# Balanced Scorecard Analysis in Corporate Strategic Decision Making

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Received: August, 2024; Accepted: August, 2024; Published: November, 2024
**Permalink/DOI:**

**Abstract**

Decision making is an important aspect in the company. Strategic management is strategic decision making, which enables the company to adapt to the external environment and influences the function and direction of the company's development. Companies need appropriate measurement methods to measure the effectiveness of activities, as well as the success of implementing strategies and results in accordance with company objectives, namely the balanced scorecard (BSC). This research aims to obtain analysis related to the use of BSC in strategic decision making. This research uses a literature review method of 52 related articles and books. In accordance with the context of strategic management, companies that apply BSC can increase the achievement of strategic goals and improve their performance. BSC is able to support and facilitate strategic decision making because of its comprehensive company situation analysis capabilities which make it easier for managers to carry out structured and broad analysis to achieve goals and results by focusing on what is important. Managers are focused in making decisions. BSC is a good strategic management tool to be implemented in a company. BSC helps companies to achieve their strategic goals. BSC relies on financial and non-financial aspects. BSC provides a comprehensive picture for companies to take the right strategic decisions and steps for the company's survival. Future research can examine more deeply the use of BSC in large and smaller scale companies such as MSMEs.

**Keywords:** *Balanced Scorecard, Strategic Decision, Decision Making, Strategic Management*

## INTRODUCTION

Making a decision to take an action is an important aspect in life, including in a company. Decision making errors have fatal consequences that can impact the survival of a company. In making decisions, it is important to comprehensively consider several crucial factors. Consideration of various other alternatives also needs to be done before making a decision. Company decision making is usually carried out by leaders so that they can achieve company goals and not harm the parties concerned (Rosemarie, 2010).

Companies that can win in competition are companies that are able to adapt, have high cultural quality, are innovative and are entrepreneurial. When facing a dynamic business environment, an appropriate and structured strategy is needed. The combination of strategic processes with management functions, namely formulating, implementing and evaluating, is called strategic management (Sidiq, 2015). The essence of strategic management is strategic decision making, which enables the company to adapt to the external environment and will influence the function and direction of the company's development (Eisenhardt & Zbaracki, 1992; Hofer & Schendel, 1986; Segev, 1987). Strategic management is the art and knowledge of formulating, implementing and evaluating cross-functional decisions in order to achieve organizational goals (David, 2011). Strategic management is managerial decisions and actions as a determinant of a company's long-term performance (Hunger & Wheelen, 2010).

In the evaluation stage of a company's strategy, an appropriate measurement method is needed to measure the effectiveness of activities within the company, as well as measure the success of implementing the strategy and the results in accordance with the company's goals. One way is to use a balanced scorecard (BSC). In BSC, the company's main objectives can be divided into detailed operational tasks (Bochenek, 2019). BSC is a key factor in company evaluation and plays an important role in the company's strategic management both in the planning and execution stages (Li & Fu, 2019). This research aims to obtain analysis related to the use of BSC in strategic decision making. The novelty of this research is the use of BSC in company strategic decision making as well as the literature study method applied in this research.

## THEORETICAL REVIEW

### Strategic Management

Strategic management is a basic process in dealing with external changes (Ginter et al., 2002). Strategic management is a concept that has developed since the 1960s through studies of economic organizations, bureaucracy, work science and the role of managers, and so on (Furrer O., 2008; Ketchen et al., 2008; Nag et al., 2007; Nurer et al., 2008). Strategic management has 3 activity elements consisting of strategic analysis, namely understanding the company's strategic position; strategic choice, namely understanding the basic guidelines for strategic decision making; and strategy implementation, namely implementing the strategy (Johnson et al., 2008).According to the strategic management view, company members must have an external orientation and care about overall business issues, not just internal operations and job responsibilities (Swayne et al., 2008).

### Corporate Decision Making

Decision making plays an important role in a company's success. Decision making is the result of selection and evaluation of various alternative strategies. The decisions taken must be in line with the company's goals and must be effective. The company's decision-making process is understanding the problem faced, preparing a list of alternatives, selecting alternatives, implementing the choice, and evaluating the results (Sola, 2018).

Strategic decision making is carried out by a manager or a group of managers within the company. They have persuasive abilities so that subordinates will follow. Strategic decisions determine the direction of development of a company (Lekara Bayo & Odunayo, 2022).Strategic decision making is an attempt to plan the long-term future of a company to experience success. Strategic decision making is a specific type of decision making that is closely related to the actions taken, the resources needed, and the concept of implementation (Eisenhardt & Zbaracki, 1992). Strategic decision making is characterized by novelty, complexity and openness, as a response to the phenomenon of companies starting their business with minimal understanding of the decision situation they are facing or the path to a solution, and only having unclear ideas regarding what solutions might be taken and how things might work. it will be evaluated as it is developed. So it requires difficult processes and steps with a number of dynamic factors in decision making (Mintzberg et al., 1976).

