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Gaining competitive advantage through the Balanced Scorecard

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INTRODUCTION

One of the most important questions emerged of an intense debate in the field of strategic management is: *"how do firms achieve competitive advantage?"*. Competitive advantage is seen as the main source to explain the superior firm's performance, and thus comes to represent the fundamental aim of strategic management. The Porter's view (1985) popularized by the Harvard Business School raised from the Industrial Organization paradigm (Bain, 1959; Mason, 1949) and emphasized that competitive advantage is the most important and influential mechanism for explaining the superior organizational performance. From the 70s, various currents of economic thought address the topic of competitive advantage using different conceptual approaches. In the 1990s, some strategic authors (Barney, 1991; Grant, 1996; Wernerfelt, 1984) proposed the Resource-Based View of firm (RBV) as an alternative strategy to Porter's proposals. They argue that the greatest variation in profitability between firms was not between firms in different industries, but between firms in the same industry. This suggests that it is not so much differences in the structural factors within industry that determines profitability of firms, but what is inside an organization, resources or assets that allows them to compete. The combined work of Wernerfelt (1984), Rumelt (1984) and Barney (1986), has been mentioned as a reference of the contemporary benchmarks to the study of sustainable competitive advantage. In today's economy, where intangible assets have become the main reason of competitive advantage, the organizations required tools such as the Balanced Scorecard (BSC) to monitor and measure the strategy implementation, including the initiatives involving investments in IS/IT.

BACKGROUND

Competitive advantage

Why firms differ? How they behave? How they choose the strategies and how they are managed? Those are organizational issues of firm performance that has been central in strategy research and for decades the academy and practitioners have tried to obtain answers. The competitive advantage is the result of the firm's ability to efficiently perform the set of activities necessary to obtain a lower cost than competitors and organize these activities in a unique way, able to generate a differentiated value to buyers (Porter, 1985). Ma (1999) argues that competitive advantage arises from the differential among firms along any dimension of firm attributes and characteristics that allows one firm to better create customers value than do others. For managers, the challenge is to identify, develop, protect and allocate resources and capabilities in order to provide the company with a sustainable competitive advantage and thus a higher return on capital (Amit & Shoemaker, 1993).

The RBV explores the idea of competitive advantage requires that the resource endowments of the firms are heterogeneous and explains the importance of developing valuable and scarce resources and capabilities (Collis & Montgomery, 1995; Hamel, 1994; Prahalad & Hamel, 1990), which are said to be the source of sustainable competitive advantage (Barney, 1991; Barney & Wright, 1998; Wright, McMahan, & McWilliams, 1994). Teece et al., (1994, 1997) develops the RBV in the sense of the dynamic changes and the organizational capabilities. Organizations should focus on their capacity of renewing competences in order to adjust to the changing business environment (Teece et al., 1994, 1997). The Knowledge Based View of the firm (KBV) is closely related to the RBV and focuses on knowledge as the most strategic resource a firm has. The KBV is a natural consequence of the RBV which argues that knowledge is the main productive resource of the firm (Kogut & Zander, 1992; Grant & Baden-Fuller, 1995). A key limitation of all the above strategies is that it seems to ignore the dynamics of competition in the marketplace. The present context for strategic management has been described as hypercompetitive (D'Aveni, 1994) which ensures that sustainable advantage is transitory. According to D'Aveni (1994) instead of long-range plans and long-term competitive advantage, a succession of small and duplicated strategic attacks is more typically used in rapidly changing hypercompetition environments. The firm can effectively create a lasting sustainable advantage by connecting a series of those short-term advantages.

