

Institutional Rationale for Balanced Scorecard Adoption and Performance of Kenya's State Corporations

Joseph Ouma Osewe

ABSTRACT

The purpose of this study was to determine the relationship between institutional rationale in balanced scorecard adoption and the performance of state corporations of Kenya. The research design employed in this study was an explanatory cross-sectional survey design. The research population consisted of 96 managers of state corporations in Kenya. Structured questionnaires containing closed-ended questions were administered using the drop and pick method. A total of 92 questionnaires were returned representing a response rate of 96%. Statistically, this was large enough to render the results permissible and acceptable as a representation of the entire population. The results indicated that institutional rationale in balanced scorecard adoption is a good predictor of organizational performance of state corporations of Kenya supported by ($F=8.824$, $p<0.001$). Further, institutional rationale and organizational performance had a positive and significant relationship ($B=0.517$, $p<0.001$).

Keywords: Adoption, Balanced scorecard, Institutional rationale, Performance.

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I. INTRODUCTION

A. Background of the Study

Multiple and diverse rationales, including rational, emotional and socially conditioned responses can influence the adoption of management practices such as balanced scorecard. An important consideration in the adoption of management practices is the rationale underlying that adoption. In his conceptual study, Sturdy (2004) posits six rationales for the adoption of management ideas and practices, which he terms: the rational, psychodynamic, dramaturgical, political, cultural and institutional views. The rational view sees management ideas or practices as solutions to problems that employ methodical evaluation and is linked with prescriptive use of approaches such as formal planning, analytical tools and frameworks, metrics and targets (Daniel & Wilson, 2004).

Psychodynamics accounts for the short life of many practices in that managers adopt them to address an anxiety, rather than to address an organizational need (Foo, 2009; Grichnik *et al.*, 2010). The dramaturgical or rhetorical view is concerned with the supply of management practices from suppliers such as consultants and academics and is particularly concerned with the presentation of those ideas including language, charisma and pervasiveness (Symon, 2008). The political view is broadly concerned with the adoption and use of new management practices to secure or further the power of individuals or groups. Kimble, Grenier, and Goglio-Primard (2010) find that the role of brokers and the choice of boundary objects in innovation diffusion are political in nature. The cultural view considers the spread of management ideas across boundaries: geographic, sectoral, organizational or even functional, noting local culture can act as a bridge or barrier to adoption (Sturdy, 2004). Cultural view influences how organizations adopt and operationalize a practice, rather than which practice they adopt, recognizing the opportunity for local adaptation (Hookana, 2008; Mamman, 2009).

Institutional rationale posits that to deal with uncertainty, organizations will tend to adopt the same structures and strategies and hence, over time, will tend to become similar or isomorphic. This is because organizations are influenced by society's prevailing rules and expectations. As a result of these, they experience pressures. These pressures could be normative from sources, such as the state, society, political parties. Could be mimetic pressures from a sense of duty or coercive. The effect of such pressures could be positive or negative on performance. Rautiainen (2009) mentions that based on the institutional pressure, public organizations are forced to imitate various models and theories of the private sector within their organizations.

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B. Statement of the Problem

BSC adoption increasing the world over. Its adoption has been so rapid that it is labelled as one of the most influential management instruments of the 20th century (Hoque, 2014). According to Rigby and Bilodeau (2011), a study conducted on more than 12,000 respondents around the world, shows that the BSC is the fifth most used management tool in the world. The same study also positions the BSC at the top of the list in Europe, Asia, Middle East and Africa among private, public and non-for-profit organizations.

Kenya is not an exception, in 1991, a state corporation reform strategy paper was approved by the cabinet. Its content included the adoption of balanced scorecard as tool to improve organizational performance, with the first parastatals to adopt it being Kenya Railways and National Cereals and Produce Board. Its adoption has since been increasing among state corporations and other government sectors. Various justifications are making these state corporations adopt this tool. The rationales range from rational to social and institutional factors.