**Balanced Scorecard (BSC)**

BSC is an approach to strategic management. BSC was introduced by Robert Kaplan and David Norton in the 1990s. BSC is a management and strategic formulation tool that . BSC facilitates companies in implementing their strategies through a transparent process and connecting each individual's performance with the company's strategy. BSC consists of 4 pillars, namely (RS Kaplan & Norton, 1996b):

1. Financial perspective: Describes financial objectives and their measurement. The criteria used include investment return ratio, shareholder value, profitability capability, revenue growth and unit costs.
2. Customer perspective: Describes the value to customers that leads to satisfaction. The criteria used include the value of on-time delivery, quality, performance and type of communication.
3. Internal business process perspective: Describes important processes that are effective against strategy with process performance measurement indices.
4. Growth and learning perspective: Contains a diagnosis of intangible assets that influence strategic success. Consideration of human resources and their abilities, knowledge, technology and organizational culture plays an important role. In this perspective, there are components and objectives of organizational strategy, measures, quantitative targets, and strategic actions.

The advantage of using BSC is that it is a framework that reflects organizational strategy through aspects of finance, customers, internal processes, and growth and learning. BSC can fill the gap between managers' goals and the goals perceived by employees. BSC as a system for measuring past and future performance. BSC helps achieve company goals and improves strategic planning (Fooladvand et al., 2015). The implementation is sometimes complicated, but it is worth the need for effective planning according to the company's needs (Niven, 2006; Primer, 2016).

**METHOD**

This article uses a literature review method which provides output in the form of data and a description of the findings as a research study to develop a discussion of the problems studied (Andriani, 2021). More than 52 relevant articles and books were identified. This review focuses on critical elements in the analysis of the use of the balanced scorecard in strategic decision making in terms of strategic management theory.

## RESULTS AND DISCUSSION

In accordance with the context of strategic management, companies that apply BSC can increase the achievement of strategic goals and improve their performance (Der-Jang & Hsu-Feng, 2011). BSC is a tool that links strategy with organizational goals. BSC provides a mechanism that aligns activities and processes within a company according to its long-term goals (Rahimi, 2013). The use of BSC includes strategies for utilizing existing resources such as human resources, finance, and so on (Alao, 2013). Companies that have a strategy will be able to adapt their capabilities to the opportunities that exist in the market (Horngreen, 2016). Companies need to make regular strategy adjustments, continuous improvement and development because the world and business are dynamic (Hannabarger, Buchman, & Economy, 2007).

BSC is a tool that transforms a company's mission and strategy into measurable goals, actions and performance. The BSC has shifted from just being a performance assessment to a system for managing and implementing company strategy. The BSC approach, which can be applied at various levels (company as a whole, strategic business lines, individual operational lines, or related individuals themselves), involves the main elements in the company's operations, setting goals, and measuring its progress (Evans, 2005). BSC displays cause and effect relationships in the implementation of the company's mission and strategy (R. Kaplan & Norton, 2001). BSC enables companies to focus on achieving the organization's strategic goals in the future effectively and efficiently (Kalender & Vayvay, 2016). In implementing BSC, it is not free from the following difficulties:

1. Misrepresenting data for managers to interpret (Lingle & Schiemann, 1996).
2. Failure to build a cause and effect relationship between components, namely between the expected strategic results and the triggers so that a strategy can be successful (R. Kaplan & Norton, 2001). For example, increasing work morale will have an impact on excellent service which will lead to customer satisfaction and repeat purchases, even positive word of mouth (Doran, Haddad, & Chow, 2002).
3. Failure to gain employee support for the strategic management system. Managers and employees must understand the implementation of BSC in understanding the company's strategic goals (Doran et al., 2002; Huckestein & Duboff, 1999).

The financial perspective in the BSC measures the effectiveness of other perspectives. In this perspective, the economic success of previous strategies and the financial performance of these strategies to increase income and minimize costs are reflected. The customer perspective includes customer targets such as market share, customer satisfaction, loyalty, and acquisition. Companies that have a clear vision for customers can survive the competition. The internal business process perspective will describe effective processes for efficient achievement of company goals, both short and long term, with a combination of innovative processes. The learning and growth perspective includes employee skills, training, and administration in line with the company's strategic goals (Kalender & Vayvay, 2016).