The Balanced Scorecard

Sole emphasis on financial measurements is inconsistent with the new creation value reality, which requires employee knowledge, customer relationships and a culture of innovation. Financial reports talks about the past and are not relevant to many levels of organizations for decision-making. Research found that 98% of the private sector clients were unable to implement their own strategic objectives in daily operations (Niven, 2003). Kaplan & Norton (2001) estimate that nine in ten organizations fail to implement the strategy. The firms were not satisfied because these measures were giving the misleading signals due to non-availability of a systematic performance measurement system. To give an answer to this concerns Kaplan and Norton (1992) proposed the BSC as an alternative concept of performance measurement and management. The BSC recognizes the rise of intangible assets in value creation and the limitations of financial measurements. This alternative approach "balanced" financial and operational measures and allows the organization controlling corporate performance in a multi-dimensional concept, simultaneously. As defined by Kaplan and Norton (1996), the Balanced Scorecard translates an organization's mission and strategy into a comprehensive set of performance measures that provides the framework for a strategic measurement and management system using a balanced set of measures financial performance and non-financial, linked by cause-and-effect and grouped into four perspectives (figure 1).

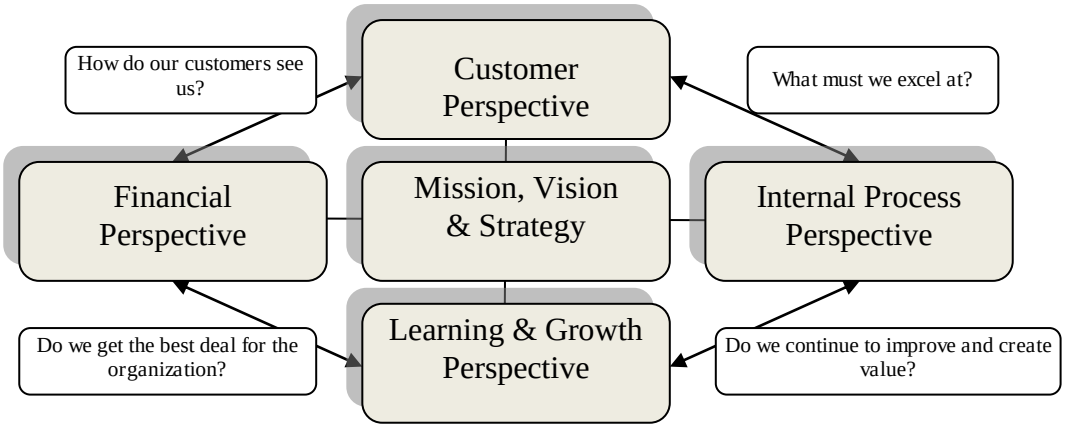

Figure 1 – Strategic Perspectives (adapted from Kaplan & Norton, 1996)

The BSC approach provides four essential elements that make the strategic management and learning different from the other frameworks and definitely contribute to enhance firm´s performance (Kaplan & Norton, 2007):

1. Clarifying and translating the vision for everyone within the organization.
2. The communication that integrates the efforts and accomplishments with the goals of individual business units.
3. Business planning, focusing on the importance of the scorecard as a tool to facilitate the revised strategy which, in turn, is essential for a learning strategy.
4. Focuses on the strategic feedback that incorporates the staff knowledge and participation on the changes in the competitive environment.

In 1996, the authors Kaplan and Norton, in the book "The Balanced Scorecard - Translating Strategy into Action", reflect the experiences of the first years of implementation. BSC focus on the vision and strategy which clearly meant that was being increasingly used as strategic tool. The emergence of strategy maps in the 2000s as a way of identifying cause-and-effect relationships between different objectives allowing visually describe the strategy that could be followed, measured and actively managed. The Kaplan and Norton (1996; 149) state" a strategy is a set of hypothesis about cause-and-effect*"*. Currently, the strategy map and the cause-and-effect attract considerable interest among practitioners and firms are developing their BSC based on the strategy map (Kasurinen, 2002). The strategy map is a communication tool used to guide the organization on the process of value creation and show the logical step-by-step connection between strategic objectives in the form of a cause-and-effect chain (figure 2). Strategy map gives to business units and to employees a clear sight into how their jobs are linked to the overall organization objectives, enabling them to work in coordination toward the organization desired goal.

