The Effect of Using Balanced Scorecard on Competitive Advantage and Its Impact on Firm Performance

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Abstract

The paper is aimed to examine the effect of balanced scorecard on competitive advantage and its impact to firm performance. The samples of this research are companies that use balanced scorecard in DKI Jakarta as many as 50 companies. This research is uses primary data by giving questionnaires to corporate managers using balanced scorecard. We use Structural Equation Model with SmartPLS. The result of this research shows that there is positive effect between balanced scorecard to competitive advantage. Finding also shows that there is positive effect between balanced scorecard and competitive advantage to firm performance. The research also proves that there is positive effect between balanced scorecard to firm performance through competitive advantage. The findings of this study indicate that the better the application of balanced scorecard in the company will increase the competitive advantage and firm performance.

Keywords: balanced scorecard, competitive advantage, firm performance

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Abstrak

Artikel ini bertujuan untuk meneliti pengaruh *balance scorecard* terhadap keunggulan kompetitif. Sampel penelitian ini adalah perusahaan-perusahaan yang menggunakan *balance scorecard* di DKI Jakarta sebanyak 50 perusahaan. Penelitian ini menggunakan data primer dengan cara mengirimkan kuisioner kepada manajer perusahaan yang menggunakan *balance scorecard*. Peneliti menggunakan *Structural Equation Model* – SmartPLS. Hasil penelitian ini menunjukkan bahwa ada pengaruh positif antara balance scorecard terhadap keunggulan kompetitif. Temuan lain adalah adanya pengaruh positif antara *balance scorecard* dan keunggulan kompetitif terhadap kinerja perusahaan. Selain itu, hasil riset juga menyatakan adanya pengaruh positif antara *balance scorecard* terhadap keunggulan kompetitif terhadap kinerja perusahaan melalui keunggulan kompetitif. Temuan penelitian ini menunjukkan penerapan *balance scorecard* di perusahaan akan meningkatkan keunggulan kompetitif dan kinerja perusahaan.

Kata Kunci: *balanced scorecard*, keunggulan kompetitif, kinerja perusahaan

INTRODUCTION

In the globalization era, competition increasing tight in various business fields, especially in big cities. The firm performance has always been a measure of the company's success so that requires a method that can measure the performance (Kaplan & Norton, 1996). The importance of measuring performance appropriately, according to Keats & Hitt (1988) because performance is a difficult concept, both the definition and measurement. By knowing the performance condition then the company can make revisions to the policies that are not relevant so that future achievement will be better.

In assessing of the firm performance, generally many companies still use the financial statements as the only benchmark of business performance. Performance appraisal from a financial perspective only can cause weaknesses, because a good financial performance can be achieved by sacrificing the company's long-term interests. The weaknesses are (1) not paying attention to the investment risk associated with the cost of capital, (2) not describing the value creation for the company and (3) short term oriented (Utama, 1997), so the use of financial ratios in the financial statements is abandoned. Due to the limitations of existing performance appraisals so Kaplan and Norton (1996) formulates new method that can measure performance comprehensively, namely the Balanced Scorecard (BSC). Performance measurement by Balanced Scorecard uses several integrated perspectives, namely financial perspective, customer perspective, business process perspective and growth and learning perspective

The creation of good corporate performance cannot be separated from the competitive advantage owned by the company. The company's ability to create competitive advantage will strengthen the company's position in long-term business competition. In achieving competitive advantage itself, there are five dimensions that are used to assess how good a company's competitive advantage is. The five dimensions of competitive advantage are price, quality, dependable delivery, production innovation and time to market (Li *et al.,,* 2006).

One of the keys to successful implementation of Balanced Scorecard is the full support of every layer of management that exists within the organization. An opinion under the Balanced Scorecard can help a company to manage changes, as well as helping managers to develop all modes of evaluation that affect company value (Bermser, 1999; Norreklit, 2003; Davis & Albright, 2004).

Firm performance refers to how well an organization achieves goals with market oriented as well as financial goals (Yamin *et al.,*, 1999). A number of previous studies have measured firm performance using financial criteria and market criteria, (Vickery, *et al.,,* 1999, Wati, *et. al.,* 2016). However, according to Neely (1999) firm performance can be measured by financial and non-financial indicators. Venkatraman & Ramanujam (1986) said that the firm performance has three dimensions of financial performance, operational performance and stakeholder performance. By paying attention to the measurement of the firm performance, it can encourage efforts to realize the goals, objectives, mission and vision of the organization that aims to create maximum performance for the company.