Institutional adoption is mainly driven by the fact that they are forced to imitate various models and theories which emanate from either the state or society who have various expectations, or due to a sense of duty, or those imposed on them by various organs such as regulators. This is a problem because adoption of balanced scorecard is an expensive exercise and this has affected budgets in these organizations, yet they cannot clearly link these expenditures to performance.

According to Kinuu (2014), such pressures from external and internal sources have brought difficulties in selecting from the increasing choice of innovative tools and techniques. These have prompted greater scrutiny of the relationship between institutional pressures and performance of such institutions. It is against this backdrop that this study seeks to investigate the relationship between, institutional rationale in BSC adoption and performance of state corporations of Kenya.

C. Research Objective

The main objective of this study is to investigate the relationship between institutional rationale for balanced scorecard adoption and performance of state corporations of Kenya.

II. LITERATURE REVIEW

A. Theoretical Review

1) Institutional Theory

This study is anchored on New Institutional Theory. The foundations of New Institutional theory were laid by Meyer and Rowan (1977) and Di Maggio and Powell (1983). The central tenet of this theory is that organizations construct their image in accordance with society's prevailing rules and expectations. This theory is used to analyze the behavior of institutional actors and to research their decisions to increase their legitimacy, which may explain the emergence and diffusion of practices such as the BSC (Guerreiro et al., 2005; Steen, 2005). Institutional theory sheds light on decisions that organizations make based on social accounts, this view is adopted by this study to explain how BSC adoption decision in general is made in light of such social pressure and how this is likely to impact on performance.

Social accounts assume that organizations frequently imitate other organizations in order to appear legitimate and that with increasing institutionalization the adoption of management practices is often driven by a desire to appear in conformance with norms. They tend to assume that organizations frequently imitate other organizations in order to appear legitimate (DiMaggio & Powell, 1983; Scott, 1995; Sturdy, 2004; Tolbert & Zucker, 1996).

According to Yulia (2016), New Institutional Sociology adherents argue that in consequence organizations often adopt and use new organizational models ceremonially not for the sake of greater efficiency but for the purpose of signaling the availability of practices which enhance the organizations' image and legitimize them in their social contexts. Possessing the right image brings social recognition and gives privileged access to resources, which is especially relevant in the often highly regulated public sector such as state corporations. This theory demonstrates how non-choice behaviors can occur and persist, through the exercise of habit, convention, convenience, or social obligation. The organization is therefore not viewed as a production system, hence being efficient is not only way for organizations to survive. Legitimacy in the external environment such as state, government, parent companies and external bodies is another means of ensuring survival.

One important notion in this theory is that of loose-coupling occurs when formal rules conflict with actual work practices leading to isomorphism. In this case organizations facing similar institutional environments tend to adopt similar practices. Di Maggio and Powell (1983), posit three mechanisms of structural isomorphism, namely coercive pressure, normative pressure and mimetic pressure. Coercive isomorphism results from both formal and informal pressures exerted on organizations by other organization which depend on (and external factors such as government policy and regulation) and cultural expectations in the society within which they operate (Di Maggio & Powell 1983).

Normative isomorphism refers to, relations between the management policies and the employee background. This includes educational level, job experience and networks of professional associations. It is associated with professionalization, which is often interpreted as, the collective struggle of members of an occupation to define conditions and methods of their work, to control the production of producers, and to establish a cognitive base and legitimacy for their occupational autonomy. The degree of professionalization of employees affects the nature of the management control system (DiMaggio & Powell 1983). Dolnicar, Irvine and Lazarevski (2008), claim that such pressures from society has become a trend in the implementation of the BSC in public organizations.

Mimetic isomorphism results from the organizational response to uncertainty. When organizational technologies are poorly understood, when goals are ambiguous, or when the environment creates symbolic uncertainty, organizations may model themselves on other organizations in the organizational field, which are perceived to be successful and legitimate. Organizations may do so without being fully cognizant of the means-ends relationships that reside within the structures and processes (Grewal & Dharwadkar, 2002). For example, managers in organizations may imitate the practices of a competitor as a result of uncertainty, or fads in the field. Organizations may adopt the balanced scorecard and some practices of high-performance work systems due to uncertainty, or to cope with competition (Paauwe & Boselie 2003).

