



RESEARCH ARTICLE

“SUSTAINING A COMPETITIVE EDGE IN THE CHANGING GLOBAL SCENARIO – BALANCED SCORECARD AND INDIAN BUSINESS ENVIRONMENT – AN EXCLUSIVE STUDY”

Dr. M. Muniraju¹ and Nadhiya R².

1. Chairman & Dean, Department of Commerce, Bangalore University, Bangalore.
2. Research scholar, Department of Commerce, Bangalore University, Bangalore.

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Abstract

India is the world's fastest growing large economy with GDP being 7.6% and IMF predicts that India would continue to retain this until 2020. (KPMG, Feb 2016). In the next 10 years, India is going to be young and restless as the projected median age in 2030 is 32 years which is much lesser than China and US which are 43 and 39 years respectively. By 2020, most of the countries are going to face labour force deficit including china (-10 million) and US (-17 million) where as India is going to have a surplus of about 47 millions. These metrics evidences, there is an ample of opportunities to explore and exploit the resources in India. The business environment in India is so favourable for companies to establish and reap the benefit. At the same time, this situation leads to increased competition. Thus achieving a Sustainable Competitive Edge would be predominant challenge that companies need to focus on.

Competitive Edge is the fact that the company has an advantage over its competitors and sustainability is the ability to continue at a particular level for a period of time. Achieving this two would be core objective of all the company. For this company should develop sound strategies and carry out rigorous action plan to implement these strategies. As an aid to this, Balanced Scorecard could serve as a best tool which can help companies in achieving its core objectives. This conceptual paper, explains the importance of Balanced Scorecard and how it could help companies in achieving its sustainable competitive edge. This paper, theoretically establishes the relationship between Business Strategy and Competitive Edge and Balanced Scorecard as a performance measurement tool acting as a mediating variable which could help companies in achieving Sustainable Competitive Edge.

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Introduction:-

The present Global business environment and the constantly increasing global competition ask for innovation, knowledge enhancement and striving efforts of the stakeholders. In this changed business paradigm relying on only the financial measures, which are considered as the indicators of short-run performance, to measure the corporate performance is puzzling and often misleading. A recent survey conducted has highlighted that the change in the business environment can be summarized with following (MSG EXPERTS):

Corresponding Author:- Dr. M. Muniraju.

Address:-Chairman & dean, dept of commerce, bangalore university, Bangalore.

- Globalization and opening up of markets has not only increased competition but also has allowed companies to operate in markets previously considered forbidden.
- Inclusion of information technology as integral part of business environment has ensured that companies are able to process, store and retrieve the huge amount of data at ever dwindling costs.
- Globalization has encouraged free movement of capital, goods and service across countries.

Competitive Edge is the fact that the company has an advantage over its competitors and sustainability is the ability to continue at a particular level for a period of time. Sustainability involves long-term strategic planning that allies business growth with positive environmental and societal continuity. Sustainable Competitive Edge is an advantage that allows a business to be more successful than its competitors over a long period of time

Balanced scorecard is a strategic measurement and management system. It translates an organization's mission and strategy into a balanced set of integrated performance measures. It complements the traditional financial perspective with other non-financial perspectives such as customer satisfaction, internal business process, and learning and growth. It also mixes outcome measures, the lagging indicator, with performance drivers, the leading indicator, because "outcome measures without performance drivers do not communicate how the outcomes are to be achieved" (Kaplan and Norton 1996, p. 150). By selecting appropriate performance drivers and outcome measures to fit in the theory of business in a chain of cause and effect relationship, the organization will have a better idea of how to achieve its potential competitive advantage.