Several previous studies have supported that the use of Balanced Scorecard within the company has a positive effect on competitive advantage. The competitive advantage improvement of a company will have an impact on improving the firm performance and the use of Balanced Scorecard within the company gives a positive impact on the improvement of firm performance (Sim & Koh, 2001; Kallas, 2006; Li *et al.,* 2006; Strohhecker, 2007: Tuan & Yoshi, 2010; Der & Hsu, 2011; Tewal, 2012; Prayhoego, 2013; Lokatili *et al*., 2013). Based on the above background, it can be formulated problem as follows:

1. Does the use of Balanced Scorecard affect company's competitive advantage?
2. Does the use of Balanced Scorecard affect firm performance?
3. Does the company's competitive advantage affect irm performance?
4. Does Balanced Scorecard affect firm performance through competitive advantage?

LITERATURE REVIEW

Balanced Scorecard

The Balanced Scorecard is an approach to management strategies developed by Robert Kaplan and Norton in the early 1990s. The Balanced Scorecard comes from two balanced and scorecard words. Balanced means a balance between financial and non-financial performance, short-term performance and long-term performance, between internal performance and external performance. While the scorecard is a card used to record a person's performance score. The scorecard can also be used to plan the scores that want to be realized by person in the future.

In its application, according to Kaplan and Norton (2006), Balanced Scorecard is measured using four perspectives: financial perspective, customer perspective, internal business perspective, and learning and growth perspective. While managing and improving business processes, customers and employee satisfaction, the financial perspective should also be enhanced due to this perspective is a measure of the end result of organizational assessment (Bhasin, 2008) because financial performance measures provide clues whether the company's strategy, and its implementation give contribution or not to increase company's profit. The importance of customer focus and customer satisfaction is quite important in the new management philosophy (Ahmadi *et.al.,* 2012). Recent management research has shown an increasing awareness of the importance of customer focus and customer satisfaction in any business (Qin *et.al.,* 2013).

In the internal business process perspective that is determining the process that satisfies the company's shareholders and customers (Kaplan & Norton, 2001). The internal business perspective focuses on whether an organization should perform customer needs well, defined in the customer perspective (Ahmadi *et.al.,* 2012). The learning and growth perspective has measurement indicators related to the creation of long-term growth and organizational improvement through workforce/employees, system and organizing programs (Kaplan & Norton, 1996).

Another thing that is gained by applying the Balanced Scorecard method is the retention of workers, which is the ability to retain the best employees or employees in the company. Because with this method employee performance can be measured and assessed in futures. As we have often heard that human resource is a long-term investment company. Employee retention is measured by turnover percentage. Work productivity is also seen by looking at the results of the overall impact of skills and moral enhancement, innovation, internal processes and customer satisfaction. The purpose of it all is to connect the output produced by the worker to the number of workers who are supposed to produce the output.

Competitive Advantage

Competitive advantage is defined as the ability of an organization to create a position to withstand its competitors and comprises an organizational capability that allows an organization to differentiate itself from its competitors and is a critical outcome of management decisions (Tracey *et.al.,* 1999; Li *et.al.,* 2006).

Competition is critical to a company's success or failure. Competitive strategy is an attempt to find a favorable position in an industry, which is a fundamental area in the process of

competition. According to Porter (2005), competitive advantage is about how a company actually implements generic strategies into practice.

Companies are said to be able to have sustainable competitive advantage when it can apply value to create strategies that are different from current competitors or potential competitors and when other companies cannot duplicate the benefits of this strategy (Barney, 1991).

Firm Performance

Firm performance is a description of the financial condition of a company that is analysed with the tools of financial analysis, so it can be known about either the poor financial condition of a company that reflects the performance of work within a certain period. It is very important that resources can be used optimally to face environmental changes. Assessment of financial performance is one way that can be done by the management in order to fulfil its obligations to the funders and also to achieve the goals set by the company. Performance is a term generally used for part or all of the actions or activities of an organization for a period with reference to standard amounts such as historical costs or projected cost, on the basis of efficiency, accountability of management and the like (Srimindarti, 2004). Whereas according to Mulyadi (2007) Performance is the success of personnel, team, or organizational unit in realizing the predetermined strategic goals with the expected behavior.