B. Institutional Rationale and Organizational Performance

Legitimacy arguments hold that the diffusing practice is at no time technically efficient it never employs the optimum means for achieving its stated goal, or it may even be completely ineffective but because of other factors, such as cultural compatibility or the normative expectations of outside stakeholders, organizations may still find it advisable to adopt the practice to increase or maintain their standing in the eyes of their constituency. Organizations may have to bring changes to their policies and practices in response to such pressures (Tsai 2010).

According to Kinuu (2014), normative pressures from external and internal sources, such as the state, society, political parties, monarchies, parliaments and other democratic institutions, influence public organizations. In addition, formal institutions (legal and political rules) and informal institutions (culture and morality) affect the stakeholders in the publics. Public sector stakeholder includes the governing bodies, senior managers and chief finance officers of government departments (Kober, Lee, & Ng, 2013).

Rautiainen (2009) mentions that based on the institutional pressure, public organizations are forced to imitate various models and theories of the private sector within their organizations such is the case for BSC adoption by public institutions. Since the BSC focuses on more than one perspective, it has become common to implement it in public organizations, such as state corporations. Such pressures include coercive pressures due legal mandates or influence from organizations they are dependent upon, for example an organization that is dependent upon a resource provider is pressured to accept rules imposed by that resource provider. This causes change in behavior to avoid sanctions and enhance survival.

Mimetic pressures come from a sense of duty or obligation of members to comply with professional body or trade association pronouncements (Chang & Seow, 2016). They could be due to uncertainty of which practice to adopt, making an organization to imitate or replicate practices of successful organizations in their industry. Such pressures can also come from dealing with customers or suppliers or trading partners. Normative pressures come from the urge to have better governance for corporations as the business environment has become more volatile, less predictable, more globalized (Craig & Allen, 2007).

Normative pressures influence use and design of performance measures. According to Munir (2011), it is empirically reported that coercive pressures have a positive effect on the economic performance of banks, particularly in achieving lower inflation rates, cushioning the impact of political cycles on economic cycles, boosting fiscal discipline without any additional costs or sacrifices in terms of reduced economic growth. We therefore present the hypothesis.

H₁: There is a significant relationship between institutional rationale for BSC adoption and organizational performance of state corporations in Kenya.

III. RESEARCH METHODOLOGY

A. Research Design and Approach

The research design used for this study was explanatory cross-sectional survey design, since the study only intended to pick some representative sample elements of the of the population and it was conducted across participants over a short period of time. Quantitative approach was used in this study

B. Study Population, Sampling Design And Sample Size

Managers were selected by a simple random sampling method, from the 32 state corporations that had implemented the balanced scorecard. Structured questionnaires were administered using drop and pick method to 96 of them. 92 of them responded translating into a response rate of 96%

C. Reliability Tests

Cronbach's alpha (α) was used to estimate internal consistency by determining how all items on a test relate to all other items and to the total test. The Cronbach's alpha value 0.759 was obtained which was above the threshold of 0.7. The reliability is expressed as a coefficient between 0 and 1. The higher the value the better the coefficient.

IV. FINDINGS

A. General Information

Out of the 96 administered questionnaires, 92 completed questionnaires were returned. This represented a response rate of 96%. On gender, majority of the respondents (52%) who were managers in their companies were male. Female represented 48% of the respondents. Majority of the respondents who were 87% indicated that their organization has more than 100 employees while 13% indicated that their organization has 50-100 employees. Further, most of the respondents who were 67% held top management positions in their respective organizations. Those in senior management were 33%. On education, most of the respondents (46%) had attained a master's degree, 35% had bachelor's degree, 14% had PhD and 5% had diploma as the highest education they had attained.

