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Bundling and Diffusion of Management Accounting Innovations

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The Case of the Balanced Scorecard in Sweden

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Abstract

Most changes in accounting are the direct or indirect consequences of diffusion processes. A study of how management accounting innovations are being adjusted and bundled together with other ideas to facilitate entry into new markets may help us to a better understanding of the popularity and adoption of management accounting practices. The present study looks at the communication, diffusion and transformation of the Balanced Scorecard (BSC) in Sweden from a supply side perspective. The high interpretative viability (Benders and van Veen, 2001) of the BSC allows for different interpretations and uses of the concept that could potentially increase the supply side effect in the diffusion process, e.g. by including elements that reduce barriers and resistance to change. We have identified three elements that the propagators of the BSC include in their Swedish BSC package, in order to make the innovation more attractive to a potential Swedish adopter market.

Keywords: Diffusion of innovations, communication structures, interpretative viability, the Balanced Scorecard

1. Introduction

Over the last ten to fifteen years a number of new ideas have been introduced in the field of management accounting. Concepts such as Activity Based Costing (ABC), Activity Based Management (ABM), Target Costing, Strategic Cost Management and Economic Value Added (EVA™) are now part of material regularly included in standard textbooks (e.g. Horngren, Foster and Datar, 1999), and have also been gradually introduced into practice. New concepts are given acronyms and have acquired trademarks that are used actively to sell them to new groups. This means that in the seeking to increase our understanding of management accounting practice, researchers should abandon their almost exclusive emphasis on studying the demand for management accounting innovations, by paying attention also to the purposeful and active position of those engaged in propagating innovations to potential adopters, that is to say by increasing research activities focusing on the supply of management accounting innovations. The research described below belongs to this second category.

An interesting feature in the development of management accounting practices is that they seem to converge within the industrialised areas of the world (Granlund and Lukka, 1998). This seems to apply, particularly, to new ideas in management accounting. Concepts such as ABC are no longer an Anglo-American phenomenon, but are widely used in Germany and Japan, for example. We may well ask, therefore, if we are moving towards a total harmonisation of the unregulated area of accounting. The harmonisation of management accounting practice is a result of a number of different diffusion processes that are attracting increasing attention in management accounting research (Bjørnenak, 1997; Clarke et al., 1999; Gosselin, 1997a, 1997b; Malmi, 1999).

In this paper we focus on the diffusion of a particular innovation, namely the balanced scorecard (BSC). In a series of publications Kaplan and Norton (1992, 1993, 1996a, 1996b,

2001) have presented the basic ideas underlying this concept. These authors also discuss why companies demand the BSC, what it can be used for and how it should be implemented. The development of the BSC has clearly been inductive, and the presentation of cases is thus crucial to the overall argument here. To a certain extent the concept has developed dynamically, in that elements in its content have changed between the time when the BSC was introduced in 1992 and its more widely known presentation in 1996 (Kaplan and Norton, 1996b). Since the concept is so closely associated with this latter publication, we have chosen for the purpose of our paper to refer to this particular presentation the “original BSC package”.

The BSC appears to have been a global success, and has attracted widespread interest also in Sweden. A study of major Swedish companies found that 27% of those included had already implemented the BSC (Kald and Nilsson, 2000). If we include the companies that say they expect to have the BSC within two years, the share rises to 61%. Considering that the BSC was only introduced in 1992, this must be seen as an extremely rapid and effective spread of a management accounting innovation. This successful introduction of a US-based innovation may be attributed at least partly to the way the BSC idea has been communicated in Sweden.

This paper focusses not on the BSC *per se*, but on the way the BSC concept has been communicated in Sweden. By looking at the way the propagators of the BSC communicate their message, we try to find out how other management ideas in Sweden are linked to the original US-based BSC package. The ideas linked to the original BSC package are referred to in this study as elements of the Swedish BSC packages. Thus, we are not trying to identify a single Swedish version of BSC in Swedish companies; we are seeking to describe specific

characteristics of the way the BSC messages are being communicated to potential adopters in Sweden. More specifically, the purpose of this study is:

- To explore the way the BSC is communicated to potential adopters in Sweden
- To identify the origin of the elements that are linked to the BSC in the communication process
- To discuss and analyse the role that these elements play in the diffusion process.

The study is thus clearly inductive in the sense that we extract the elements from studies of observations of how the BSC is communicated to potential adopters. However, we also try to link these observations to diffusion theory in general, and to theories about the importance of interpretative viability (Benders and van Veen, 2001).

The remainder of the paper is divided into four parts. The next of these presents the theoretical framework of the study. We then discuss the research method, i.e. how the elements of the Swedish BSC package were identified. The fourth section presents the three elements and their origin in greater detail. Finally, in Section 5, we present some preliminary conclusions and some ideas for further research.

2. Bundling and Diffusion of Innovations in Management Accounting

An *innovation* can be described as the successful introduction into a given social system of ideas that are considered to be new (e.g. Bradford and Kent, 1977). According to this definition, old ideas applied to new settings or even old ideas being reintroduced into the same setting at a later point in time, may thus be seen as innovations. One implication of this is that although in many ways the BSC resembles the French “Tableau de Bord” (Epstein and

Manzoni, 1997, Bourguignon et al., 2004), it can still be regarded as an innovation in Scandinavia, for example.

In the Scandinavian terminology, a management accounting innovation is often referred to as a management accounting model, indicating a general scheme of how the management accounting system is designed (Arwidi and Samuelson, 1993). All models consist of certain characteristics. In the case of management accounting models, the characteristics can assume one of at least two forms, namely design characteristics and rhetorical elements, whereby the former represent the technical specification of an innovation (Bjørnenak and Olson, 1999) and the latter the “theory” of the usefulness of the design characteristics. Rogers (1995) points out that all innovations should not be automatically regarded as equivalent units of analysis, and argues that the different characteristics of innovations help to explain their different rates of adoption. The process of changing or adding design characteristics or rhetorical elements is referred to as the *bundling* process.

