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Strategic Management, Benchmarking and The Balanced Score Card (BSC): An Integrated Methodology

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Abstract

Nowadays, globalization and competitiveness are major challenges in almost all organizations and managers are seeking modern approaches to gain more competitive advantages. Considering these circumstances, issues such as strategic management, benchmarking and balanced score card (BSC) become important. In this paper, benchmarking and its role in strategic management have been demonstrated. BSC and its development process have also been addressed and finally, a new methodology has been proposed, based on the integration of the above approaches. The proposed methodology seems to be able to empower strategic management. Also, BSC and benchmarking make it possible to have vertical decomposition and horizontal integration from mission to business results.

Keywords: Strategic management, Benchmarking, BSC, Integration.

Introduction

Today, many companies need an overall strategy that includes a globalization component. Almost all companies have global potential, in varying degrees, and need a systematic framework for evaluating which elements to globalize. Because of these challenges, being able to develop and implement an effective global strategy is the acid test of a well managed company (Yip, 1992; Kasul and Motwani, 1995). On the other hand, Dixon et al. (1990) suggest that inappropriate performance measurement is a barrier to organisational development since measurement provides the link between strategies and actions. Inappropriate measures lead to actions incongruent with strategies. Appropriate measures should provide and strengthen this link, and both lead to attainment of strategic goals and impact on the goals and strategies needed to achieve them.

One of the modern approaches for determining appropriate measures is benchmarking. From the 1980s onward, benchmarking has been applied in many companies in a more or less formalized form. Nowadays, benchmarking is a widely spread management tool (Harrington, 1995). Although the content of available resources on benchmarking is diverse, their approach is primarily product or process benchmarking and they focus only on the technical and quantitative aspects of benchmarking. However, as Furey (1987), Goldwasser (1995), Kaplan and Norton (1992) and Talluri and Vazacopoulos (1998) argued, effective benchmarking is more than comparative analysis of quantitative measures from one company to another. Due to lack of integrated strategy, product or process benchmarking generally yields limited results. The value of benchmarking is most effectively utilized when it is integrated into organizational strategy and incorporated into all performance improvement efforts. Without an integrated strategy, it will not be clear what the most important processes are to be benchmarked (Meybodi, 2005). It is important to note that although empirical research has confirmed that benchmarking positively influences business success and competitiveness (Lawler et al., 2001), it is today still not seen enough in business practice.

Balanced scorecard (BSC) is a widely used management framework for the measurement of organisational performance. It gives a holistic view of the organization by simultaneously looking at four important perspectives (Financial, customer, internal processes, innovation and learning). Apart from being a measurement framework, the balanced scorecard achieved recognition as a strategic management system. The causality links suggested among the four perspectives are particularly problematic and ambiguous. The need to develop simple, comprehensive and relevant measures was behind the development of new performance instruments. Among them, the BSC achieved considerable popularity, particularly due to its potential to be used simultaneously as a tool for strategy development and implementation. Despite this considerable success, the BSC does not fully explain the factors that lead to superior performance and the way they relate with each other. (Kanji and Moura E SA, 2001). This can only be done by building a framework that incorporates the critical success factors and uses a mathematical model to describe the embedded relationships.

Taking into account the potentialities and limitations of the traditional balanced scorecard and also considering benefits and capabilities of benchmarking, a new methodology is proposed in this paper, which enhances capabilities of the above approaches. For this purpose, benchmarking and balanced score card are integrated with the process of strategic management. According to Mintzberg (1994), such integrations are useful when developing strategic thinking and the competitive capabilities of employees.

Benchmarking

There are many definitions of benchmarking. The formal form of benchmarking was first used in production companies, so it has been closely connected with production, development and quality. More narrowly defined, benchmarking is a systematic and continuous process involving the comparison of characteristics of the best products, services and processes in order to improve business performance (Harrington, 1995; Dahlgard et al., 1998). According to Prasnikar et al. (2005), "Benchmarking is a process of creating business knowledge by comparing and analyzing business information about other companies with the goal of improving the quality of decision-making." It seems this definition encompasses all the objectives and activities that are normally performed within the framework of benchmarking. The final objective of benchmarking is the application of new business knowledge to business decision making. In improving the quality of business decisions, the business performance of companies also improves. Consequently, competitive advantages become stronger. Since decision-making is part of management, benchmarking is a continuous activity that refers to all areas and aspects of management. Since business performance and long-term survival depend on competitors' business and other factors of the business environment, it is reasonable to build benchmarking systematically in the processes of strategic management. This can improve the quality of decision-making and can become one of the company's competitive advantages.