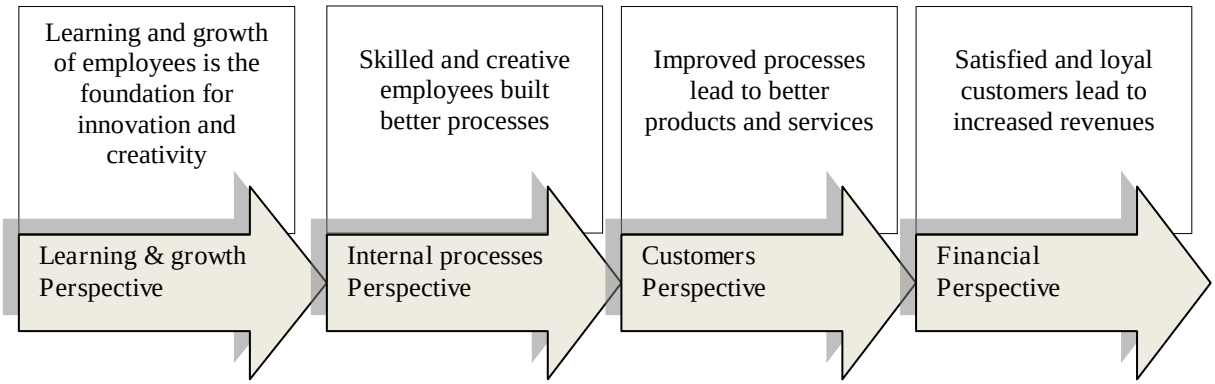

Figure 2 – Cause-and-effect relationship (adapted from Kaplan & Norton, 1996)

Kaplan and Norton (2001) introduced five principles to keep the focus of management processes with organizational strategy:

1. Translate the strategy into operational terms – strategy need to be understood if to be executed.
2. Align the organization with the strategy - for organizational performance to become more than the sum of its parts, individual strategies must be linked and integrated in a single one.

3. Perform the daily tasks align with the strategy – executives and managers use the BSC to communicate with their employees.
4. Make strategy a continuous process - putting the BSC linking strategy to budgeting process.
5. Mobilize to change through executive leadership - Emphasizing the relevant influence of top management.

Finally, in 2006, the main focus was on the alignment of people, processes, infrastructure and initiatives of the organizations with their strategies. This alignment requires making organizational changes with BSC playing the role of facilitator of these changes. The BSC suggests that as well as financial measures of performance, attention should be paid to the requirements of customers, business processes and longer-term sustainability (Gomes et al., 2013).

Balanced Scorecard advantages and limitations

Over the last 20 years, BSC became the most widely used performance measurement tool among both public and private organizations (Kaplan, 2012). Has been diffused by its authors as a performance management system, able to communicate and align strategy across the organizations. Some advantages and difficulties have also been reported in several studies and field works as well as some recommendations to overcome them. Several authors reported the following situations:

- There are organizations with few measures for perspective and others with too many indicators. To obtain a good balance between leading and lagging indicators, an appropriate combination of outcomes and performance drives should be done. Indicators that reflect the strategy are the most critical, so organizations lose focus when considering too many things to measure (Kaplan & Norton, 2001).
- Measures selected for the scorecard do not reflect organizations strategy. Select only measures that are linked to the organizations strategy instead applying all the KPIs into each perspective (Kaplan & Norton, 2001).
- Few people involved and lack of senior commitment in the implementation process. The senior leadership team should work together to build and support the implementation (Braam & Nijsen, 2004), (Kaplan & Norton, 2001; Schneiderman, 1999).
- Keeping the scorecard has top priority. To be effective, the BSC should be shared by all organizations members at different levels. The key factor is to involve all the organization on the implementation process (Kaplan & Norton, 2001), (Andersen et al., 2001), (Schneiderman, 1999).
- The implementation process takes too long. If the implementation takes too much time, it can happen, in meanwhile, that the strategy could change and the indicators become obsolete. Keep the development short implementation (Braam & Nijsen, 2004; Kaplan & Norton, 2001).
- Try to make quantitative link between non-financial leading indicators and expected final results. Since lag time is difficult to predict and many factors may influence the results, a quantitative link cannot establish between non-financial leading indicators and expected financial results (Nørreklit, 2000; Schneiderman, 1999).