TABLE I: RESPONSE RATE AND DEMOGRAPHIC INFORMATION

	Frequency	Percent
<i>Response rate</i>		
Returned	92	96
Unreturned/Rejected	4	4
Total	96	100
<i>Gender</i>		
Male	48	52
Female	44	48
Total	92	100
<i>Number of Employees</i>		
More than 100	80	87
50-100 employees	12	13
Total	92	100
<i>Job position</i>		
Top management	61	67
Middle management	31	33
Total	92	100
<i>Level of Education</i>		
PhD	13	14
Masters	42	46
Bachelor's	32	35
Diploma	5	5
Total	92	100

B. Descriptive Statistics

The results as indicated in Table II show that majority of the respondents 70.6% agreed that their customers/clients expect their organization to have balanced scorecard. The results also showed that majority of the respondents 67.40% agreed that the organizations they depend on expect that they have balanced score card. 80.4% of the respondents agreed that they adopted BSC due to influence from professional networks.

The results also showed that majority 70.6%. of the respondents agreed that their main competitors who have adopted balanced scorecard are perceived favorably by customers/clients, a further 65.2% agreed that balanced scorecard has been widely adopted by our customers/clients, 67.4% agreed to the statement our main competitors who have balanced scorecard have benefited a lot, 70.6% confirm the statement our main competitors who have adopted balanced scorecard are perceived favorably by customers/clients.

TABLE II: DESCRIPTIVE ANALYSIS

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	SD
Our customers/clients expect our organization to have BSC	9.80%	16.30%	3.30%	47.80%	22.80%	3.58	1.28
Organizations we depend on expect that we have BSC	13.00%	16.30%	3.30%	42.40%	25.00%	3.50	1.37
BSC was adopted due to influence from professional networks	3.30%	9.80%	6.50%	54.30%	26.10%	3.90	1.01
BSC has been widely adopted by our partners	12.00%	9.80%	13.00%	29.30%	35.90%	3.67	1.37
Our main competitors who have BSC have benefited a lot	9.80%	16.30%	6.50%	43.50%	23.90%	3.55	1.29
Competitors who have adopted BSC are perceived favorably by customers/clients	3.30%	26.10%	0.00%	40.20%	30.40%	3.68	1.25

C. Correlation Analysis

Correlation analysis was conducted to check the relationship between independent variables and dependent variable. Results showed that there was a positive and significant relationship between institutional rationale and organizational performance ($r = 0.518$, $p < 0.001$) confirming [7] assertion that legitimacy-seeking arguments offer rival explanations for the adoption of new management practices such as the balanced scorecard in organizations pursuit of performance.

TABLE III: CORRELATION ANALYSIS

		Organizational Performance
Institutional rationale	Pearson Correlation	0.518**
	Sig. (2-tailed)	<0.001

D. Inferential Statistics

The results in Table IV indicate that institutional rationale is satisfactory in explaining performance which is supported by a coefficient of determination R^2 of 42.4%. This means that institutional rationale explains 42.4% of the variations in performance.

TABLE IV: MODEL FITNESS

Model Summary				
Model	R	R square	Adj. R Square	Std. Error
1	0.651a	0.424	0.376	0.70338

E. ANOVA Analysis

The results on analysis of variance of institutional rationale show that the overall model was statistically significant. Further, the results imply that the independent variable institutional rationale for balanced scorecard adoption is a good predictor of organizational performance. This was supported by an F statistic of 8.824 and the reported p value < 0.001 .

TABLE V: ANOVA

ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	30.558	7	4.365	8.824	<0.001
Residual	41.558	84	0.495		
Total	72.116	91			

F. Regression of Coefficients

Regression of coefficients results in Table VI showed that customer expectations on the usage of balanced scorecard and organizational performance had a positive and significant relationship ($B=0.348$, $p < 0.001$). Further the results revealed that organization's they depend on expect that they use BSC and organizational performance had a positive and insignificant relationship ($B=0.005$, $p=0.95$). The results also revealed that balanced scorecard has been adopted by our organization due to influence from professional networks and organizational performance have a positive and significant relationship ($B=0.383$, $p=0.001$). Balanced scorecard has been widely adopted by our customers/clients had a positive and significant relationship ($B=0.074$, $p=0.308$). Moreover, results revealed that the statement competitors who adopted balanced scorecard have benefited a lot had a negative and insignificant relationship ($B= -0.033$, $p=0.653$). Finally, results revealed that the statement our main competitors who have adopted balanced scorecard are perceived favorably by customers/clients had a negative and insignificant ($B=-0.166$, $p=0.021$).