BSC is a strategic management tool that functions to explain 4 important perspectives in a company, along with cross-functional relationships within them which lead to improvements, problem solving and strategic decision making (R. Kaplan & Norton, 1992) so that strategic objectives can be implemented in action to improve company performance (R. Kaplan & Norton, 2000). Strategy formulation is no less important than strategy implementation, so the term organization has emerged which focuses on strategy which reflects strategy implementation, communication and relationships at all levels of the organization (R. Kaplan & Norton, 2001).

In implementing BSC, the strategy must be clear. A company's competitive advantage reflects the company's capabilities and resources which are able to deliver more value to customers compared to competitors. A clear strategy describes clear direction where resource allocation must be effective and efficient for all lines of the organization and employees in decision making, implementing policies consistently by prioritizing the company's competitive advantage (Atkinson, Kaplan, Matsumura, & Mark Young, 2012).

BSC helps top management to connect company strategy by focusing on 4 perspectives, namely creating value for customers (customers); improving employee and organizational capabilities and information systems for continuous improvement (growth and learning); improving the fulfillment of customer and shareholder expectations (internal business processes); as well as success from a financial perspective. The company's long-term goals are usually within 3 to 5 years and are acceptable, flexible, motivating, appropriate, understandable, achievable and measurable. The BSC application will help managers group company missions to be achieved through increasing revenue, solutions to customer needs and requests, and adjusting employee incentives and rewards (Kopecka, 2015).

BSC provides an overview of how companies can make strategic decisions from 4 perspectives (Kopecka, 2015):

1. Customer perspective: Making strategic decisions in accordance with long-term goals as a solution to target customer needs in accordance with the company's mission. For example, a low cost leadership strategy must have suppliers with low prices, maintain high quality, fast and easy purchasing, and the right choice. Product leadership strategy offers high quality products so that the company becomes number one in the competition.
2. Learning and growth perspective: Strategic decision making by adjusting employee incentives and rewards according to company strategy. In this case it is divided into 3, namely human resources (attractive competency development strategies that increase employee capabilities), information

technology (supporting applications, adequate data and information systems), organizational culture and alignment (customer oriented culture)

3. Financial perspective: The company's goal is success in competition that increases value for shareholders and employees. Strategic decision making is to increase productivity (reducing direct and indirect costs, financial efficiency and use of physical assets), as well as increasing revenue (creating income and income from existing customers with additional income from selling existing products to new markets or creating new products). new for new markets).
4. Internal business process perspective: When the company's goals are clear, then the way to achieve them will also be clear. Strategic decision making is by prioritizing the operations management process (selecting capable suppliers, improving quality and operational cycles, increasing effective and efficient use of assets, delivering goods and services responsively to customers), customer management processes (attracting new customers, satisfying and retaining customers, creating customer growth), innovation processes (creating innovative products and services, good research and development), regulatory and social processes (corporate social responsibility programs/CSR that retain customers, employee morale, ethics, and build a good company reputation) .

BSC is an innovation in management and control practices that focuses on company goals, coordination, decision making, and as a corporate learning medium (Modell, 2009; Ribeiro, Costa, & Costa, 2013). BSC is able to support and facilitate strategic decision making because of its comprehensive company situation analysis capabilities which make it easier for managers to carry out structured and broad analysis to achieve goals and results by focusing on what is important. Managers become more focused in making firm decisions. BSC helps company managers with tactical and operational steps vertically and horizontally in the long and short term. The use of BSC provides analysis according to objectives, namely with clarity of vision and strategy, planning, goal setting, communication, and linkage of goals and strategic actions, as well as optimizing input according to the 4 perspectives. A manager will have comprehensive knowledge regarding company goals and targets to make the right strategic decisions with BSC guidance (Macêdo, Filho, Santos, & Mascena, 2020). The application of BSC is useful in decision making because it relies on perspectives that play an important role for the company. BSC functions in business analysis, selecting important information needed to make strategic decisions,and minimizing vital and critical indicators that translate business conditions (RS Kaplan, 1998).

## CONCLUSION

BSC is a good strategic management tool to be implemented in a company. Apart from its goodness, of course BSC also has weaknesses, but these weaknesses can be overcome with preventive steps. BSC helps companies achieve their strategic goals, so it is useful in making company strategic decisions. BSC is able to break down complex company goals and strategies into measurable and detailed strategies. BSC does not only rely on financial aspects, but also non-financial aspects. BSC provides a comprehensive picture for companies to take the right strategic decisions and steps for the company's survival. Future research can examine more deeply the use of BSC in large and smaller scale companies such as MSMEs.

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