Firm performance is all the activities undertaken by the company related to the achievement of strategic management goals during a certain period. Performance measurement is also used to assess the achievement of goals and objectives (Whittaker, 1993).

There are several factors that affect performance. According to Amstrong (1998) these factors are as follows:
1. Personal factors. Personal factors are related to skill, motivation, commitment, etc.
2. Leadership factors. Leadership factors are related to the quality of support and direction given by leaders, managers, or group work leaders.
3. Group factors/co-workers (team factors). Group factors/co-workers are related to the quality of support provided by co-workers.
4. System factors. System factors are related to existing systems/methods of work and facilities provided by the organization.
5. Contextual/Situational factors). Situational factors are related to pressure and environmental changes, both internal and external environments.

A performance measurement system is a mechanism that improves the likelihood for a company to have a successful strategy (Anthony and Govindarajan, 2003). Venkatraman and Ramanujam (1986) argue that firm performance has three dimensions, that are financial performance, operational performance and stakeholder performance. However, according to Combs *et.al* (2005) and Higgins (1995), the most common types of organizational performance measurements often used in empirical research are:
1. Financial and Accounting Performance
2. Operational Performance
3. Performance Based Market

Hypothesis

Chan (2004) examines the performance of municipal governments in Canada and the United States. The study categorized city governments into three categories: (1) not knowing BSC, (2) knowing BSC but not implementing it and (3) implementing BSC. These three categories give different results on the BSC perspective, in which city governments implementing BSC have better performance.

Kallas (2006) examined the implementation of Balanced Scorecard in management strategy which resulted the finding that Balanced Scorecard positively affect to competitive advantage.

Sim and Koh (2001), compared traditional performance measurement systems based on financial indicators with the Balanced Scorecard and the effect of both systems on firm performance. The results showed that there is a positive effect Balanced Scorecard and performance measurement system associated with strategies and objectives in improving firm performance.

Strohhecker (2007) examined the effect of Balanced Scorecard on firm performance. The results of this study indicate that the use of Balanced Scorecard gives a positive effect on firm performance.

Tuan and Yoshi (2010), examined the organization's capabilities, competitive advantage and organizational performance in boosting companies in Vietnam. The results of Tuan and Yoshi's research showed that competitive advantage had a positive and significant effect on firm performance.

Li *et.al*. (2006), examined the effect of supply chain management on competitive advantage and firm performance. One of the findings is that there is a positive effect of competitive advantage on firm performance.

Prayhoego (2013), examines the effect of Total Quality Management on competitive advantage and firm performance. In this research, it was found that there is significant effect between competitive advantage to firm performance.

Lokatili *et al.,* (2013) conducted a research on the effect of Balanced Scorecard on competitive advantage and firm performance in Indonesia, the results showed that Balanced Scorecard positively effect to competitive advantage and firm performance, as well as competitive advantage positively effect to firm performance, but they didn't analyze indirect effect of Balanced Scorecard on firm performance through competitive advantage. So, our research aim to fill the gaps in the literature to exemine direct and indirect effect of Balanced Scorecard to firm performance throught competitive advantage. The following figure is a research framework.
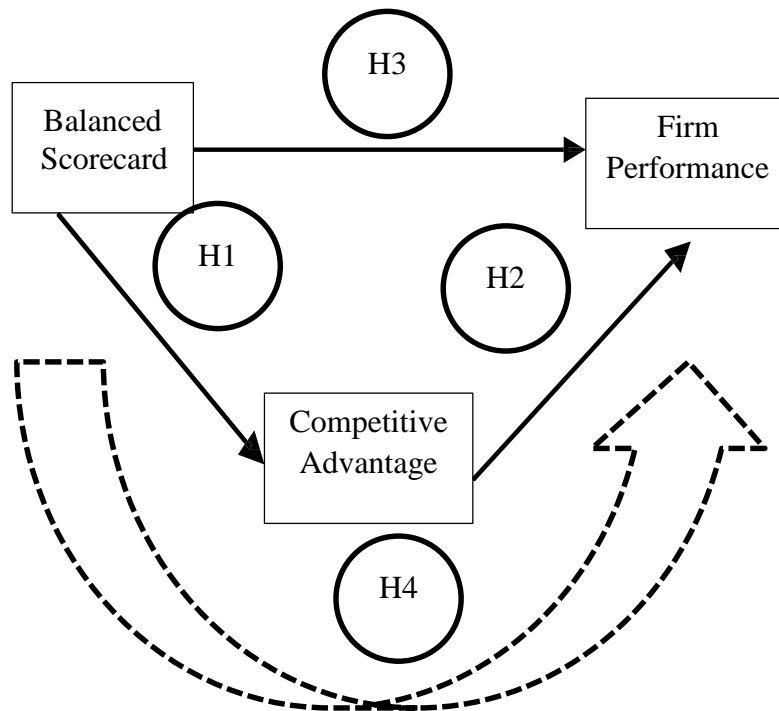
Source: Literature Review
Figure 1: Research Framework