The measures for Balanced Scorecard on Four different perspectives are selected on the basis of a set of 'Strategic Objective' plotted on a Strategy Map. Within each perspective, goals are identified and links are established across and between the perspectives and suitable measures are identified for each objective. The methodology provides a greater contextual justification for choosing the measures and thus making it easier to work with. (Sabah M. Al-Najjar, July 2012)

Balanced Scorecard, being an effective tool for translating Strategies into action enables organizations to achieve breakthrough performance which in turn can provide a better platform for the companies to achieve sustainable competitive edge. Competitive advantage and firm performance are two different constructs with an apparently complex relationship (Ma, 2000). Understanding the sources of sustained competitive advantage has become a major area of study in strategic management (Porter, 1985, 1991; Barney, 1991; Peteraf, 1993; Ma, 1999a, 1999b, 2004; Flint & Van Fleet, 2005; King, 2007). When this strategy is well-formulated and implemented, it can significantly affect a firm's level of competitive advantage (Richard, 2000; Arend, 2003; Powell, 2003; Porter & Kramer, 2006).

To figure out the competitive edge, the companies should focus on its corporate strategy and how to translate strategies into achievable goals. The Balanced Scorecard is one of the most popular tool which helps management in translating corporate strategies into achievable goals or targets. Thus, Balanced Scorecard can serve as a best tool for companies to achieve sustainable competitive edge.

Review of Literature:-

Milad Abdelnabi Salem, Dr. Norlena Hasnan & Dr. Nor Hasni Osman (2012):-

In this paper titled "**Balanced Scorecard: Weaknesses, Strengths and its Ability As Performance Management Systems Versus Other Performnce Management Systems**" the authors have elucidated that performance management has become a legislative requirement for all companies, both Public and Private. Hence it is crucial to identify an appropriate tool that enables to measure the performance effectively. In this paper the author have made a theoretical framework of Balanced Scorecard and made a comparison with other performance measurment tools such as Total Quality Management , ISO 14001, Performance Pyramid, Performance Prism, EFQM Excellence Model, MBO,BOS etc.They have made a comparitive analysis of advantages and limitations of Balanced Scorecard with each measurement tool and has concluded that though Balanced Scorecard suffers from certain criticism, still it has many advantages over other tools and that many organisations have used Balanced Scorecard to create startegy focused organisations and have got successful strategy execution.

Manoj Anand, B S Sahay and SubhashishSaha (2005):-

In this article titled "**Balanced Scorecard in Indian Companies**" Performance evaluation of financial measures alone has been severely criticized as it lacks holistic approach, historical in nature and their relevance in the present information age in building company's internal assets and capabilities is challenged. Kaplan and Norton's Balanced

Scorecard developed as an innovative and multi-dimensional corporate performance scorecard compels firms to align performance measurement from Non-financial variables and investigate their impact on the financial indicators. In this paper, the authors have made an empirical study on implementation of Balanced Scorecard by Corporates in India and explored its usage and has identified the management's motivation for its implementations and has concluded that establishing cause-effect relationship among different perspectives is the most critical issues among corporate India. They have also stated that Balanced Scorecard has resulted in improvement of the bottom line through cost reduction opportunities.

Eric M Olson and Stanley F Slater (2002):-

In this Paper titled “**The Balanced Scorecard, Competitive Strategy and Performance**” different organizations adopt different strategies based on various factors like organization structure, process etc. in order to be successful. In the same way, all organization cannot have equal emphasis on performance measures. The ‘balance’ in the Balanced Scorecard implies that all measures are equally important in all setting and this idea is challenged. The author has made an empirical study where more than 200 responded. He made the study to determine whether benefits can be derived from matching an emphasis in the scorecard to strategy type with the analysis made, the author found the emphasis made on different measures of Balanced Scorecard differed with the differences between high performers and low performers by strategy type. The study has provided new insight into the performance evaluations requirements of different strategy type and their associations for successful implementation.

AliminIsmadi Ismail, RaduanChe Rose, Haslinda Abdullah and JegakUli (2010):-

In this paper titled “**The Relationship Between Organisational Competitive Advantage And Performance Moderated By The Age And Size Of Firms**” the author empirically examined the relationship between the organizational Competitive Advantage and Performance by considering moderating variable Age and Size of the firm. The paper delivers valuable information to firms, specifically with regard to strategic management directed toward performance and attaining a competitive advantage.

