The Failure of the Implementing BSC in Japanese Firms
The Implications from the view of Organizational Learning and Compensation System

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Introduction

Many South Korean and Japanese firms have made similar efforts to adopt in their own countries the Balanced Scorecard (BSC) developed in the United States. Another commonality between firms in both nations is the objective of using the BSC to implement appropriate strategic management.

The BSC is a strategic management system that facilitates strategic learning (Kaplan and Norton, 2004, p.274). Prior research makes it clear that the BSC can be used as a diagnostic control system and as an interactive control system as well (Simons, 1999, p.208, p.219). However, some cases are apparent in which the BSC does not function as an interactive control system. In light of this fact, even when the BSC is implemented there is a possibility that strategic learning (organizational learning on strategy) will not necessarily be facilitated (Kozakai, 2007; Kozakai and Yamada, 2008).

The goal of this paper is to study the possibilities of ensuring the BSC functions as a strategic management system by making clear the issues related to strategic learning under BSC implementation. Studying issues of BSC implementation in Japan is expected to contribute to research and practice in South Korea. First, we will review research on management control systems and strategic learning. Second, we will identify issues of BSC implementation in Japan. Third, we will study the implications of BSC implementation from a strategic-learning perspective.

1. Management controls and strategic learning under BSC implementation

The BSC is one of management control system (MCS). The BSC has had a significant impact on MCS research in recent years. One point at issue in MCS research is whether the BSC can be used to manage strategy effectively as an MCS.

MCSs have been oriented toward standardization based on the assumption that they would function to facilitate within the organization operations in accordance with strategic plans (Anthony, 1965). For this reason, MCSs have been criticized for impeding organizational change (Tushman and O’Reilly, 1997). However, research in recent years has included detailed systematization and analysis of the results of MCSs and has evaluated these positively (Simons, 2008).

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Management control systems are referred to systems that support organizations in their effort to respond and adapt to changing environments (Davila, 2005).

The research of Simons (1995), based on that of Mintzberg (1987), has made substantial contributions to MCS studies. Mintzberg (1987) brought up the concept of crafting strategy in regard to strategic learning. Crafting strategy is that formulation and implementation merge into a fluid process of learning thorough which creative strategies evolve (Mintzberg, 1987, p.66).

There are some considerations at issue regarding strategic learning. The first of these is the fact that by its nature strategy-based planning essentially eliminates emergence of strategy, including controls. The second is the fact that emergence of strategy by its nature facilitates organizational learning while necessarily eliminating controls. In short, strategy-based planning involves the contradiction that while by its nature it impedes environmental adaptation on the part of the organization, the emergence of strategy alone requires limited environmental adaptation. Designing MCSs while maintaining the balance between organizational learning and controls, taking this contradiction into account, is essential to management of strategy.

Simons (1995) systematized the roles of MCSs in regard to the balance between strategic learning and controls. Simons¡ (1995) interactive controls function to generate emergent strategies in response to strategic uncertainty and to facilitate integration within the organization of deliberate strategies and emergent strategies. While top management controls the process of strategy formulation, it leaves practical operations to the judgment of the workplace. Also, instead of just waiting for the emergence of strategy it manages strategy to ensure it is revised as needed.

But can the BSC facilitate strategic learning? According to the theory of BSC, strategic learning has been identified using Argyris¡ (1996) double-loop learning (Kaplan and Norton, 2001). Kaplan and Norton (2001) insist that strategic learning is possible using the BSC and strategy maps. Their finding is grounded in the fact that strategy can be revised using a combination of strategy maps and the BSC.

But how the BSC functions as an MCS depends on the design of the MCS. Whether an MCS can contribute to bringing about organizational change amid uncertainties in the management environment depends greatly on the design of the MCS (Davila, 2005). The strategic learning identified by Kaplan and Norton (2001) is not essentially inherent to the logical framework of the BSC. Whether strategic learning comes about depends on how the BSC system is designed.

However, design of a BSC system is closely related to organizational context. Not just the BSC but also design of management systems and organizational context are in a relationship in which they regulate each other (Bititci, et al., 2006). First, in implementation of management systems the organizational context characteristic of a company (its organizational culture and its management style) regulates the form and position of its management system. Second, changes in