Although an increasing number of companies have been using non-financial performance measurements in areas such as customer loyalty and employee satisfaction, few have realized the potential benefits of these relatively new measurement systems. This is because they fail to correctly identify, analyze and act on the right measurements.

Initiatives involving IS/IT

The discussion around the fact that IS/IT provides firms with a basis for competitive advantage has received contradictory considerations in the academy and practitioners in the last decades. Since the 1980s, IS/IT research has considered how organizations can realize sustainable competitive advantage by investing in systems and technology. Specific IS/IT management skills are additional prerequisites for ensuring continued IS/IT business alignment necessary to create value and sustainable competitive advantages of IS/IT assets and investments initiatives (Mata et al, 1995; Markus & Benjamin, 1997; Hagel & Brown, 2003). The IS/IT capability model of Ward and Peppard (2002) extended the core IS/IT competences model developed by Feeny & Willcoks (1998), by emphasizing that competencies necessary for success with IS/IT are not located solely within the IS/IT, but transcend traditional functional boundaries of the organization. Neo (1988) states that IS/IT by itself does not lead to success, but can help to facilitate successful outcomes only when integrated into firm´s strategic planning process. Powel and Dent-Micallef (1997) found that IS/IT enhances firm performance only when it is used to leverage preexisting, complementary human and business resources. Some organizations face difficulties to follow and evaluate the benefits obtained from their investments. This inability is confirmed by several authors, and shows that the potential of the IS/IT investment was not fully used as company assets, and that the expected changes on the business were far from promoting the competitive advantage needed to increase the future sustainability through the improvements on the organizational performance (Soh & Markhus, 1995). Because of the growing concern about the effectiveness of information systems expenditure there is an increasing need to re-think approaches to the evaluation of IS/IT in order to demonstrate business benefits from these investments (Remenyi & Sherwood-Smith, 1999). The success of IS/IT investments depends on the particular characteristics of different industries and on the particular practices of different companies.*"Why is realizing benefits from IS/IT so difficult?"*. According to Ashurst and Doherty (2003) the lack of specific focus on benefits earlier in the life-cycle makes the lack of benefits in later stages. Jurison (1996) argue that the business benefits realization depends on achieving a fair balance of benefits between the organization and its stakeholders and Markus et al., (2000) claimed that benefits are typically delivered through extensive changes to business practices and decision making. There is a consensus that organizational factors are far more critical to successful implementation than technical considerations. Martinsons (1992) has suggested that the BSC may help managers evaluate investments in IS/IT, as well as the performance of an IS organization. Martinsons (1992) details how the BSC can serve as a decision support tool for IS/IT managers. Huang and Hu (2007) show how to align IS/IT capabilities and activities with business objectives and business requirements using the BSC. They illustrate measures to adjust the traditional perspectives. Van Der Zee and De Jong (1999) suggested that BSC can advance beyond a strategic management system and help to align organizational values and different cultures across departments. The difficulties in measuring benefits and costs are often the cause for uncertainty about the expected benefits of IT investments and hence are major constraint to IS/IT investments (Farbey, Land & Targett, 1992; Wilcocks & Lester, 1997). According to Baker & Bereblum (1996) investments in IS/IT are crucial for the success or failure of organizations.

FUTURE RESEARCH DIRECTIONS

These days, performance measurement systems are attracting more and more attention, both among academics and practitioners. Companies search value coming from non-financial assets and the traditional financial system cannot convey the importance of these intangibles - people, processes and innovation. Many organizations have shown a complete disconnection between their strategy and how they measure it. BSC through strategy maps became a powerful tool allowing organizations to convert its initiatives and resources – including intangible assets such as corporate cultures and employee knowledge, into tangible outcomes. Following, we show several studies revealing the vitality of BSC developments, keeping updated and actualized with today´s needs.