The Role of Benchmarking in Strategic Management

The strategic management function is the aspect of management that takes superior entrepreneurship, competent strategy implementation and execution to produce superior organizational performance over the long run. The strategic management process has the following components (Thompson & Strickland, 2001):

1. defining the organization's mission as a basis for establishing what the organization does and does not do;
2. establishing strategic objectives and performance targets;

3. formulating strategies to achieve strategic objectives and targeted results;
4. implementing and executing strategies; and
5. evaluating strategic performance and making corrective adjustments.

The key components of strategic management are illustrated in Figure 1a. Activities in the framework of the strategic management process can be divided into three parts:

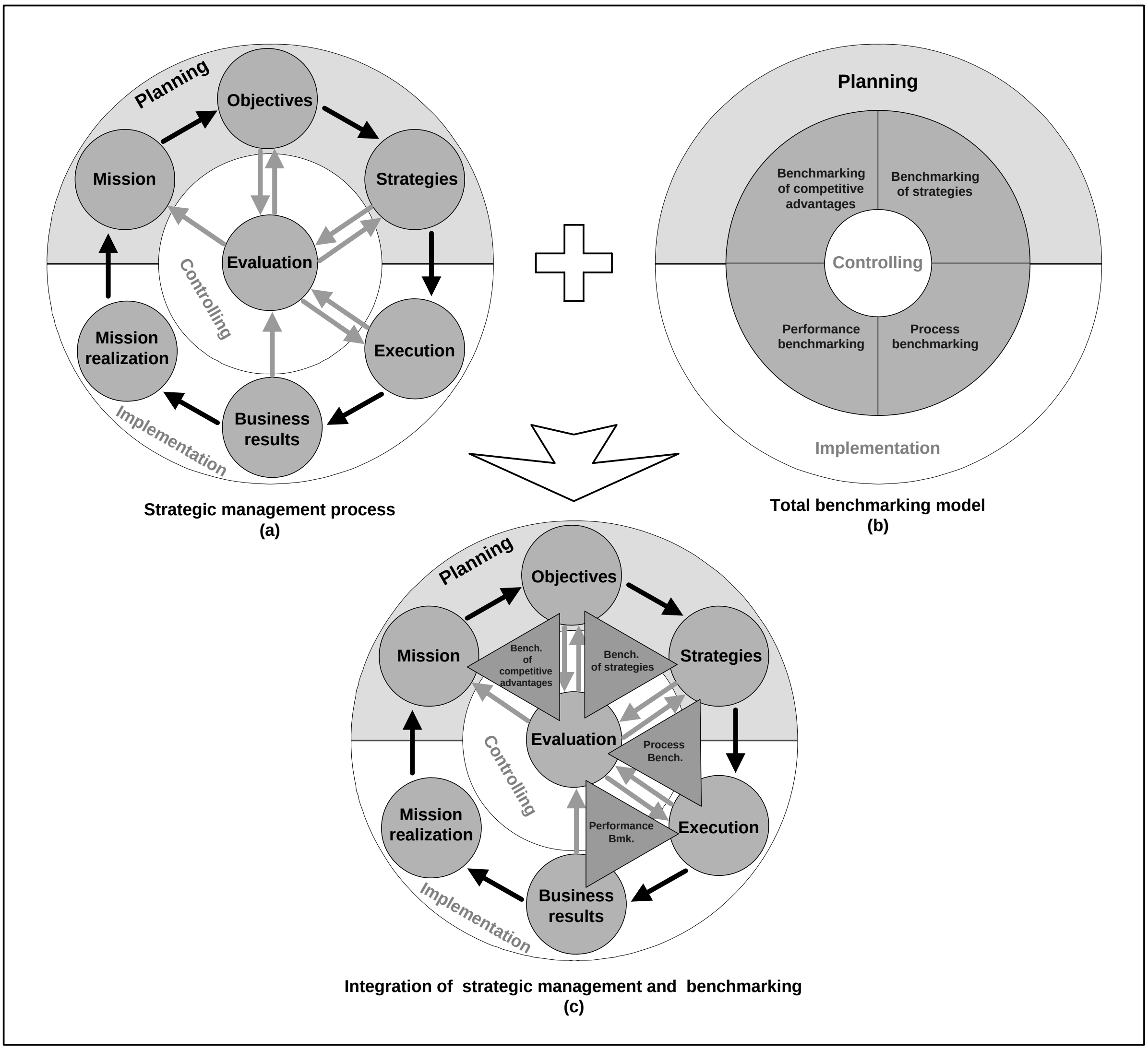
1. Planning – this includes all activities for preparing the plan of future activities and anticipating their effects.
2. Implementation – the execution of planned activities which leads to actual business results.
3. Controlling – monitoring any deviations of the actual results from those planned and taking corrective action in the case of undesirable deviations.