Ionel BOSTON and Veronica GROSU (2011):-

In this paper titled “**Contribution of Balanced Scorecard Model in Efficiency of Managerial Control**” the authors studied the applicative use of Balanced Scorecard for measuring the economic and financial performance and highlight its importance as a means for communicating to all stakeholders. The concept of Balanced Scorecard is thoroughly studied and analysed and has been justified how it can produce changes and lead to results and achieve sustainable competitive advantage. The author has developed a Balanced Scorecard model for Alpha Group and has studied completely the pros and cons of Balanced Scorecard. The paper has concluded that Balanced Scorecard is able to fill the gap in management system which is created by lack of systematic process and that Balanced Scorecard ensures a coherent development of economic activities of the organization (long-term Strategies). Balanced Scorecard is more than a modern system of evaluating the economic-financial performance.

Objectives of the Study:-

1. To comprehend the importance of Balanced Scorecard and the Strategy Map in performance measurement
2. To conceptualize a relationship between Sustainable Competitive Edge and Performance Measurement

Scope of the Study:-

The present study is exclusive to the concept of Sustaining Competitive Edge and the role of Balanced Scorecard in achieving competitive edge. The paper focuses on the importance of Balanced Scorecard in the Indian Business Environment and how it could help Indian Companies to achieve sustaining competitive edge.

Significance of the study:-

India is the world's fastest growing large economy. India's Economy size (FY 2014-15) is US \$ 2 Trillion, being third largest in PPP terms. The projected Economic prospects during FY 2012 – 2030, India would have CAGR Growth of 6.7% whereas in China it is 6.6% and US 2.5%. These projected statuses assure huge potential for new age entrepreneurs, favourable ecosystem to spur innovation, increased women participation, rising rural and middle class market and largest base for young businesses etc.

It is very much evidence from the above that the Indian Companies and its business Environment has got huge potential in the near future. Exploring this situation, achieving Competitive edge and sustaining it over a period of time is going to be the need of the day. Thus, the present study plays a significant role in bringing some clarity on

the concept of Balanced Scorecard and how BSC model could help Indian Companies in achieving sustaining Competitive edge.

Research Methodology:-

The Research approach adopted in this paper is a descriptive and theoretical study. On the theoretical background, the importance of Balanced Scorecard and what impact it could create on Sustaining Competitive Edge has been studied. This paper focused on analyzing the information provided by various literatures and documents and establishes the relationship between the Balanced Scorecard and Company's Competitive Edge.

Sources of Data Collection:-

For the purpose of this research, secondary data has been collected to understand the current Indian Business environment. The concepts and information from various books, literatures, business reports and web sources has served as important sources for data.

Limitation of the Study:-

This study is limited to understanding how sustainable Competitive Edge could be achieved by the Companies in the Indian Business environment alone. In relation to this, how Balanced Scorecard, as a performance measurement tool, could aid companies in achieving this goal. The Other Factors which could influence the Competitive Edge of the companies are not considered in this study.

With the mere description of Sustainable Competitive Edge, the whole study has been undertaken and how Balanced Scorecard could make a difference for the companies.