Diffusion is the process whereby an innovation is communicated through certain channels over time among the members of a social system (Rogers, 1995). Three important social phenomena describe the speed and range of a diffusion process (Bjørnenak, 1997). Initially, the idea may meet *resistance*, for example in the form of an unwillingness to make organisational changes or of theoretical objections from academics. *Barriers* to diffusion are another factor. These can assume the shape of lack of resources or cultural/linguistic obstacles. Barriers are also related to the final factor, namely the *information field* of potential adopters, that is to say the extent of contacts a potential adopter has made at a given time. The information field affects the rate of diffusion.

By focussing on the information field we direct attention to the supply side of the diffusion process. Diffusion studies have traditionally focused on organization's demand for innovations and emphasised the role of potential adopters of innovations in driving the communication process. These studies have regarded the information field as a passive factor in the diffusion process. However, more recent studies have seen the supply side as actively seeking to control the information field of potential adopters (Abrahamson, 1991, 1996; Abrahamson and Fairchild, 1999). This modern perspective has also inspired studies of the diffusion of management accounting innovations (Bjørnenak, 1997; Gosselin, 1997a; Malmi, 1999). In a study of Norwegian manufacturing firms Bjørnenak (1997) suggested that potential adopters' contacts with the propagators of ABC explained the rate of adoption better than efficient-choice variables. This is consistent with the findings presented in a study of diffusion of ABC among Finnish manufacturing firms (Malmi, 1999). Malmi's study showed that fashion-setting organisations exert considerable influence in the take-off stage of the diffusion process (i.e. during the period with high rates of adoption). Both studies take the innovation (i.e. ABC) as given, and do not discuss the possibility of different "ABC packages". Clarke et al. (1999) explains the low adoption rates of ABC in Ireland by referring to the absence of compulsory further professional education in management accounting, the lack of practitioner journals devoted specifically to management accounting, and the absence of executive MBA programmes, i.e. supply side factors.

Alvarez (1998) and Mazza and Alvarez (2000) stress the importance of making innovations compatible with the societies to which they are transmitted (diffused). They also argue that cultural discourses and legitimisation are the main resources needed to enable the popularisation of an innovation. One way in which the supply side can popularise an innovation in a specific location is by matching the design characteristics and rhetorical

elements of the innovation (i.e. the bundling) to the preferences and knowledge of the potential adopters. A certain degree of ambiguity about the content of fashionable concepts which opens the concepts to different interpretations and uses, will potentially increase the supply side effect in the diffusion process, for example by including elements in the bundling process that reduce barriers and resistance to change. The degree of ambiguity regarding its content endows the innovation with its interpretative viability. Thus, a high level of interpretative viability may make the innovation more compatible with new social settings (Benders and van Veen, 2001). Early fashion-setting adopters, consulting firms and others can be described as supply side drivers in the diffusion process, since they either actively impel the spread or are passively imitated (Abrahamson, 1991). The supply side may use interpretative viability to impose imitative behaviour as a means of spreading innovations, e.g. by linking the innovation to success stories from practice.

The processes of bundling and diffusion are both essential in our study. By looking at the way the supply side actors use combinations of elements to bundle the BSC, we hope to understand more fully the seemingly tremendous successes of this innovation in Sweden. To limit our study, we focus on the way these driving-forces have developed a set of design characteristics and rhetorical elements that we name the Swedish BSC package.

3. Research Methodology

This study is both explorative and inductive. Our interest in the topic was aroused in the course of our daily work as university researchers and teachers in management accounting. Hardly a week passes without receiving notices about conferences, seminars, courses or new books about the BSC, for example, or being alerted to new or updated products from BSC software suppliers, or getting circulars from BSC networks (e.g. the Balanced Scorecard

Collaborative). After reading the Kaplan and Norton literature on the BSC, it eventually became clear to us that the version of the BSC as propagated in Sweden both extended and diverged from the version presented in the original literature. These extensions and diversions were both frequent and conspicuous.

In identifying the Swedish BSC package we used three sources of data, namely conference invitations, the best-selling book on the BSC in Sweden, and articles in the leading professional journal in the country devoted to management accounting. As regards supply side actors, important channels for presenting ideas to potential adopters were conferences, books and professional journals (Mazza, 1998; Mazza and Alvarez, 2000; Thomas, 1999). These three sources of data are presented in sections 3.1, 3.2 and 3.3 below. The period covered by the study was 1992 –1999, which represents the period of rapid growth of the diffusion of the BSC in Sweden.

3.1 Conference invitations

During the period covered by this study we were able to identify 22 BSC-related conferences held in Sweden.¹ They were all organised by major actors on the conference market in the country, such as Euroforum, Institute for International Research (IIR) and The Association of Swedish Engineering Industries. The conference invitations have been carefully examined for references to the BSC, and their content has been noted. This examination was supplemented by material used by several of the BSC-presenters at the conferences. Some of the presenters and participants at the conferences were also interviewed. This supplementary material and the interviews we held were used to verify that the content stated in the invitations agreed with the presentations actually made at the conferences.

The vast majority of the organisations making presentations at the conferences are very well known in Sweden. They include ABB, Ericsson, Borealis, PriceWaterhouseCoopers, Skandia and Volvo. Presentations were also made by some of the public sector organisations, such as the National Police Board, the National Tax Board and the Swedish National Financial Management Authority. Academics from the Stockholm School of Economics, the University of Göteborg and the University of Stockholm also made presentations at various conferences.

3.2 The best selling book on the BSC

At the end of the study period, three books and one booklet on the BSC were available at major bookstores and Internet bookshops in Sweden. However, one of them - “The Balanced Scorecard in Swedish Practice” (own translation; Olve et al., 1997)² - has come to occupy a very dominating position on the market. Since its publication in 1997 it has been on the Swedish best seller list of management books several times, and in 1998 was the overall best selling management book in the country. The book has been translated into several languages and has been a success in many countries. The three authors all work for the same management consultancy firm. One of them is also a well-known Swedish academic in management accounting. Alongside his consultancy engagements, he is currently acting adjunct professor at a Swedish university. Due to its unique position in Sweden and its distinctive Swedish perspective on the BSC, we have studied Olve et al. (1997) extra thoroughly, in order to identify differences between these authors’ presentation and the Kaplan and Norton version of the BSC.