TABLE VI: REGRESSION OF COEFFICIENTS

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.706	0.341		5.005	0
Our customers/clients expect our organization to have BSC	0.348	0.09	0.499	3.877	0.000
Organizations we depend on expect that we have BSC	0.005	0.078	0.008	0.063	0.95
BSC has been adopted by our due to influence from professional networks	0.383	0.107	0.432	3.588	0.001
BSC has been widely adopted by our customers/clients	0.074	0.072	0.114	1.025	0.308
Our main competitors who have BSC have benefited a lot	-0.033	0.073	-0.047	-0.451	0.653
Our main competitors who have adopted BSC are perceived favorably by customers/clients	-0.166	0.07	-0.233	-2.358	0.021

G. Optimal Model for Institutional Rationale

The results in Table VII revealed that there was a positive and significant relationship between institutional rationale for BSC adoption and organizational performance ($B=0.517$, $p<0.001$). This was supported by a calculated t-statistic of 5.749 which is larger than the critical t-statistic of 1.96. These results agree with [10], who mentioned that based on the institutional pressure, public organizations are forced to imitate various models and theories of the private sector within their organizations which causes change in behavior to avoid sanctions and enhance survival.

TABLE VII: OPTIMAL MODEL

	Coefficients			t	Sig.
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta		
(Constant)	1.719	0.342		5.034	< 0.001
Institutional Rationale	0.517	0.09	0.518	5.749	< 0.001

The model for institutional rationale is:

$$Y=1.719+0.517 X_1$$

where

Y= Organizational Performance;

X₁ = Institutional Rationale.

H. Summary of Hypothesis Test

Hypothesis was to find out if there is a significant relationship between institutional rationale for adoption of BSC and organizational performance of state corporations in Kenya. Criteria was to reject H_a if p value >0.05. Result is the alternative hypothesis was not rejected; therefore, there is a significant relationship between institutional rationale for adoption of BSC and organizational performance of state corporations in Kenya.

V. THEORETICAL IMPLICATIONS AND AREAS OF FURTHER RESEARCH

The findings offer an alternative theoretical position for exploring implementation of management practices such as balanced scorecard by state corporations from the point of value addition to the institutions and not from legitimacy. The findings confirm that institutional rationale, is a key antecedent of state corporation's performance. It also enriches the institutional theory that institutional actors implement balanced scorecard to increase their legitimacy. Hence, the results of this study provide strong empirical support for our hypotheses that institutional rationale is positively correlated to organizational performance hence important when making a choice on implementing management practices. Further research could explore the relationship between institutional rationale for balanced scorecard adoption and employee reaction.

VI. CONCLUSION

The findings of this study have outstanding managerial, policy, and theoretical implications. The results place a demand for managers to be careful when adopting management practices. It is clear that pressure from institutional or social environments, influence adoption of balanced scorecard without taking into consideration its impact in state corporations. They should therefore avoid this tendency to appear legitimate, since balanced score card is a performance enhancing tool and an expensive exercise whose implementation should be well justified.

VII. RECOMMENDATIONS

Organizations often adopt and use new organizational models ceremonially and not for greater efficiency but for the purpose enhancing the organizations' image. Policy makers should change this approach and ensure that management practices such as balanced scorecard are relevant, appropriate and have an impact to the organizations before recommending their adoption. They should note that most of adoption are driven by pressures internal and external which may not be beneficial to such organizations. A careful consideration should be taken into account before such adoptions

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