Discussion:-

Balanced Scorecard:-

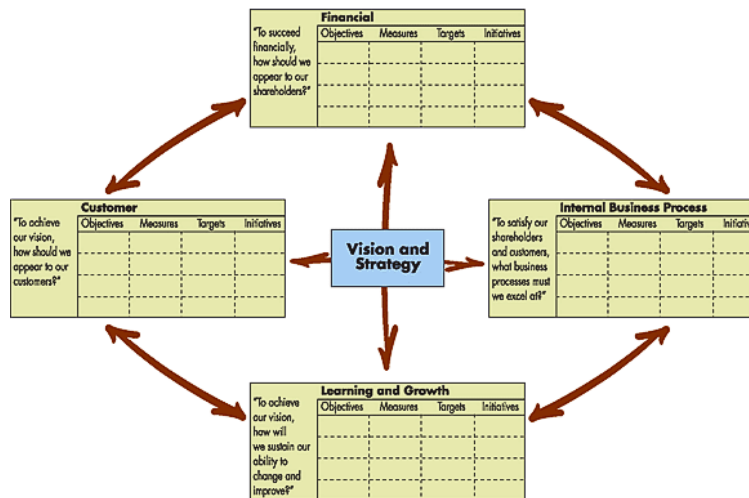
The concept of 'Balanced Scorecard' was first introduced in the journal "Harvard Business Review" (January-February, 1992) by Robert S. Kaplan and David P. Norton. The Balanced Scorecard is an organizational framework for implementing and managing strategy at all levels of an enterprise by linking objectives, initiatives and measures to an organization's strategy. The Balanced Scorecard is a strategic management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action.

Kaplan and Norton want "to incorporate the valuation of a company's intangible and intellectual assets, such as high quality products and services, motivated and skilled employees, responsive and predictable internal processes, and satisfied and loyal customers" (Kaplan and Norton 1996, 7). So "the Balanced Scorecard complements financial measures of past performance with measures of the drivers of future performance.

Balanced Scorecard Perspectives:-

The Balanced Scorecard enables managers to view the well-being of the business from four important perspectives or quadrants. Each quadrant of the scorecard reports performance measures directly related to the corporate vision in the form of key performance measures or indicators (KPI). The Balanced Scorecard is a mechanism for translating an organization's vision and strategy into a coherent set of objectives and performance measures. It uses measurement to communicate the drivers of current and future success. The four perspectives of the Scorecard provide a balance between short term and long term objectives, between desired outcomes and the drivers of those outcomes, and between objective and subjective performance measures. Many measurement frameworks advocate a balanced range of measures. The Balanced Scorecard is prescriptive about this range, and about how one perspective defines the drivers of the next.

Translating Vision and Strategy: Four Perspectives



The Balanced Scorecard starts with the vision and the strategy of a company. Then translate these vision, mission and strategies into tangible objectives and measures. For these objectives and measures, targets are set and initiatives are taken through continued learning and innovation. There is a link between these perspectives and its impact on the various variables can be understood better with the help of the strategy map.

