

## BALANCE SCORECARD IN COMPETITIVE STRATEGY

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### Abstract

The purpose of this study is to explain how the implementation of the Balanced Scorecard can be used to improve business strategy, especially in companies implementing competitive strategies. The world of business and government have both adopted the BSC as a tool for measuring performance, but its implementation is not without challenges. One of these challenges is determining which perspective to highlight when building the relationship between performance and strategy. This study is qualitative and takes a literature-based approach. This study shows that competitive strategies take a slightly different approach by using the BSC model, and this is reflected in strategy formulation.

**Keywords:** Perspective, Balanced Scorecard, Competitive Strategies, Strategy Formulation.

### Abstrak

Tujuan dari penelitian ini adalah untuk menjelaskan bagaimana implementasi Balanced Scorecard dapat digunakan untuk meningkatkan strategi bisnis, terutama pada perusahaan yang menerapkan strategi kompetitif. Dunia bisnis dan pemerintahan telah mengadopsi BSC sebagai alat untuk mengukur kinerja, namun dalam implementasinya bukan tanpa tantangan. Salah satu tantangan tersebut adalah menentukan perspektif mana yang harus ditonjolkan ketika membangun hubungan antara kinerja dan strategi. Penelitian ini bersifat kualitatif dan menggunakan pendekatan berbasis literatur. Penelitian ini menunjukkan bahwa strategi kompetitif mengambil pendekatan yang sedikit berbeda dengan menggunakan model BSC, dan hal ini tercermin dalam perumusan strategi.

**Kata kunci:** Perspektif, Balanced Scorecard, Strategi Kompetitif, Formulasi Strategi

### 1. Introduction

The success of a company's operations in meeting its strategic objectives can be measured with the help of appropriate measuring instruments (BR & Mareta, 2023). The use of a performance measurement system plays an important role in clarifying the roles, performance and psychological improvement of the company's employees (Yuliansyah & Khan, 2015). Employees' understanding of their roles and the overall goals of the organization will be strengthened, and they will be more motivated to succeed thanks to the emphasis of the performance measurement system on developing positive routines and encouraging friendly competition in the workplace (Yuliansyah, et al, 2016).

Tangen (2005) states that the most effective performance measurement systems provide useful data for managerial decision making, operational efficiency, and strategic planning. Managerial effectiveness can be evaluated using several different methods. Segment profit, residual income, return on investment, and EVA are all examples of managerial performance measures that lead managers to focus on monetary (financial) measures but do not provide context for what is happening in the company as a whole (non-financial). Lower-level workers are under the impression that this will not have a significant impact on the company's profits or investment prospects.

Non-financial operational performance indicators reveal things like customer value, market demand,

employee turnover, training and empowerment, and so on. As a result, a focus on monetary metrics alone as the sole indicator of success can be offset by a greater emphasis on considering long-term factors. Companies with more developed business climates typically use multiple metrics, including both financial and non-financial indicators (Otley, 1999).

Strategic-level performance measurement should include both financial and operational (non-financial) elements (Lajo, 2023; Oyewobi, et al., 2015). The findings of this study are corroborated by Ebert, et al., (2005) who noted that the use of monetary metrics alone by companies in the IT industry is still not enough to be a leading indicator.

According to research conducted by the Ernst & Young Center for Business Innovation (Daly, 1996), earnings projections made by investment analysts who consider factors other than financial data are more reliable than those made by analysts who rely solely on financial data. This suggests that a more comprehensive performance evaluation system has higher predictive validity than a purely financial system.

Kaplan and Norton's (1992) concept of the Balanced Scorecard (BSC) emphasize the importance of not only financial aspects, but also non-financial aspects such as customers, innovation, and internal processes, as well as development aspects, to achieve continuous improvement in all aspects of the company's operations. The idea of the BSC is intended to provide managers

with a broad view of the company so that they can better strategize to move forward. Kaplan (2009) states that companies need to pay attention not only to their tangible assets, but also to improve the management of intangible assets (such as employee capabilities or intellectual capital) by integrating intangible asset measurements into the company's management system.

Kaplan (2009) further explains that when a company can measure what the company does or orders and express it in numbers, the company can get a lot of valuable information in it. But when the company cannot measure the activities, it does and express them in numbers, this will hinder the direction of the company's movement forward.

The balanced scorecard plays a role in integrating the company's vision, mission and values into strategy. The need for a measuring tool that not only measures financial aspects, makes the balanced scorecard widely used by many companies because it is able to provide more value in the measurement method and the resulting impact. In addition, the need for strategy creation that can be implemented at all levels of the company and mapping related phenomena around it encourages the use of the balanced scorecard to become more widespread (Nair, 2004). However, the Balance scorecard requires understanding, dedication, and backing of everyone from top management to employees to be successful. Since organizations have diverse needs, markets, personnel, and products, their balanced scorecards will inevitably differ (Chavan, 2009).