¹ A total of 18 (81.8%) of the BSC presentations at the 22 conferences included elements defining the Swedish BSC package.

² The other books were Kaplan and Norton (1996b), which since 1999 has also been available in Swedish, and a guide to the implementation of the BSC (Hallegård and Johansson, 1999). The booklet, which was written by a consultancy firm (ProMentor Management, 1999), is essentially a short version in Swedish of Kaplan and Norton (1996b).

3.3 Articles from the leading professional journal

“Ekonomi & Styrning” (Management Control) is the only professional journal in Sweden dedicated to management accounting/control issues.³ The journal primarily publishes articles that focus on “new” accounting/control ideas, such as activity-based concepts, process management and the BSC. The journal’s contributors are drawn from academia, consultancy firms and practice. By Swedish standards the journal has a very large circulation, about twice as large, for instances, as the most important professional journal (“Balans”) dedicated to financial accounting and auditing issues.

We identified 14 BSC articles published in Management Control during the period of the study,⁴ most of which were written by supply side actors in the diffusion process.

Interestingly, only one of the articles was written by a practitioner. The articles make numerous references to high-profile BSC companies in Sweden, such as ABB, SKF, Skandia and Volvo.

3.4 Database searches

On the basis of a qualitative examination of our three data sources, we identified three elements in the Swedish BSC package. The qualitative approach was designed to address our first two research aims, namely to explore how the BSC concept is communicated to potential adopters, and to identify the origin of its elements. To investigate the general occurrence of these elements in Sweden and to see whether or not the Swedish BSC package extends to an international setting, we conducted a quantitative search. We ran database searches in order to explore the links between the elements in the Swedish BSC package and the original BSC

³ There are no refereed journals specialising on management accounting/control issues published in Sweden.

⁴ Of these 14 articles, a total of 9 (64.3%) articles discussed the elements defining the Swedish BSC package.

version. This involved general international searches, and searches of Swedish databases covering Swedish journals/magazines. The following section presents the elements identified and their occurrence in the three data sources, and the results of the quantitative search.

4. The elements of the Swedish BSC package

Our study of the way the BSC is presented in the Swedish material revealed several instances where the content of these presentations diverged from the Kaplan and Norton version of the BSC. The divergencies did not occur in all the presentations, but they were frequent and often appeared in combination. The following elements were found to represent the Swedish BSC package:

- The BSC and non-budget management.
- The BSC and the intellectual capital model.
- The BSC and the employee perspective (the stakeholder model).

These elements, and the way they were identified, are presented in the following sections.

4.1 The BSC and non-budget management

In Sweden non-budget management⁵ is a trend attributed to Jan Wallander, former CEO and chairman of Svenska Handelsbanken (one of Sweden's leading banks). In 1979 Wallander

Some of the articles discussed more than one element. On aggregate, we identified 13 discussions of elements.

⁵ "Non-budget management" is a direct translation of the Swedish "budgetlöst företagande", the concept used in Sweden in connection with the BSC. Internationally, the concept of "beyond budgeting" has been established as a label for a practice-led approach to developments in budgeting (Hansen et al., 2003). In this approach, references is frequently made to various publications by Wallander and to budgeting developments in Swedish companies, for example in Svenska Handelsbanken, IKEA, Volvo and Scania. Although there are similarities

wrote a harsh criticism of forecasts, budgets and long-term planning. This later became the basis of his book “Budgeten – Ett onödigt ont” (Budgeting - An Unnecessary Evil) - which was published in 1994. In the book he was strongly critical of the budget as a planning and control mechanism. His main point is that history is systematically used to make predictions about the future: budgeting prevents management from seeing new trends, which in fact often represent the most important management information. These claims are supported by several examples of companies that failed to see new developments early enough. The book also presents other criticisms of budgeting, for example, that it creates behaviours that protect the budget-maker’s own interests, that it preserves the existing organisation, and that it provides a false sense of security. Wallander’s message also received a powerful boost when it turned out that Svenska Handelsbanken coped best with the Scandinavian banking crisis of the 1980’s, and its success was attributed partly to the fact that budgeting was “forbidden” at the bank. Such criticism of budgeting is not particularly new, but the source of the criticism this time is of great significance.⁶ It is interesting to note, however, that Wallander does not present his solution in accordance with the ideas underlying the BSC, which he mentions in an article in the *Scandinavian Journal of Management* (1999, p. 419), but without discussing the concept in any depth. The only thing he stresses is that the BSC can help to structure thinking on financial and non-financial matters, although his work had not mentioned this connection before. Nor did Svenska Handelsbanken have a BSC-oriented managerial control system. Rather, it focussed on a small set of financial ratios. However, the BSC propagators have pointed out various links between the BSC and non-budget management.

between the concepts of non-budget management” and “beyond budgeting”, the two are not synonymous. Our understanding is that the “non-budget management” concept is a subset of the “beyond budgeting” approach.

⁶ Jan Wallander is a very prominent figure in Sweden. Besides being CEO and chairman of Svenska Handelsbanken, he has also been a board member or board chairman of Ericsson, Marieberg, MoDo, SJ and SAS. He was an associate professor of economics and has been the head of SNS (Centre for Business and Policy Studies) and IUI (The Industrial Institute of Social and Economic Research).