Based on the results of previous research and to fill the gap of previous research on indirect effect, the authors formulate the following hypothesis:

H1 = The use of balanced scorecard has a positive effect on competitive advantage.
H2 = The use of balanced scorecard has a positive effect on firm performance
H3 = Competitive advantage positively affects on firm performance.
H4 = The use of balanced scorecard has a positive effect on firm performance through competitive advantage.

RESEARCH METHOD

The sample in this research are companies that use Balanced Scorecard in DKI Jakarta area as many as 50 companies. This study uses primary data by giving questionnaires to corporate managers which using Balanced Scorecard in DKI Jakarta area. Data analysis uses Structural Equation Model with SmartPLS.

The variables used in this research are Balanced Scorecard as independent variable, competitive advantage as intervening variable, and firm performance as dependent variable

The following table 1 explains the operationalization of variables:

Table 1. Description of Variables

Variables	Indicator	Question
Balanced Scorecard (Independent):	• Financial Perspective • Customer/Stakeholder • Internal Process • Learning and Growth	1. Use of BSC within the company. 2. Measurement of four BSC perspectives to measure performance 3. Combining four BSC perspective measurements for performance measurement 4. Using a cause-effect approach between BSC perspectives in performance measurement 5. Incorporate performance measurements in strategy implementation 6. Describe the strategy in detail 7. Setting multiple measurements before using BSC 8. Establish performance reporting system in BSC measurement 9. Monitor BSC measurements 10. BSC is used so that employees understand what responsibilities
Competitive Advantages (Intervening)	• Strategic Advantages • Operational Advantages • Tactical Advantages	1. Offer competitive prices 2. Offer prices that are as low or even lower than competitors 3. Offer a high quality product 4. Provide higher compensation 5. Delivering goods on time 6. Delivering goods according to quantity and order 7. Provide products according to the wishes and needs 8. Products with new features 9. Pioneer in introducing products to customers 10. Move quickly in developing products
Firm Performance (Dependent)	• Profit Margin • Market Share • Return on Sales	1. Able to achieve return on sales 2. Able to achieve profits that have been targeted 3. Able to achieve sales growth rate 4. Able to achieve productivity levels that have been targeted 5. Able to achieve production cost that has been targeted 6. Able to achieve market share that has been targeted 7. Always introduce new products 8. Able to offer products / services accordingly 9. Able to cover the entire scope of market share 10. Able to meet customer needs

Source: Literature

To test the research hypothesis, the model used is as follows:

$$CA = \alpha + \beta_1\, BSC + e_1 \tag{1}$$
$$FP = \alpha + \beta_2\, BSC + \beta_3\, CA + \beta_4\, BSCCA + e_2 \tag{2}$$

To detect the effect of mediation, it can be done by a procedure developed by Hair *et. al.* (2011). The conditions in this test are: First, the direct effect must be significant when the mediating variable has not been incorporated into the model. Second, after the mediating variable is incorporated into the model, the indirect effect must be significant. Each path must be significant to satisfy this condition. Third, calculate variance accounted for (VAF) with the formula of **indirect effect / total effect**. VAF is a measure of how much the mediating variable is able to absorb the previously significant direct effect of the model without mediation. If the VAF value above 80% indicates the role of the mediating variable as full mediation. If the VAF is worth between 20% -80% then it can be categorized as a partial mediator. However, if the VAF is less than 20%, the researcher can conclude that there is virtually no mediation effect (Hair *et. al.,* 2011).

RESULTS AND DISCUSSION

Descriptive Analysis
The following table describes the industrial sector of the firms from respondents in this study:

Table 2. Industrial Sector

Industrial Sector	Frequency	Percentage (%)
Manufacture	8	16
Services	23	46
Retail	5	10
Finance	8	16
Others	6	12
Total	**50**	**100**

Source: Data processed

Based on the Table 2 above, it is known that from total of 50 respondents who become the object of research is the industrial sector of the company It can also be seen from the total of 50 companies there are 16% percentage for manufacturing sector, 46% for service industry, 10% for retail industry, 16% for financial industry sector and 12% for other industrial sectors.