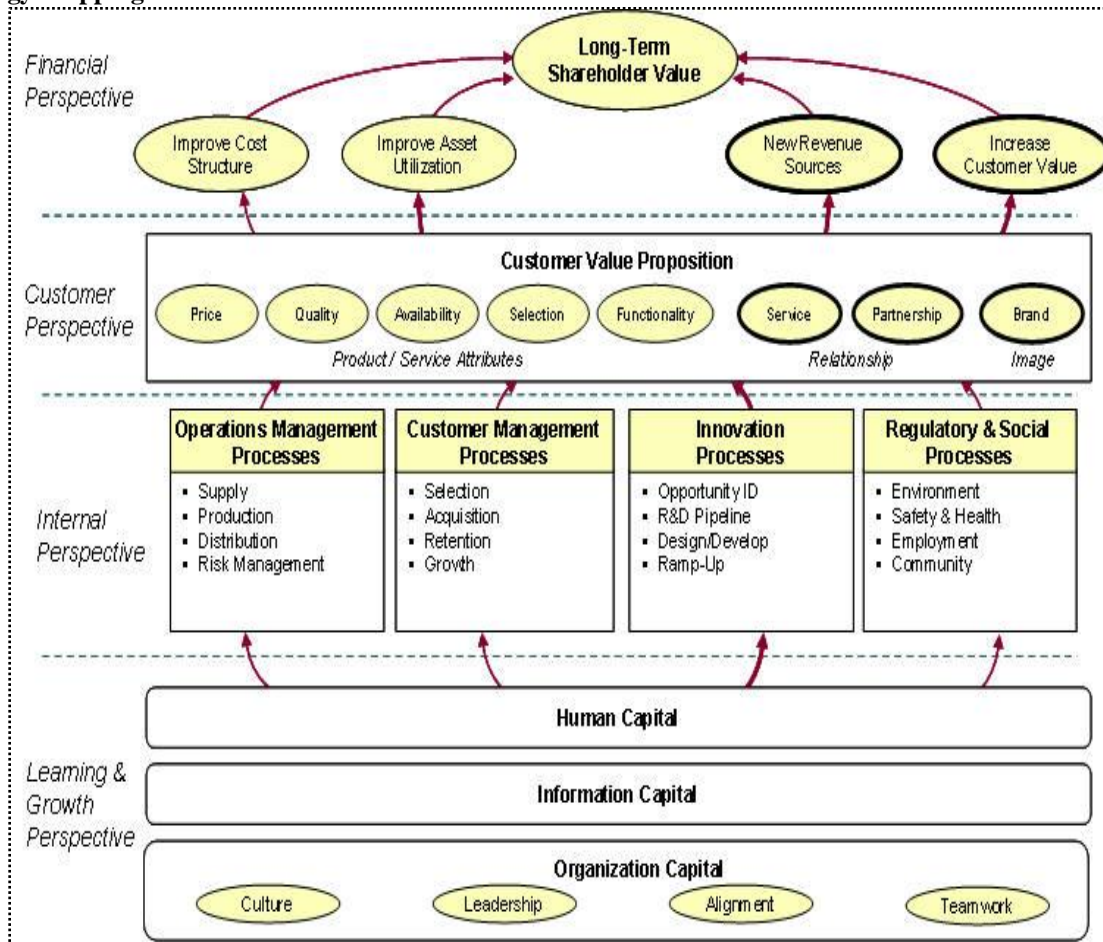
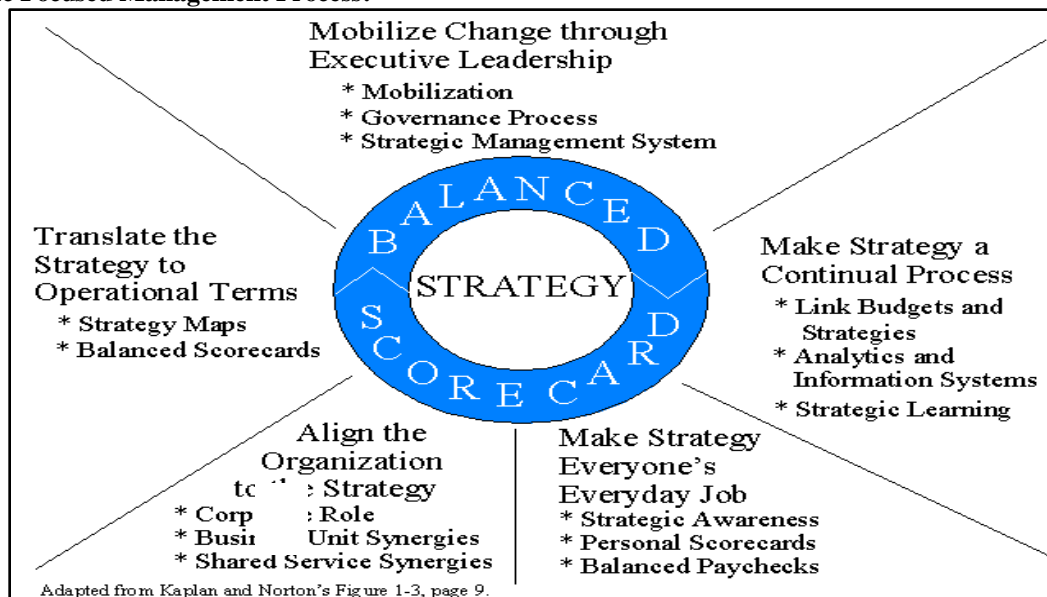
Strategy Map:-

A strategy map is a diagram that is used to document the primary strategic goals being pursued by an organization or management team.