4.1.1 Conference invitations

Of the 22 BSC-related conferences held in Sweden in the period 1992-1999, the BSC was linked to non-budget management at 15 of them (68.2%). All conferences included presentations by organisations that have replaced budgeting by the BSC and/or by propagators for the BSC as a replacement for budgeting. Seventeen organisations in all made such presentations. ABB, Volvo, CAM-I, Borealis, SCA Hygiene Products, SKF, Ericsson, PriceWaterhouseCoopers, Cepro, the Stockholm School of Economics and the University of Göteborg were among the organisations that did so. Altogether these organizations accounted for 25 presentations (some organisations made presentations at more than one conference). Examples of conferences and presentation headings/items used in the conference invitations included:

- The IIR and KPMG conference “Alternatives to budgeting – A look into the future” (held in Stockholm, May 19 and 20, 1999).
- The Ekan AB conference “The balanced scorecard and non-budget management in practice” (held in Göteborg, December, 1998).
- The Euroforum conference “Practical and operational business control with the balanced scorecard” (held in Stockholm, May, 1999).

Headings/items:

- “Non-budget management and the balanced scorecard”
- “The balanced scorecard and non-budget management at Borealis”
- “From budgeting to rolling forecasts and its relationship to the balanced scorecard”

4.1.2 The best selling book on the BSC

The link between the BSC and non-budget management is discussed in several sections of Olve et al. (1997). There is even a section entitled “The balanced scorecard as a substitute for the budget”. On eight pages in this section the authors discuss such things as the nature and the relevance of budgeting in today’s business environment and the current criticism of budgeting, after which they present a model in which the BSC and the ideas underlying the IC model and budgeting are integrated. In addition, there is an in-depth description of a new business planning process implemented at Volvo. One important feature of the new process was that it de-emphasised budgeting. A message of “no budget required” was disseminated throughout the organisation. There were several weaknesses associated with budgeting at Volvo, and the management group decided to implement a BSC-model to overcome them. (It should be noted, however, that the budgeting problems were not the only reason for implementing the BSC.) Thus, a considerable number of pages in the book are devoted to describing the link between the BSC and non-budget management.

4.1.3 Articles from the leading professional journal

Of the 14 articles on BSC published in *Management and Control*, two articles (14.3%) discussed the BSC and non-budget management link. The article, “Budget or the balanced scorecard?” is an account of a round-table discussion with participants from the leading BSC consultancy firm in Sweden. The article is essentially an argument in support of the BSC as a replacement for budgeting. The participants discuss the link between the BSC and non-budget management in several ways. In doing so, they refer to the original Jan Wallander non-budget management idea and to the work in that area undertaken by Volvo and SKF, and told anecdotes about how practitioners who were introduced to the BSC idea and who immediately saw enormous potential of the BSC, for example as a replacement for budgeting. A Swedish

academic wrote the second article. Rather than simply prescribing the BSC as a replacement for budgeting, he discusses whether it should replace or complement budgeting. On a basis of practical experiences the author concludes that in the short run the BSC complements budgeting, while in the long run it replaces budgeting.

4.2 The BSC and the intellectual capital model

The link between the BSC and the intellectual capital (IC) model is primarily associated with Leif Edvinsson and the Skandia insurance company's development of its management tool, Navigator. Work on this project began in 1991 and resulted in a supplement to Skandia's annual report for 1994. On account of work at Skandia, Leif Edvinsson received the Brain Trust "Brain of the Year Award" for 1998. Past winners of this award include chess player Garry Kasparov, cosmologist professor Stephen Hawking and poet laureate Ted Hughes.

The main focus of the IC model is on valuation. Traditional financial accounting is harshly criticised for its inability to encompass IC in the balance sheet. "The FASB Fiasco" has been taken up as the catchphrase for describing attempts by the accounting profession to integrate IC into traditional accounting models (Edvinsson and Malone, 1997). The models that are recommended to supplement traditional accounting are based on the balance sheet and focus on the differences between market value and book value, as illustrated in Figure 1.

-- Figure 1 here --

At first glance this may look quite different from the BSC model. However, if we examine the various concepts of capital, they are in close agreement with what is found in the four perspectives of the BSC. The only real difference is in the human capital perspective, which

the IC model presents as the most important. Indeed, Kaplan and Norton (1996b, pp. 210-212) describe Skandia's Navigator (*not* the IC market value scheme) as an example of a BSC in their first book. Skandia's Navigator is illustrated in Figure 2 below.

-- Figure 2 here --

On the other hand, Edvinsson and Malone (1997) do not use the expression BSC, and their only reference to the BSC literature appears when they discuss the process focus (Chapter 7). The difference in the presentation of the IC model and the BSC is considerable. Firstly, as noted above, human capital is presented as the key fact, while the original BSC integrates it into the other perspectives. Secondly, the IC model focusses less on the causal relationships between objectives/measures and places far more emphasis on developing a very extensive set of generic key measures. The proposed unified model includes as many as 111 key metrics, plus a considerable number of "auxiliary indicators."

For the BSC propagators, however, there is a strong link between the BSC and the IC model.

4.2.1 Conference invitations

We identified five conferences at which the BSC and IC models were linked. This represents 22.7% of the total number of BSC-related conferences held in Sweden during the period of the study. At these five conferences, eight organisations made ten presentations that included the link (some organisations made presentations at more than one conference). The presenters all focused on how the BSC is used and/or can be used to measure, report and/or value IC. The presenting organisations included Skandia, Cepro, Celemi, the University of Stockholm, the Stockholm School of Economics, the University of Linköping and the University of

Göteborg. The following are examples of conferences and presentation headings/items appearing in the invitations to these conferences:

- The Association of Swedish Engineering Industries conference “More efficient business control” (held in Stockholm, May, 1998).
- The Euroforum conference “Practical and operational business control with the balanced scorecard” (held in Stockholm, May, 1999).
- The Association of Swedish Engineering Industries annual conference “Controller Conference” (held in Stockholm, September, 1998, 1999).