The following is descriptive of work length of managers who became respondents in this study:

Table 3. Work Length of Respondent

Work Length	Frequency	Percentage
1 – 4 years	28	56
5 – 8 years	20	40
>9 years	2	4
Total	**50**	**100**

Source: Data processed

Based on Table 3, it is known that the length of work of the respondents is 1 - 4 years 56%, 5 - 8 years 40% and for> 9 years by 4%. It can be concluded that the respondents in this study are managers who have been working for more than 1 year.

Below is the descriptive gender of the manager who became the respondent in this study.

Table 4. Gender of Respondents

Gender	Frequency	Percentage (%)
Male	32	64
Female	18	36
Total	**50**	**100**

Source: Data processed

Based on the table above, it can be seen that the number of male and female respondents are as much as 64% and 36%

Descriptive of Respondents Answers

In this analysis the respondents' answers will be explained on each research variable, namely Balanced Scorecard, competitive advantage and firm performance. Description of the respondent's answer is done by calculating the mean value of the respondent's answer to each question and overall. Class interval is used to categorize the average respondent answers related Balanced Scorcard, competitive advantages and firm performance:

Table 5. The Average Category of Respondents' Answers

| Interval	Category	Indication
$4.20 < a \leq 5.00$	Strongly agree	Very good
$3.40 < a \leq 4.20$	agree	Good
$2.60 < a \leq 3.40$	Neutral	Enough
$1.80 < a \leq 2.60$	Not agree	Not good
$1.00 < a \leq 1.80$	Strongly not agree	Very not good

Source: Data processed

Hypothesis Test

Outer Model

The relationship between variables and indicators can be seen from the measurement model (outermodel). Outer model evaluation is done to know the validation and reliability of data. Validation includes convergent validity and discriminant validity, and reliability is sought through composite reliability.

Convergent Validity

The indicator is stated met the convergent validity if it has a loading value above 0.5. Here are the results of convergent validity for Balanced Scorecard variables, competitive advantages and firm ferformance in companies which implementing Balanced Scorcard in Jakarta.
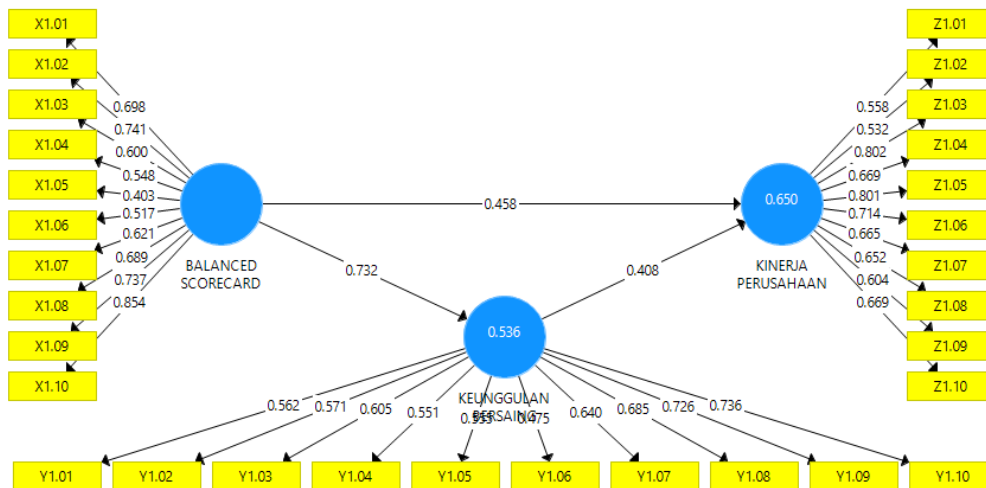

Source: Data processed
Figure 2: Outermodel Before Dropping the Indicators

Table 6. Value of the Beginning Outer Loading

Balanced Scorecard		Competitive Advantage		Firm Performance	
X1	0,698	Y1	0,562	Z1	0,558
X2	0,741	Y2	0,571	Z2	0,532
X3	0,600	Y3	0,605	Z3	0,802
X4	0,548	Y4	0,551	Z4	0,669
X5	0,403	Y5	0,555	Z5	0,801
X6	0,517	Y6	0,475	Z6	0,714
X7	0,621	Y7	0,640	Z7	0,665
X8	0,689	Y8	0,685	Z8	0,652
X9	0,737	Y9	0,726	Z9	0,604
X10	0,854	Y10	0,736	Z10	0,669