- Martinsons et al., (1999) considered the use of a BSC framework to measure and evaluate IT application projects and the IS department or functional area as a whole.
- Figge et al., (2002) formulate the sustainability BSC that integrated environment and social issues with the management of business units.
- McAdam & Walker (2003) introduced the perspective of employee satisfaction and the importance of customer perspective was prioritized.
- Jiménez-Zarco et al., (2006) links BSC with product development and innovation.
- Huang & Hu (2007) show how to align IT capabilities and activities with business objectives and business requirements using the BSC.
- Othman (2008) suggests the idea of linking the use of the BSC with Scenario Planning to reinforce the process of formulation and strategy implementation.
- Burney & Swanson (2010) study two characteristics of BSC and their impacts on manager´s job satisfaction.
- Yang, et al., (2010) propose the BSC to assign the attribute weight by an expert group in multiple decision making.
- Marcos et al., (2012) develop the design for an IT BSC mixing together business environment and IT strategy to enhance IT´s role in obtaining and measuring its contribution to business value.
- Gomes et al., (2013) explore the linkage between the Benefits Dependency Network concept, from Ward & Daniel (2006), with Strategy Maps.

Examples mentioned above indicate the exploration of new dimensions of analysis or even the integration of complementary approaches to the BSC as a way to make it closer to a realistic implementation of organizational strategies.

CONCLUSION

The debate around the competitive advantage emerged in the strategic field of management by the hands of the two more popular schools that claim different sources for a superior stage of performance. The analysis of the two strategic statements suggests that the organizations, instead of choosing one of the approaches, should try to integrate both and make use of them in a complementary way. Organizations cannot ignore the industries where they operate or neither can afford to focus exclusively on their resources, missing opportunities to establish a competitive advantage. Many aspects of BSC development and deployment depend on effective use of technology to be successful. Organizations should also be aware of the potential that IS/IT has in favoring the development of more efficiency processes, improving communication links, facilitating internal changes and ultimately empowering knowledge and transformation into competencies and capabilities. The BSC will allow managers to see the impacts of IT applications and IS activities on the factors that are important to the organization as a whole. A successful BSC program relies extensively on data, education, and communication to promote, monitor, and reinforce behavioral modifications. The BSC concept is based on the assumption that competitive advantage is not derived only from the efficient use of fixed capital but also from intangible assets, like intellectual property, employee's skills, knowledge and abilities, or even from a closer relationship with customers. These factors are becoming increasingly important sources of competitive advantage and contribute for long-term economic success of the organizations. We have then explained how BSC can be an interesting tool to help organizations to achieve a superior performance. Strategies for organizations in the era of information cannot be linear and rigid. Executives need to receive an accurate feedback on the outcome of their strategies and on the changes of the environment. Although the strategy has been planned with the best intentions and with the best available information, may no longer be appropriate or valid for the current conditions. In this case, the strategies should be revised and adapted to the new/revised scenario. Organizations need to be able to learn from their own experiences, questioning their

assumptions, reflecting on how they operate and seek new strategies to take advantage of new opportunities or to neutralize new threats not covered when drafting the initial strategy.

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KEY TERMS & DEFINITIONS

Porter's five forces model – Approach that focus in positioning of the organizations business or brand in the marketplace to the best advantage.

Resource-Based view – Supports that resources possessed by organizations allow obtaining competitive advantage and lead to superior long-term performance.

Dynamic Capabilities- Higher order strategic processes that integrate recombine and generate new technological and marketing capabilities which in turn increase firm performance.

Knowledge-Based view - Considers knowledge as the most strategically significant resource of the firm.

Hypercompetition view - In a quickly changing environment the organizations are under a very strong competition and it is difficult for one company to keep a competitive advantage for a long time.