Headings/items:

- “Traditional performance measures do not show everything - Using the scorecard you can measure intangible capital”
- “Get the staff involved! – They are your most valuable asset”
- “Creating future value through measuring intangible assets in a knowledge-based company”

4.2.2 The best selling book on the BSC

The link between the BSC and the IC model is introduced in Chapter 2 of Olve et al. (1997), the Swedish best-seller introduced above. Under the heading “Intellectual capital and strategic decisions”, the description starts off with a brief summary of the main characteristics of the IC model and the Skandia insurance company’s IC market value scheme. The authors also discuss concepts similar to the IC model, e.g. the work by Sveiby (1997). They there conclude their description by saying that if, as it seems, a growing number of companies find it important to cultivate capital not reported in their balance sheets, i.e. to follow the IC model,

then this will have implications for management control. And they go on to state, “We believe that this is the main reason why the BSC concept has emerged at this time”. Chapter 4 of the book “Cases from different industries”, offers a further description of the Skandia example. Five pages are devoted to providing the reader with a detailed account of Skandia’s IC market value scheme and the Skandia Navigator model. In this context it is important to note that the authors claim the Navigator model as an example of a BSC-model. Thus, the IC model/Skandia Navigator can be seen as having had a significant influence on the profile of the BSC in Sweden.⁷

4.2.3 Articles from the leading professional journal

Four (28.6%) of the 14 BSC-related articles published in *Management & Control* discussed the link between the BSC and the IC model. All the articles were written by management consultants. One article provides an overview of the BSC idea and presents the Skandia case as an example of its use in Sweden. The author emphasises that the distinctive feature of the Skandia BSC (Navigator) is its focus on IC, or human capital. In a second article the same author provides yet another discussion of the BSC idea, looking at different uses of the BSC in practice and referring to Skandia’s Business Navigator. One essential objective of the Navigator, the author points out, is to provide external stakeholders with the information needed to value this knowledge-intensive company (i.e. Skandia) correctly. The third article emphasises the importance of managing IC. The authors argue that the balanced scorecard is an appropriate tool for doing just that. They then provide a list of recommendations for using the BSC successfully in acquiring and managing IC. The fourth article recounts an anecdote about a meeting between a management consultant and the CEO of an investment company.

⁷ A study of 35 Swedish firms’ motives for adopting the BSC found clear links between the BSC and the IC model. In particular the study found that the third most important motive (of 18 altogether) for adopting the BSC was an interest in measuring IC (Ericsson and Haggård, 2000).

The consultant says: “After I’d explained the BSC idea to him (the CEO), he said that the BSC would be an absolutely perfect tool for discussing and valuing knowledge (the IC) in service organisations”.

4.3 The BSC and the employee perspective

In the original BSC concept, emphasis is placed on the BSC as a shareholder rather than a stakeholder model (see Kaplan and Norton, 1996b pp. 34-35). Kaplan and Norton argue against the development of the employees’ own perspective, and include instead “an employee focus” in the learning and growth perspective. They claim that a separate employee perspective may distract attention from the business strategy. In the Swedish BSC package, however, the employee perspective is very conspicuous. In all our sources the great majority of the companies including ABB, Electrolux and SKF, for example, have developed their own employee perspective.⁸ This might mean that the perspectives have been developed not just as causal factor of improved financial performance, but rather as perspectives with their own objectives and measures. In this sense, the Swedish BSC package is more than a tool for cultivating a pure shareholder perspective; it also has definitive stakeholder characteristics. Several instances of BSC implementation in the public sector also support this contention (Riksrevisionsverket (The Swedish National Audit Office), 1996; Olve et al., 1997; Rikspolisstyrelsen (The National Police Board), 1999; Sande and Wæern, 1999). In these cases the BSC models are developed on a basis of the stakeholder model. It should be noted, however, that Kaplan and Norton do not include public sector examples in their original BSC presentation (Kaplan and Norton, 1996b).

⁸ The Ericsson and Haggård (2000) study of 35 Swedish companies that use the BSC, found that 29 (82.9%) of them have developed a separate employee perspective.

It seems likely that the elements of an employee perspective in the Swedish BSC package are connected with the Swedish stakeholder capitalism model, which has a prominent position in the Swedish business culture as a whole (Bjerke, 1998; Näsi, 1995). This model is based on mutual agreements and cooperation between employers, employees and other stakeholders, as well as on implicit long-term bonds between stakeholders. These implicit bonds become explicitly manifest in the Swedish BSC package. However, the material we have studied provides limited evidence of the BSC models including other stakeholders.

In connection with this, it is interesting to note that the design and the terminology of the BSC model accord with the key characteristics of the stakeholder model. The perspectives represent important stakeholders, such as owners, customers and employees, and the use of the term “balanced” can be interpreted as suggesting that the BSC results in a “balance” between stakeholders. Thus, the design and the terminology of the model lend support to the interpretation of the Swedish BSC package as a stakeholder model.

The stakeholder element clearly differs in character from the other two elements in the Swedish BSC package. While the inclusion of non-budget management and the IC elements can be seen as linking the original BSC package to other currently popular management initiatives, the inclusion of the stakeholder element can be seen as linking it to the existing business culture (or business tradition). However, while there are two types of elements here, the underlying motive for including both types is the same: to reduce barriers and resistance to change by aligning the BSC to the preferences and knowledge of potential adopters.

4.3.1 Conference invitations

We identified a link between the BSC and the employee perspective at 10 (45.5%) of the 22 BSC-related conferences held in Sweden during the period of the study. At these 10 conferences, 11 organisations made presentations that included such a link. The presenting organisations included ABB, ABB Infosystems, Rank Xerox Sweden, the Stockholm School of Economics, the University of Linköping, the National Tax Board, the Swedish National Financial and Management Authority, the National Police Board, Halmstads Fastighets AB and QPR Nordic. Typical ingredients of these presentations were descriptions of the presenter's own organization's scorecard model and its inclusion of an employee perspective; and/or lectures about the BSC as a stakeholder model and its incorporation of BSC perspectives for important stakeholders, especially the employees. The following are some examples of the conferences in question, and of the presentation headings or items used in their invitations:

- The AiC Worldwide and Arthur Andersen conference "The balanced scorecard in the public sector" (held in Stockholm, October 20 and 21, 1998).
- The IIR conference "How to keep the balanced scorecard alive?" (held in Stockholm, May 19 and 20, 1999).
- The Euroforum conference "The balanced scorecard – Performance measures and balanced scorecards in the public sector" (held in Stockholm, September 29 and 30, 1999).

