right way, at the right time, optimal and professional service”. In addition, “needs should be guiding”. The critical success factors are identified as “availability”, “professionalism”, and “good service”. In order to reach optimal and professional care with a focus on customers’ needs the employees need to be available, act professional, and good services for the clients. In the Process perspective the strategic choice is depicted as “doing the right thing from the beginning” and “to follow the relevant legislation and quality programs”. The critical success factors in the process perspective are depicted as “good service results”, and “availability”. The strategic choice identified as doing the right thing from the beginning and following laws and regulations is achieved through focusing on good quality results and being available for the clients. One issue worth noting is that the indicator “availability” is also used in the customer perspective. This means that being available for the clients is a prioritized area in the department’s strategic approach. The strategic choice in the Research & Development, Learning perspective includes the statement “to follow goals and strategy plans” and “continuous development of the activity” concerning these issues. The perspective includes the critical success factors “research, development and learning”. In order to follow the goals and strategies and continuously develop the activities, the department has to focus on research, development and learning.

| <i>Perspectives</i>                          | <i>Performance drivers</i>   | <i>Strategic outcomes</i>   |
|--|--|---|
| Customer perspective                         |  | Services in three months<br>Participation<br>Answer to questions      |
| Process perspective                          |  | Clients register<br>Services in one week.                             |
| Research & Development, Learning perspective | Head processes in “Process guide   |   |
| Employee perspective                         | Employees that follow development plans<br>Employees that participate in developmental work<br>Employees “Level placement” |   |
| Economic perspective                         |  | Production<br>Services costs out-clients<br>Services costs in-clients |

## 5. The BSC in Vlora Directory

At the BSC concept was introduced as a management tool by the management team at the department in 2013. The actual scorecards were introduced in 2013 as a new form of reporting results to the management. According to the employees interviewed, the reactions from the employees were mainly negative due to the new vocabulary and the design of the new report. Despite the resistance to the new concept the BSC gradually gained acceptance from the employees. Several reasons are mentioned. For instance, most of the employees saw the benefits when they started working with the BSC. It is mentioned as an easy way of receiving an understanding and overview of the annual activities. Another aspect mentioned is the department’s prior experience with quality improvements. Each unit is expected to develop its own scorecard, which includes a yearly action plan, measures and goals. In addition, the employees are obliged to fill in project plans for each action in the scorecard. All the units report their results in three perspectives, namely the customer perspective, process perspective and employee perspective. Action plans, measurements and goals A first observation of the unit’s scorecard is that the document is not called a scorecard, but an action plan. In addition, the strategy at the top of the document is depicted with a question, which describes the meaning of

the strategy. This is also the case for the terms 'critical success factors', 'action plan' and 'critical key measurements'. For instance the term 'critical success factor' is translated to the question "What factors are important for us to reach the goals?" The critical success factors are presented in the first square of the scorecard. These are the same in all scorecards at the unit level. These units have instead added their own critical success factors. One unit's scorecard does not include any critical success factors in the process perspective. The action plan includes actions that are performed throughout the year. All the units have reported their planned actions in various details. The critical key measurements are reported below the action plan, and illustrate the unit's most important measurements. The goals and results are reported to the left of the measurements. Reviewing all the units' scorecards show that the space in which the measurements and goals should be filled in is either empty or incomplete. This indicates that the employees have difficulties in finding appropriate measurements and goals.

| <i>Perspectives</i>  | <i>Performance drivers</i>   | <i>Operative outcomes</i>   |
|----------------------|--|---|
| Customer perspective | The team includes two people from different professions  | Clients satisfaction survey 2 times/year<br>Answer to questions<br>Clients meeting the same person (employee)<br>Availability<br>Time to decision about service<br>Complaints that have been attended to<br>directory in three months |
| Process perspective  | Reports taken care of<br>Statistical waiting time<br>Employees that have got an introduction to the nutrition folder<br>Employees that have learnt to make services orders<br>Updating the transport program                       | Clients taken services of in three months<br>Clients in directory register  |
| Employee perspective | Report 1-2 times/week<br>Team conferences<br>Employees participating in training days<br>Reviewing the checklist for new employees<br>Documented responsibility areas<br>Experienced participation<br>Experienced work environment |   |

## 6. Summary Of Findings

The purpose of this thesis is to increase the understanding of the use of a BSC in a Transport organization. Findings from the case study show that the BSC in the organization studied is used primarily in planning, reporting and follow-up activities. In addition, the BSC is used in discussions between employees, to disseminate information throughout and outside the department, to create orderliness and understanding of the annual activities, and developmental activities. Comparing the use of the BSC with the purposes of introducing the BSC in the organization indicates that the BSC is used to fulfill its original purposes. The findings indicate that the BSC is not primarily used as a strategic management system that aims to increase the Organization management control of the department and units. The BSC is rather used as an information system from which managers receive measurable information about the operational activities that provide the basis for follow-up, planning and developmental activities. Employees use the information system to report measures and in discussions within the units. In a decentralized organization such as the transport organization studied it may be argued that the scorecards need to be aligned to the over-all strategies in order to ensure that the changes made at the unit level are actually leading to improvements at the strategic level. The use of the BSC in a transport organization is thus a dynamic process that prerequisites employees' participation and adaptations to existing terminology and