The Kaplan and Norton approach to strategy maps has:-

- An underlying framework of horizontal perspectives arranged in a cause and effect relationship. Typically Financial, Customer, Process and Learning & Growth
- Objectives within those perspectives. Each objective as text appearing within a shape (usually an oval or rectangle). Relatively few objectives (usually less than 20)
- Vertical sets of linked objectives that span the perspectives. These are called strategic themes.
- Clear cause and effect relationships between these objectives, across the perspectives. The strategic themes representing hypotheses about how the strategy will bring about change to the outcomes of the organisation.

Strategy maps provide increased granularity for executives to describe and manage strategy at an operational level of detail. The Strategy mapping helps company to identify various perspectives and variables involved in each perspective. It also helps to establish the interrelationship with different variables and different perspectives.

Strategy Mapping:-**Strategic Focused Management Process:-**

Advantages of Balanced Scorecard:-

Balanced Scorecard as a key performance measurement tools provides various advantages to the companies, which are as follows

- Focusing the whole organisation on the few key things needed to create breakthrough performance
- Breaking down strategic measures to lower levels of the organisation, so managers and employees both know what is required to achieve excellent overall performance
- Strategic initiatives that follow "best practices" methodologies cascade through the entire organization
- Increased Creativity and Unexpected Ideas.
- The Balanced Scorecard helps align key performance measures with strategy at all levels of an organization.
- The Balanced Scorecard provides management with a comprehensive picture of business operations.
- The methodology facilitates communication and understanding of business goals and strategies at all levels of an organization.
- Helping to integrate various corporate programmes (like quality and customer service)
- Usable Results - Transforms strategy into action and desired behaviors.
- The Balanced Scorecard concept provides strategic feedback and learning.
- A cross organizational team - More open channels of communications - Enthusiastic People.
- Initiatives are continually measured and evaluated against industry standards
- Unique Competitive Advantage
 - Reduced Time-frames.
 - Improved Decisions and Better Solutions.
 - Improved Processes.
- The Balanced Scorecard provides an effective way of communicating priorities to all levels of organization, and then all employees can see and understand how their work is related to the business and its success as a whole.

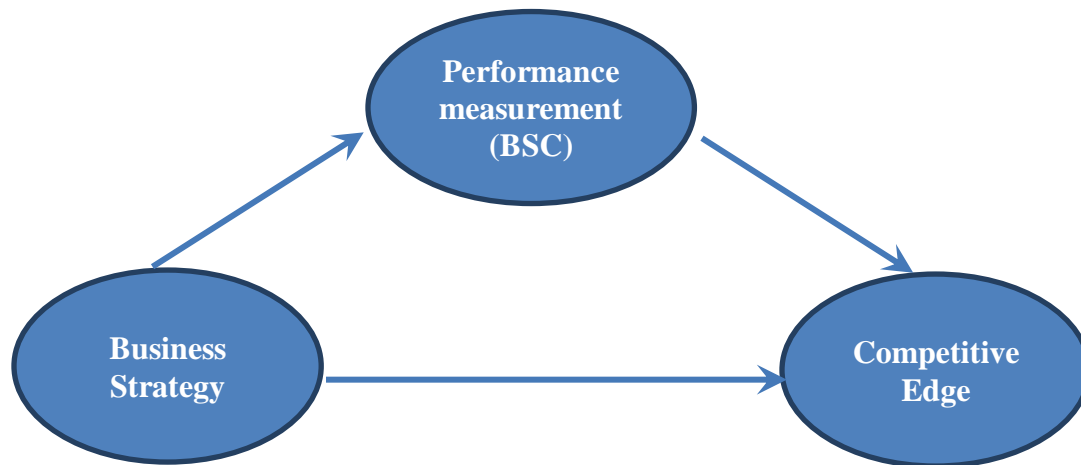
Disadvantages:-

Though Balanced Scorecard serves lot of advantages to the companies, it still suffers from some drawbacks. The most important among these are