Headings/items:

- "Establish easy-to-understand targets, measure continuously and report the outcome to the employees"

- “The balanced scorecard - An instrument for business control: Focus on customers, employees and effectiveness”
- “The balanced scorecard - Particularly well suited to the public sector”

4.3.2 The best selling book on the BSC

In Olve et al. (1997) the link between the BSC and the employee perspective is discussed in several contexts and more extensively than either of the other two links. First, and most conspicuously, the book presents several examples of well-known companies - including ABB, Coca-Cola Drycker Sverige, Electrolux, KappAhl, SKF and Xerox - all of which use separate employee perspectives in their scorecards. Coca-Cola Drycker Sverige uses the expression “Organisational learning perspective” and Electrolux refers to “Cultural area”, but the meaning of the perspective is the same as the term “Employee perspective” or “Human perspective” adopted in other companies. Secondly, the authors give examples of measures found in the employee perspective in practice (reference is made to Skandia, ABB, Electrolux and Volvo), and propose a list of measures that can be used in the perspective. Thirdly, a separate chapter is devoted to scorecards in the public sector. An important characteristic of these last scorecards is that they include stakeholder perspectives, and are thus examples of stakeholder rather than shareholder models. For example, a scorecard developed in a Swedish state school includes a financial perspective, a student perspective, a teacher and staff perspective, a development perspective and a school administration perspective. Furthermore, under the heading “Different scorecards for the public sector?” the authors discuss, among other things, whether the four Kaplan and Norton perspectives are appropriate to the public sector, and claim that in their view they are not. Instead they argue, public sector scorecards should include perspectives and measures relating to important stakeholders. They also give several examples of both perspectives and measures. Finally, when they discuss IT-solutions

for scorecards, their main example from the world of practice is ABB's EVITA presentation support system. One of their illustrations shows the five perspectives of ABB's BSC, one of which is the employee perspective.

4.3.3 Articles from the leading professional journal

Of the 14 articles on the BSC published in *Management & Control*, seven (50.0%) included a discussion of the link between the BSC and the employee perspective. Two articles, one by an academic and one co-authored by two MBA-students, describe the findings from surveys of the use and design of the BSC in Swedish practice. Briefly, both surveys conclude that the majority of Swedish organisations using a BSC include a separate employee perspective in it. One of the articles also discusses the use and design of the BSC in the ABB group. Here, the authors emphasise the use of a separate employee BSC perspective in companies belonging to the group. The third article was written by a manager at a Volvo unit, and describes the way they work with the BSC there. On the whole, the article focuses on different employee-related aspects of the BSC, highlighting the employee perspective and discussing employee-related measurement issues. Three articles were written by management consultants who discuss somewhat different aspects of the BSC employee perspective. One article looks at the ABB way of working with the BSC (which includes an employee perspective), and describes the procedures used to develop BSC measures relevant to different organisational units. (ABB adopts an approach whereby local organisational units develop their own BSC measures). Another article written by management consultants examines the claim that the most important critical success factors in BSC projects are the systems and procedures used to measure employee performance in relation to BSC targets. The argument behind this claim is that employee involvement is a critical success factor. The third management consultant article, which provides an introductory presentation of the BSC perspectives, includes the

employee perspective and argues that it is as important as the four original Kaplan and Norton perspectives. A further article discussing the link between the BSC and the employee perspective was written jointly by a Swedish academic and a management consultant. This article discusses the authors' practical experience of the BSC, including the choice of BSC perspectives. It is argued that, in addition to Kaplan and Norton's four perspectives, the majority of Swedish organisations include an employee perspective. The authors present some plausible explanations for this phenomenon, referring, for example, to the Swedish (Scandinavian) tradition of stakeholder capitalism and the bandwagon effect of the early well-known adopters of the BSC – e.g. ABB, KappAhl and SKF – which all include an employee perspective.

4.4. Links between the BSC and the elements –The quantitative search

A qualitative search based on three sources of written documentation on the BSC was used to explore the way the BSC concept is communicated to potential adopters, and to identify the origin of the elements of the Swedish BSC package. A question that naturally arises when adopting this research approach is: are the links between the BSC and the elements found more frequently, relatively speaking, in Sweden than internationally? In order to answer this question, and thus to provide further validity of the existence of a Swedish specific BSC package, a database search for links between the BSC and the three elements was conducted.

The Swedish setting was represented by three databases, namely Föreningen Auktoriserade Revisorer (FAR), ArtikelSök and Affärsdata, while the international setting was represented by the database ProQuest-ABI/Inform. The search in the Swedish databases proceeded from a set of search words representing the concept of the BSC, for the reason that the concept is often used without being translated from English to Swedish, and also because it has been

translated into Swedish in different ways. The search in the Swedish databases used the following search words representing the BSC: balanced scorecard, scorecard, balanserat styrkort, balanserade styrkortet, balanserad styrning. The following search words representing the three elements of the Swedish BSC package were used (individually):

<u>Elements</u>	<u>Search words</u>
Non-budget management	<p><i>Swedish search:</i> budget, budgetering, budgetlös, budgetlöst (företagande), (Jan) Wallander, rullande, prognos, forecast</p> <p><i>International search:</i> budget, budgeting, beyond budgeting, (Jan) Wallander, rolling, forecast</p>
The intellectual capital model	<p><i>Swedish search:</i> intellektuellt (kapital), (Leif) Edvinsson</p> <p><i>International search:</i> intellectual (capital), (Leif) Edvinsson</p>
The employee perspective	<p><i>Swedish search:</i> medarbetar (perspektiv/fokus), human (perspektiv/fokus), personal (perspektiv/fokus)</p> <p><i>International search:</i> employee (perspective/focus), human (perspective/focus), stakeholder</p>

In order to register a hit it was required that the links between the BSC and the elements were explicitly discussed, and with the same meaning, as described in the above section. The results from the database searches are presented in Table 1.