### 3. Research Method

This study employs a qualitative research approach, relying primarily on data gathered from secondary sources such as scientific articles, academic journals, and scholarly books to construct its findings. In the process of collecting these materials, the researcher utilizes Google Scholar as a primary search tool, as it offers access to a wide range of credible and peer-reviewed literature. The qualitative method grants researchers considerable flexibility in selecting library materials that are deemed relevant and significant to the topic under investigation. Such an approach allows for a deeper exploration of the subject matter, as it encourages the integration of diverse perspectives and theoretical frameworks found in the existing literature. In presenting the research findings, the study incorporates both descriptive narratives and numerical data to ensure a clear and comprehensive representation of the results, in line with the approach suggested by Mantra (2008).

The stages involved in this qualitative research process are structured and systematic. First, the researcher undertakes the collection of research materials, focusing specifically on reference sources originating from reputable journals and scholarly books. Following the collection phase, the researcher proceeds to carefully select and classify the gathered materials based on their relevance to the research objectives and questions. This step is crucial for ensuring that only the most pertinent information is analyzed further. Finally,

the results of the study are organized and presented through detailed notes, which are compiled into written descriptions. These descriptions aim to convey the research findings in a coherent and accessible manner, allowing readers to grasp the key insights and contributions of the study

### 4. Discussion

#### *Perspectives on the Balanced Scorecard*

The financial perspective, customer perspective, internal business process perspective, and learning and development perspective are the four lenses through which the Balance Scorecard explains an organisation's mission and strategy in terms of operational objectives and performance measures (Kaplan and Norton (1992); Kaplan (2009)).

1. The Financial Perspective, considering the monetary results of the other three perspectives, defines long-term and short-term strategies and goals. Financial goals and measures need to be linked to the other three goals. From a monetary point of view, the company has three main objectives, namely increasing revenue, reducing costs, and maximising existing assets.
2. Customer Perspective, the first step is the flow of cash coming in from customers who are satisfied with the performance of employees or the company as a whole. Based on this analysis, target the right customers, target the right part of the market where there is an opportunity to compete, and expand market share to increase revenue.
3. Internal Perspective will look for specific actions taken by the company to ensure customer happiness and overall business success. There are three internal processes that can be taken to improve customer satisfaction: new product development, operations, and post-purchase support.
4. Learning and Growth Perspective, the foundation for realising the other three perspectives is an attitude of learning and growth. From this perspective, desired outcomes include increased employee motivation and creativity and improved information system capabilities.

There is a reciprocal relationship between the company's strategy and the performance to be built and the four perspectives (Khalid, et al., 2019). The four-perspective relationship between performance and strategy can result in linkages in the company's profit improvement strategy (Sands, et al., 2016; Alewine, & Miller, 2016). For example, if an organisation's culture prioritises education and development, it will encourage excellent teaching and produce competent staff. Good human resources impact productivity in an organisation, leading to improved product quality and fewer defective units. To expand the market by retaining existing customers and attracting new ones, it is important to focus on improving product quality and reducing the number of defective or damaged goods delivered (Arslan, I2020). Therefore, from a monetary point of

view, expansion into new markets can boost product sales which in turn can boost profits.

### ***Implementation of Balance Score Card***

Similar to traditional management approaches, BSC places a strong emphasis on customer satisfaction and efficiency. What sets the BSC idea apart from more traditional management practices is that it provides a framework for measuring and monitoring all aspects and factors for continuous improvement in accordance with the organisation's stated goals (Yaghoobi & Haddadi, 2016; Pimentel & Major, 2014).

A study by Anand et al. (2005) mentioned that the business performance of companies in India improved after BSC was introduced as a tool for performance management. This was because BSC helped determine areas where costs could be cut. The study did find one major obstacle to implementing the Balanced Scorecard into companies in India which was the challenge of emphasizing different perspectives to link between types of strategies and performance.

Despite the popularity of the BSC as a management tool, several studies have revealed implementation challenges, including: Mavrinac and Vitale (1999) who found evidence that the scorecard design process is complicated by the fact that many businesses still struggle to implement strategies that are not aligned with their balance scorecard. Marvinnack (1999) stated that a balance scorecard for performance appraisal can work well only if it matches the orientation and strategy of the organisation. In addition, the BSC framework also cannot fully ensure accurate performance evaluation. Mattson (1999) explains that having management support and input from across the organisation is critical to successful BSC implementation.

Ian Alliot, head of a sizeable American consulting firm, has successfully outlined the steps that should be taken before implementing a model such as the Balanced Scorecard (Mattson, 1992):

- 1) Getting support from the company's top management,
- 2) The BSC modal design is based on the strategy prepared by the company, which includes such things as identifying key performance indicators.
- 3) This BSC model can be presented as a control system and can be used to develop programs that will make the Balance Scorecard an integral part of the business.