organizational structure, as well as discussions between people to create a common framework for interpreting measures and goals in the BSC. The findings show that the transport organization studied has potential for developing the BSC to become a strategic management system in the future. The organization may need to start the dialogue between people at different organizational levels in order to create this common foundation. Possible explanations to the use of the BSC in the organization are identified through factors that enable or inhibit the use of the BSC. The factors are grouped into categories described below. The autonomy of the department and units enables the management of the department and units to develop their own scorecards for their own purposes. The management at the Organization has a flexible attitude towards departments that develop their own scorecards. The department allows the units to develop own scorecards, which are discussed in a yearly meeting between the management and each unit. In order to make people accept the BSC, the management of the department emphasizes employees' participation. Employees were involved in the vision formulation, the scorecards were deployed down to the unit level, and the management of the department continuously disseminated information about the concept. However, the case shows that differences in work design and size between units may be a hindrance to involving and motivating all the employees. In addition, people interpreted the information from management of the department as insufficient and top-down oriented, which triggered initial resistance to the BSC. Due to the identification of a need to change during the time for the introduction of the BSC the BSC was accepted throughout the organization. However, as the BSC was introduced over different periods of time, this decreased the central directory in Tirana's ability to influence the reporting process through their BSC. Several adaptations have been made in the organization. For instance, the management of the department adapted the terminology in the BSC in order to increase the understanding of the BSC in the units. The management of the Organization and of the department emphasize the need of letting the implementation take time in order to get people used to the concept. The department's scorecard includes a well-known communication tool to communicate performance measures and time is allocated at the units in order to make people use the BSC. However, this time is seldom used for that purpose. The findings also show that the department's prior experiences with the Service Quality Award have influenced the acceptance and use of the BSC. The attention after the award generated a feeling of pride among employees and management that have enabled the acceptance of similar concepts such as the BSC. The terminology used in the Service Quality Award was also recognized in the BSC, which enabled the use of the BSC.

## **7. A Critical Review Of The Research Process**

The study partly aimed to investigate the implementation of the BSC through a retrospective analysis of people's stories of the implementation. During the interview people were asked to remember their first contact with the BSC, which in some cases were about ten years ago. There is always a problem in conducting retrospective analysis since people tend to reconstruct their memories in order to make them logical or suitable for themselves or to the researcher. This leads to an impending risk that valuable information from the interviewee never reaches the investigator or that the researcher never receives the information of how events actually happened. Using a tape recorder during the interviews may also be identified as a hindrance in the research. In order to make the interviewee comfortable with the situation, I presented the purpose of the project, myself and asked if the interviewee had any questions before I introduced the tape recorder. Anonymity was also emphasized for those interviewees it concerned (the employees). Thereafter, I asked if the interviewee agreed to me using a tape recorder during the interview. In every case the tape recorder was agreed to. Although there is a risk that the use of the tape recorder has made people withhold valuable information during the interviews I experienced that people were open with their perceptions and thoughts. The reduction of the data in coding and analysis always leads to a loss of information. Even printing the taped interview afterwards involves a loss of information. In this case, the printed interviews were reduced into summaries, which were used in coding and analyses. In order to ensure that no important information was lost, the source interview was used during most of the time during the analysis. This enabled the interpretation of the interviewees' opinion of certain statements. In addition, statements in the summary were referred to the lines in the text of the interview, which enabled the linkage between the documents. However, one could

not neglect the fact that summarizing the interviews may have been a hindrance in the analysis of the information. During the analysis of the interviews a qualitative data program, NVIVO, was used. The program supported the analysis by automatically linking the codes to specific interviewees and places in the summary. In addition, the program enabled the reconstruction and building of units into a tree structure since units could be automatically merged into the same document. Thereby, a lot of time was saved in the analysis stage. However, there are also weaknesses identified in using a data program. When I had identified the units with a code in all the interviews and merged them together I could not see the whole tree structure with the complete unit in the summary since the tree only showed the code. Therefore I needed to print out all the units, read them and thereafter reconstruct them into a complete tree structure. The program thus prevented me from seeing all the material at once within the tree structure. Although the program saves time for the researcher in the coding stage, it may hinder the identification of general patterns and differences between peoples' stories.

## **8. Suggestions For Further Research**

As mentioned in the previous section, this thesis partly aims to generate new questions that may provide a foundation for future research. I have not proposed any internal priority of the following suggestions since they largely depend on the researcher's background and personal interest. However, after conducting this case study I am especially interested in studying how the BSC, and maybe other management concepts, evolve over time and how researchers, society and practitioners influence and form these concepts. Since this thesis focuses on a single case, it may be valuable to study other transport organizations to receive a profound understanding of the complexity of the implementation and use of the BSC in transport services. How do other transport organizations use the BSC? What differences and similarities can be identified between transport organizations concerning the use of the BSC? Is it possible to use the BSC as a strategic management system in transport organizations, and what benefits could then be identified? What then is the impact of autonomy in these organizations? In addition, it may be interesting to further investigate the effects of using the BSC. This study focuses on peoples' interpretations of the benefits of the BSC. In order to complement this picture it may be interesting to investigate the relation between the economic development and/or customer satisfaction and the implementation of the BSC. Is there a positive relation between the implementation of the BSC and economic profitability or customer satisfaction? The BSC has been commonly used in the private sector over the last decade. In order to learn from private organizations, it may be interesting to conduct comparisons between private and public organizations in how they use the BSC. How will the BSC concept evolve over time? How do practitioners, consultants and researchers influence its evolution? What about the evolution of other concepts? What is the meaning of the concepts? Is it merely a question of terminology or does the concept have a practical value of its own?

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