-- Table 1 here --

As can be seen from Table 1, there were 100 hits altogether on the BSC in the Swedish databases and 89 hits on ProQuest-ABI/Inform. The total percentage share of these hits that made links between the BSC and the elements of the Swedish BSC package in the Swedish databases, was 50% (50 of 100) and 19.1% (17 of 89) on ProQuest-ABI/Inform. Regarding the individual links, the link between the BSC and non-budget management and that of the BSC and the IC model appear frequently throughout the Swedish databases, with the two links representing 13% and 17% of the hits respectively, but are not frequent on ProQuest-ABI/Inform, where the two links represent 2.2% and 1.1% of the hits respectively. Indeed, both links are many times more frequent in the Swedish databases than on ProQuest-ABI/Inform. The focus on employees, on the other hand, is relatively common both in Sweden and internationally. This link was found in 20% of the hits in the Swedish databases and in 15.7% of the hits on ProQuest-ABI/Inform. At first glance this finding does not seem to support the idea of a Swedish BSC package. However, a closer examination of the search hits reveals that there are two important differences between the employee perspective in Sweden and internationally, which means that a straight comparison of the statistics is misleading. First, all the Swedish journal articles identified in the search discuss separate employee perspectives in addition to the four perspectives presented by Kaplan and Norton, whereas - surprisingly - the search in the international database found no examples of articles discussing a separate employee perspective, but only employee-related measures that were included in the original BSC perspectives. Second, all the scorecards used in Swedish practice that were identified in the Swedish database search include separate employee perspectives over and above the four Kaplan and Norton perspectives. Remarkably, the search on ProQuest-ABI/Inform found no examples of BSCs used in practice that included a separate employee perspective. Here we only identified the use of employee-related measures that were presented in other BSC perspectives.

Thus, the findings from the database searches confirm the existence of a specifically Swedish BSC package. Relatively speaking, the links between the BSC and the elements are considerably more frequent in Sweden than they are internationally. Links between the BSC and the three elements were identified in 50% of all hits on the BSC in the Swedish databases searched, compared to 19.1% in the international database. Admittedly, the percentages reported for the links between the BSC and the elements are much lower than those identified in the case of conference invitations or in articles from the leading professional journal presented earlier, but there is a simple explanation for this. The sources that were used to identify the Swedish BSC package are the most important channels of communication when supply side propagators are presenting their ideas to practising management accountants or others with a special interest in management accounting issues. This is clearly the group that the senders of the BSC message should target in order to arouse maximum attention. Viewed in the light of this, the lower percentages found for links identified in the Swedish databases compared to those in conference invitations and articles in the leading professional journal in Sweden are not surprising, since the vast majority of the journals represented there are not intended for practitioners with a special interest in management accounting issues, which means that these journals are of minor importance for supply side propagators. It is our opinion that the fact that the percentages presented above representing the links between the BSC and the elements of the Swedish BSC package identified in the database searches are considerably higher in Sweden (in the Swedish databases) than internationally (on ProQuest-ABI/Inform), lends support to the claim that a specifically Swedish BSC package does exist.

5. Discussion and further work

The empirical findings in this study show that the original BSC presented by Kaplan and Norton has been supplemented with other administrative innovations and adapted to the

existing business culture to form a potentially more attractive set of elements. This bundling of the BSC with other ideas can be seen as a fashion-setting process that affects the diffusion of the BSC in Sweden. Drawing on work concerned with the diffusion of innovations, Abrahamson (1996, p. 257) defines fashion-setting processes as:

“...the process by which management fashion setters continuously redefine both theirs and fashion followers’ collective beliefs about which management techniques lead rational management progress.”

The communication structure of the BSC in Sweden exhibits obvious features of the fashion-setting process described by Abrahamson. The fashion-setters in our case are primarily consultancy firms, early adopters and accounting academics. In order to redefine the fashion-followers’ beliefs about what the BSC is and how it can be used, the fashion-setters actively transform the original BSC package into a “new” set of elements. Two of these elements are management techniques that are claimed as leading to management progress. First, Svenska Handelsbanken has shown itself able to outperform other banks with their non-budget management control system. Secondly, Skandia has achieved a worldwide reputation for their IC model. Integrating these two elements with the original BSC model can be regarded as an important instrument for promoting the diffusion of the BSC in Sweden. This transformation route is also part of a wider adaptation process whereby the BSC is not only integrated with other fashionable management techniques, but also adapted to the Swedish stakeholder business culture. One example is the way the IC model is used to legitimize the need for the employee perspective in the BSC model. The combination of stakeholder adaptation and bundling the BSC with other techniques may thus represent an important tool for reinforcing the diffusion process. The bundling process is described in Figure 3.

-- Figure 3 here --

Interpretative viability and barriers to change

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:

“A concept’s promises make it attractive to apply, while its ambiguity means that (potential) users can eclectically select those elements that appeal to them, or that they interpret as the fashion’s core idea, or that they opportunistically select as suitable for their purposes.”

Benders and van Veen (2001, p. 37-38).

While Benders and van Veen and others focus on the opportunistic behaviour of potential adopters, we have shown in our study that the interpretative viability may be used by the supply side of the diffusion process to gain popularity for a new concept. We do not have much empirical evidence of adopters actually replacing the budget by a BSC model, and in fact Svenska Handelsbanken did not do so. Thus, it is not only the ambiguity of the BSC model *per se* that is being used opportunistically, but also the uncertainty related to non-budget management. The critique of the budget seems to be widely accepted, but not the solutions to the problems. The BSC is introduced as the new tool to regain the relevance of management control systems.