Management can make better use of performance metrics through the application of technology, technology collaboration, and the scorecard model.

### ***Emphasis of BSC Perspectives in Competitive Strategy***

The goal of any company's competitive strategy should be to win the competition and increase company profits (Abraham, 2012). Companies should reconsider their product market decisions considering their value creation strategy (focus on differentiation or cost leadership) and their scope of operations (narrow or broad market penetration). Disagreement on how best to

win the competition will lead to different objectives for measuring success (Zairi, 2012).

Other competitive strategies highlight the value created by firms through the fierce pursuit of new opportunities in the market. The development of new products and markets necessitates this tactic. This prospector strategy prioritizes calculating the success rate of new products, the percentage of revenue generated from new products, sales, and market expansion when evaluating its performance (Maury, 2022; Lee & Wang, 2020). So, the characteristics of the innovation perspective include the Balanced Scorecard's emphasis on performance.

To remain competitive in the market, low-cost strategies will emphasize the price of their products (Liu & Gima, 2018). The BSC model for this type of low-cost strategy will emphasize financial indicators such as cost reduction (Lucianetti, et al., 2019) and internal indicators such as timely and accurate product delivery (Fan, & Zhang, 2016).

The objective of a differentiation strategy is to fulfil an unmet market demand through the provision of specialized products or services that have distinct advantages (Thoeni, et al., 2016). Therefore, strategies to differentiate products and services should prioritize information about customers' wants, needs, problems, and perceived value.

A study by Olson & Slater (2002) shows that when comparing prospector strategies with other competitive strategies, emphasis will be placed on innovation and focus on learning. This research shows that while high-performing and low-performing prospector strategies place equal emphasis on the innovation perspective, high-performing companies that adopt perspective strategies also place more emphasis on the customer perspective. The success of companies using this strategy is due to their strong focus on customer need (Balodi, 2014; Thourunroje & Racela, 2022).

Companies with high performance on the low-cost strategy place greater emphasis on the bottom line than companies with low performance on the low-cost strategy (Murni, 2017). Companies that excel using this strategy also pay less attention to the needs of their customers than companies that struggle (Galbreath, et al., 2022).

It is possible that high performers do not prioritize the customer perspective because it would require them to spend more resources (both in money and time) than businesses that apply a low-cost strategy (as applied in the differentiation strategy, to find problems with customers or customer needs).

Companies with a high-performance differentiation strategy place greater value on the customer's point of view (Leppänen, et al., 2023). In a competitive market, this is possible because customer relationships are at the core of this differentiation tactic. When comparing companies with high and low performance on this differentiation strategy, it is clear that the former place greater value on innovation and financial prospects (Vivian, 2017).

The key to successful implementation of the BSC model also depends on how businesses design their strategy (Khomba, 2015) and emphasize the right perspectives (Agostino, & Arnaboldi, 2011) according to the performance that will be focused on for the needs of the strategy, as the Balanced Scorecard model's emphasis on different perspectives follows the requirements of the competitive strategy being implemented.

### 5. Conclusion

By integrating financial and non-financial metrics such as innovation, customer satisfaction, and professional growth, the Balance Scorecard concept is quickly gaining prominence as a viable alternative for measuring business performance. The BSC integrates corporate goals and strategies developed from four perspectives: the financial perspective, which prioritizes maximizing profits, the internal perspective, which prioritizes maximizing efficiency within the company, the customer perspective, which prioritizes maximizing customer satisfaction and the learning perspective, which prioritizes maximizing growth through improving employee soft skills.

The Balanced Scorecard methodology has been widely implemented. However, the challenge of emphasizing perspectives in establishing a link between corporate strategy and performance leads to several problems during the implementation of the BSC model. Before implementing BSC in a company, the company should have communicated and committed to top management and adequate technological support. This is especially true for large companies in the United States.

It is important to place equal weight on prospecting, low cost, and differentiation approaches to successfully apply this BSC to competitive strategy. Companies with a focus on low cost and high performance will place more emphasis on the financial and internal perspectives. Meanwhile, companies with a focus on differentiation will focus more on the customer perspective. This means that the company's ability to formulate strategy and make course corrections between strategy and performance will also affect the success of the BSC model.

There are limitations to this study. First, our research only focuses on the balanced scorecard as a performance evaluation tool. To get more optimal results, future research can also compare several performance assessment tools such as Performance Pyramid System, Productivity Measurement and Enhancement System or Integrated Performance Measurement Systems.

Second, the use of the literature study method makes the author's subjectivity play a big role in writing this article and plays more at the concept level based on existing references. Future research can obtain a more objective point of view regarding the role of balance scorecard in the company using survey or interview methods with company management and employees as well as related stakeholders such as supplier partners and core consumers.

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