

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

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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

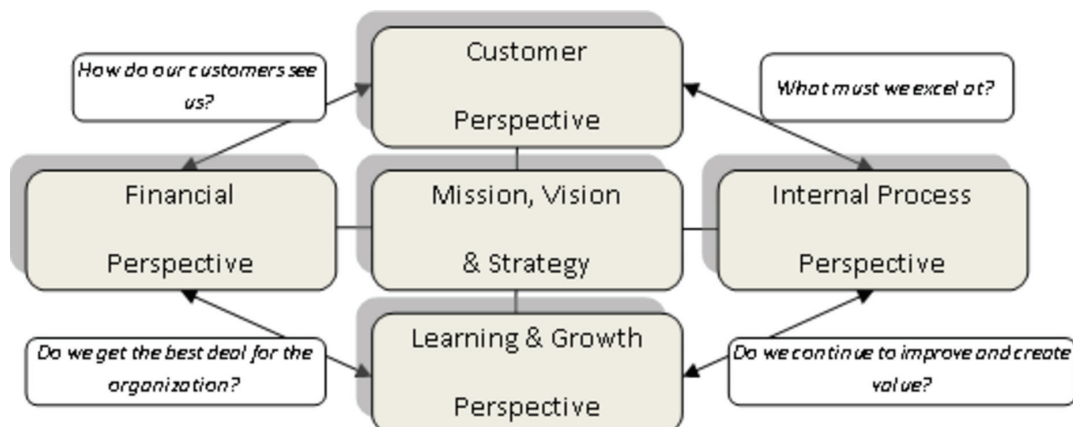
Sole emphasis on financial measurements is inconsistent with the new creation value reality, which requires employee knowledge, customer relationships and a culture of innovation. Financial reports talk about the past and are not relevant to many levels of organizations for decision-making. Research 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).

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.

Figure 1. Strategic perspectives (adapted from Kaplan & Norton, 1996)



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