Barriers to change are significant factors in diffusion processes. One such barrier is distance. The degree to which a transferred idea is adapted depends among other things on the distance

between the sender and the recipient, the degree of abstraction of the original idea and whether the transfer is guided by the supply side or the demand side (Lillrank, 1995). The distance between recipient and sender is not necessarily measured in physical terms. Technological development makes this factor increasingly less important. Cultural, linguistic and mental distances can be far more influential.

Other types of barriers can be cultural, arising for example because shareholder models are being introduced into a stakeholder economy. Kaplan and Norton (1996b, p. 36) clearly state that the BSC model is a shareholder model, not a stakeholder model, pointing out that the shareholder perspective and shareholder values are always placed on top of BSC figures and BSC reports. This does not apply to the typical Swedish presentation. In SKF, an important Swedish BSC adopter, the employee perspective came at the top of the report. The supply side's frequent use of public sector examples is another example of how interpretative viability is used to avoid the stakeholder conflict.

Further research

According to Westphal et al. (1997), the adoption of administrative innovations should be recognized as continuous rather than discrete occurrences. This seems to apply particularly to the BSC. Adoption rates and quantitative studies of the diffusion of the BSC in different parts of the world may thus be misleading. Instead researchers should unbundle the BSC package and study how the different elements are transformed, communicated and opportunistically incorporated into the adopted models of BSC.

This has been an exploratory study. It has focused solely on one management accounting innovation and its diffusion process. In order pursue the subject further; the following questions could usefully be addressed:

- How important is distance - cultural, linguistic or human - in the bundling and diffusion of management accounting innovations?
- How important are individual features of management accounting innovations in the diffusion process? For example, are there differences in the way the BSC and Activity Based Costing are diffused? In more general terms, are there differences in the diffusion of administrative or technical innovations?
- Why are innovations bundled differently? Is it a coincidence or a planned “market” strategy?

This study has shown the importance of focussing on the supply side in understanding the diffusion of management accounting innovations. To a great extent the transformation and adaptation of innovations are processes driven by supply side actors. A further examination of diffusion processes relating to the interpretative viability of management accounting innovations emphasising the opportunistic use of this viability, should thus be a fruitful way forward.

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Figure 1. Skandia's IC market value scheme (Edvinsson and Malone, 1997, p. 52).

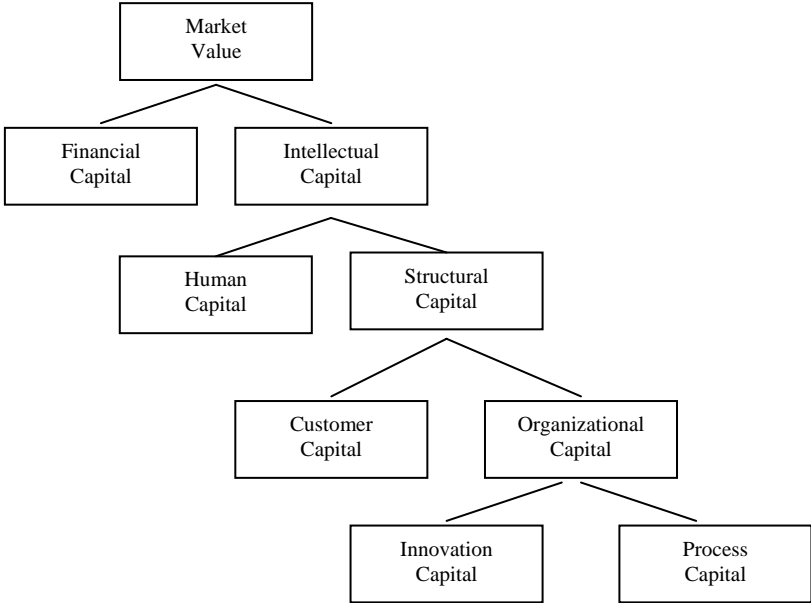


Figure 2. Skandia's Navigator (Edvinsson and Malone, 1997, p. 68).

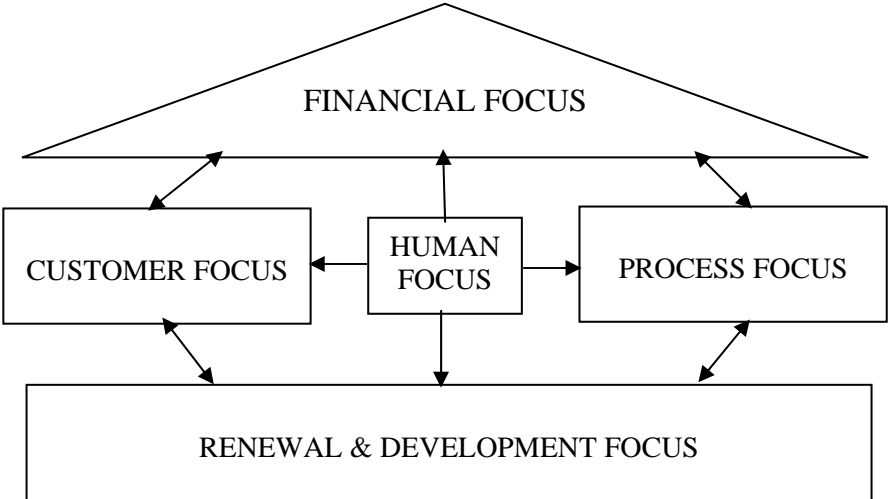


Table 1

Results from database searches for links between the BSC and the elements of the Swedish BSC package

Swedish databases	<u>Number of hits</u>
Balanced Scorecard	100

Combined with the following elements:

Non-budget management	13 (13%)
The intellectual capital model	17 (17%)
<u>The employee perspective</u>	<u>20 (20%)</u>
Total number of hits with links	50 (50%)

ProQuest-ABI/Inform

Balanced Scorecard	89
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Combined with the following elements:

Non-budget management	2 (2.2%)
The intellectual capital model	1 (1.1%)
<u>The employee perspective</u>	<u>14 (15.7%)</u>
Total number of hits with links	17 (19.1%)

Figure 3 The packaging and diffusion of the BSC in Sweden.