Source: Data processed SmartPLS (2017)

Based on Figure 2 and Table 6 above, the value of outer loading indicator variable Balanced Scorecard of X1 - X10, there is still outer loading value under 0.5 that is X5 and Y6. The outer loading is still to be fixed by removing the indicators whose value still below 0.5, which are X5 and Y6
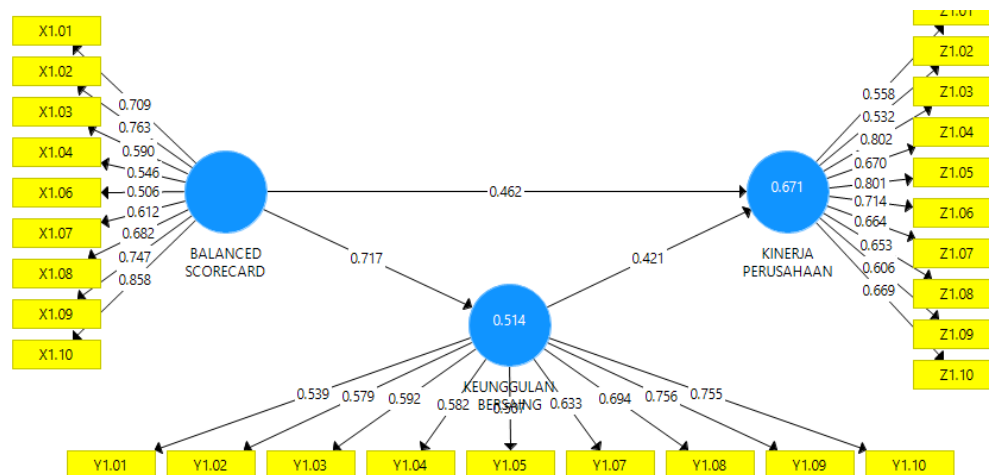
Source: SmartPLS Result
Figure 3. Outermodel After Dropping the Variables

Table 7. Value of Final Outer Loading

Balanced Scorecard		Competitive Advantage		Firm Performance	
X1	0,709	Y1	0,539	Z1	0,558
X2	0,763	Y2	0,579	Z2	0,532
X3	0,590	Y3	0,592	Z3	0,802
X4	0,546	Y4	0,582	Z4	0,670
X6	0,506	Y5	0,507	Z5	0,801
X7	0,612	Y7	0,633	Z6	0,714
X8	0,682	Y8	0,694	Z7	0,664
X9	0,747	Y9	0,756	Z8	0,653
X10	0,858	Y10	0,755	Z9	0,606
				Z10	0,669

Source: Data processed SmartPLS (2017)

Based on Figure 3 and Table 7 above, the value of outer loading indicator variable Balanced Scorecard, competitive advantage and firm performance already had value above 0.5, in other words the indicators have been good to measure the variables that being measured so it can meet the convergent validity, so there is no need for other indicators to be eliminated.

Composite Reliability
This test is performed to test the reliability value between the indicators block of the construct that form it. Here is the output of composite reliability.

Table 8. Composite Reliability

Construct	Composite Reliability
Balanced Scorecard	0,881
Competitive Advantage	0,855
Firm Performance	0,890

Source: Data processed SmartPLS (2017)

Composite reability is good which has a value above 0.70. Based on the results of the above table, it can be seen that the value of composite reliability for the Balanced Scorecard variable is 0.881, while the competitive advantage variable is 0.855, and the firm performance variable is 0.890 where all values are all greater than 0.70. Thus it can be said that the model in this study has met the composite reliability.

Inner Model
Based on data processing with Smart PLS, so the coefficient of determination (R-square) as follows:

Table 9. Value of R-Square Model

	R-Square
Competitive Advantage	0,514
Firm Performance	0,671
Q^2	0,84

Source: Data processed SmartPLS (2017)

Goodness of fit on smart PLS is known from the value of Q^2. The value of Q^2 has the same meaning as the coefficient of determination (R-square / R^2) in the regression analysis. The higher R^2 value the better model with data.