1. The Balanced Scorecard decomposes the organization's primary objectives (financial perspective) into customer, internal process and learning and growth objectives (operating perspectives) in a way that is reminiscent of the way that the Dupont formula decomposed the return on capital employed metric into front-line operational measures. But such type of relationship does not necessarily hold between financial and operational measures and operational achievements do not guarantee the improved bottom-line measures; and in that case the management has to reexamine the basic assumptions of their strategy and mission to capitalize the operational achievements.
2. Companies may bias their scorecards to the dimension that support specific strategic path. In order to make scorecard useful, it should be prepared in conformity with the overall business strategies.
3. Sometimes it is difficult to integrate a company's scorecard into its planning, budgeting and resource allocation process; especially when scorecard metrics are changed.
4. Balanced scorecard considers different perspectives equally thus, ensuring a balance between these. But in some companies under unique situations, all perspectives may not have equal importance.
5. Creating the Balanced Scorecard is a critical step in the strategic process. So many organizations create a strategic plan and then dutifully ignore it because day-to-day issues tend to take precedence.

Findings:-

The Discussions and analysis reveals that there is an ample of opportunities to explore and exploit the resources for the Companies in India in the near future as in the projected Economic prospects during FY 2012 – 2030, India would have CAGR Growth of 6.7% whereas in China it is 6.6% and US 2.5%. To feat the opportunities, companies should work on achieving sustaining competitive edge. To achieve a competitive edge, companies should develop and execute sound strategies. Balanced Scorecard is a powerful management tool that could help companies in developing Strategies, convert those strategies into measureable terms and communicate to the lower level for their execution with the help of Strategy mapping. Balanced Scorecard helps companies to achieve competitive advantage through Reduced Time-Frames, Improved Decisions, Better Solutions and Improved Processes. Balanced Scorecard plays a vital role in the Strategy Mapping and measuring performance of the companies.



From the above discussions and analysis, theoretically a relationship can be established between Company's Business Strategies and Competitive Edge and Performance measurement through BSC acting as a mediating factor which can create impact on the sustaining the competitive edge.

Conclusions:-

Every company strives harder to achieve competitive edge, which will ensure their sustainability in the business environment. Balanced scorecard, being one of the best tools that measure the performance of the company in real time can help companies in achieving sustainable competitive edge.

The real strength of the linkages between the strategy map, Balanced Scorecard and action plan is consistency. Instead of a fragmented approach where one part of the organization pursues a different agenda from another part, everyone uses the same overall strategy. The vision is consistent with the strategy to get there. People can be inspired to act because they see that it is feasible to get to where the management wants to head.

The scorecard periodically reminds the organization what the critical strategic issues are and gives the necessary feedback on the progress toward achieving them. It has neither beginning nor end. Its task is not directly concerned about the mission of the organization, but rather with internal processes (diagnostic measures) and external outcomes (strategic measures). The system's control is based on performance metrics that are tracked continuously over time to look for trends, best and worst practices, and areas for improvement. Thus, balanced scorecard can play an important role in bringing a big change in the organisation and can help the company in achieving sustainable competitive edge.

Suggestions:-

Balanced Scorecard contemplates all the perspective equally which may not suit all the companies especially those which are facing unique circumstances. Assigning weights to different perspectives under differing circumstances may add more values.

Though Balanced Scorecard serves as best tool, still there is no complete acceptance by all the companies. The main reason behind it is companies find difficulties in formulating strategy itself. This could be overcome by provided training and expertise knowledge to the top management personnel so that a suitable business strategy can be formulated to suit the need the company.

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