From the data in Table 8 above can be seen the value of Q^2 as follows:

$$Q^2 = 1 - [(1-0,514)\ (1-0,671)]$$
$$Q^2 = 1 - (0.486)\ (0.329)$$
$$Q^2 = 1 - 0.159894$$
$$Q^2 = 0.840 = 84.0\%$$

In this study, the R-square value obtained in equation of competitive advantage is 0,514, which means the effect of Balanced Scorecard to competitive advantage is 51.4%. While the value of R-square generated at the firm performance equation is 0.671, which means the effect of Balanced Scorecard on firm performance is equal to 67.1%.

From this research model is known that value of Q^2 equal to 84,0%. It can be interpreted the model used in this study can explain the information contained in the data of 84%.

Significance Test

To see the significance of Balanced Scorecard, competitive advantage and firm performance can be done by looking at the value of parameter coefficient and significance value of T-statiscisc. The output results can be seen in the following table obtained from the results of smartPLS output using calculate-PLS Bootstrapping.

Table 10. Path Coefficients

Hypothesis	Prediction	Coeficient	t Statistics	P Values	Result
BSC -> CA	+	0.717	13.414	0	Supported***
BSC -> FP	+	0.462	3.028	0.001	Supported***
CA -> FP	+	0.421	2.769	0.003	Supported***
BSC ->CA ->FP	+	0.302	2.649	0.004	Supported***

Notes: ***sig level 1%, **sig 5%, * sig 10%
Source: Data processed SmartPLS (2017)

$$CA = \alpha + 0.717\ BSC + e_1 \qquad\qquad (3)$$
$$FP = \alpha + 0.462\ BSC + 0.421\ CA + 0.302\ BSCCA + e_2 \qquad (4)$$

Based on the above table, Balanced Scorecrd has a positive effect on firm performance and significant at 1% level. The results of this study in accordance with the results of previous studies done by Sim & Koh (2001), Strohhecker(2007), Der & Hsu (2011), Lokatili *et.al.,* (2013), where they produce the same findings, namely the use of Balanced Scorecard positively

affect the firm performance. These results indicate that the use of Balanced Scorecard is effectively used by companies in Jakarta, not only in manufacturing companies, but also in other sectors. This result is supported by the second hypothesis, where the Balanced Scorecard has a positive effect on the competitive advantage. This agrees with the findings of Kallas (2006), Lokatili *et al.,* (2013). This result indicates that the existence of a Balanced Scorecard on a company can increase the competitive advantage of the company.

Competitive Aavantages also positively affect on firm performance on the companies that use Balanced Scorecard in Jakarta. The results of this study support the results of previous research conducted by Tuan & Yoshi (2010), Tewal (2012), Li *et. al.* (2006), Prayhoego (2013), Lokatili at *et. al.,* (2013) where competitive advantage has a significant positive effect on firm performance. These results indicate that the existence of competitive advantage in companies that use Balanced Scorecard will give a positive effect on firm performance.

There is a positive effect between Balanced Scorecard on firm performance through competitive advantage on companies that use Balanced Scorecard in Jakarta. This result means that the existence of Balanced Scorecard will give positive effect to firm performance through competitive advantage to company.

Based on calculation of VAF from Table 10 above (0,302 / 0,302 + 0,462), obtained value equal to 0,3953, which means indirect effect of Balanced Scorecard to firm performance is 39,53% which mean there is partial mediation effect of Balanced Scorecard to company performance through competitive advantages and significant.

From the results of data processing can be seen that the main factor causing corporate performance in companies that use Balanced Scorecard in Jakarta is how big the contribution of the company's managers in using and applying Balanced Scorecard in the company properly and correctly. This can be seen from the results of research stating that the Balanced Scorecard can directly improve the firm performance in operational performance indicators supported by indicators of Balanced Scorecard criteria.

CONCLUSION

Based on research result, it can be concluded that there is positive and significant effect between Balanced Scorcard to competitive advantage and firm performance partially. There is positive effect of competitive advantage and firm performance, and Balanced Scorecard positively effect to firm performance through competitive advantage.

The use of Balanced Scorecard helps managers within the company to translate the company's vision, mission and objectives, so that managers can achieve the firm performance and suitable competitive advantage for the company. The use of Balanced Scorecard can also help managers in knowing the weaknesses of the company, so that it can quickly improve the weaknesses and firm performance which company expected can be achieved in accordance with corporate objectives.

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