When taking business decisions, the company uses business information derived from the planning and controlling part of the strategic management process and is related to implementing the activities. Additional business information reduces information asymmetry in the business environment and consequently minimizes the possibility of adverse selection and related costs. With additional business information obtained by benchmarking, a company can improve the quality of its decision-making in strategic planning. It can also improve the quality of its decision-making in strategic controlling, leading to the more successful achievement of the set objectives. Therefore, it is reasonable to integrally build benchmarking into the activities of both planning and controlling. According to the connections with individual activities of strategic management, benchmarking could be divided into four basic types (Figure 1b):

1. the goal of benchmarking of competitive advantages is to create knowledge about factors on which the competitive advantages of competitors and other companies are based. The goal is to improve the company's long-run competitive advantages.
2. the goal of benchmarking of strategies is to create knowledge about the specifics of strategies used by competitors and other companies that lead to the successful achievement of objectives. The purpose is to use this knowledge in order to improve the effectiveness of strategies that lead to the realization of strategic objectives in the long run.
3. the goal of process benchmarking is to gain knowledge about the characteristics of planning, designing, executing and controlling various business processes and activities by which competitors and other companies successfully implement set strategies. The goal is to improve the efficiency of implementing their own strategies in the long run.
4. the goal of performance benchmarking is to create knowledge about competitors' and other companies' performance in order to assess comparatively the company's own business performance and to improve the quality of planning strategic objectives.

With respect to the four types of benchmarking described above cover all key categories of strategic management activities, a model is presented in Figure 1c, illustrating the integration of benchmarking and strategic management. As it is shown, Benchmarking can be integrated with the process of strategic management in such a way that it becomes a component of strategic planning, controlling and implementing activities.

Figure 1. Benchmarking and strategic management, an integrative perspective (Prasnikar et al., 2005)



The benefits of benchmarking in strategic management can be summarized in the following points (Bogan, 1994; Harrington, 1995; Karlof et al., 2001; Coers et al., 2001):

1. it enables more effective strategic planning and controlling;
2. it lowers the costs of incorrect business decisions;
3. it enables a company's efficiency to increase through the successful design and implementation of restructuring business processes and their continuous improvement;
4. it helps in solving business problems;
5. it adds an important element to the continuous education of employees, encourages their innovativeness, creativity and contributes to the creation of new ideas;
6. it enables a relative assessment of the business success and effectiveness of diverse business factors; and
7. it encourages changes and fosters special knowledge, which enables greater flexibility and faster adaptation to the changing business environment.

The benchmarking of competitive advantages enables a company to make better decisions about the competitive advantages it wants to develop and about its strategic objectives. The set objectives are the platform for carrying out the benchmarking of strategies, by which companies improve the quality of decisions about strategies that lead to meeting the set objectives. Strategies are the basis for conducting process benchmarking, by which the company tries to improve the efficiency of its processes for executing the set strategies. The consequence of these executed processes and activities is the company's performance on which performance benchmarking is focused. Thus, individual types of benchmarking are interrelated and their findings are intertwined. That is why benchmarking can only offer real support to strategic management when all four types are integrally connected.

Benchmarking can become a useful tool of strategic management if it is introduced integrally into the company. This means that it should cover all important categories of activities and that the company can take advantage of positive synergies arising between individual types of benchmarking.

Balanced Score Card (BSC)

Balanced scorecard (BSC) is a widely used management framework for the measurement of organisational performance. The BSC concept suggests that the state of processes of an organisation can be best assessed by taking a "balanced" view across a range of performance measures (Amaratunga et al., 2001). BSC was developed by Kaplan and Norton (1996), as a leader in performance measurement and management. It is a conceptual framework for translating an organisation's vision into a set of performance indicators distributed among four perspectives: financial, customer, internal business processes and learning and growth. Some indicators are maintained to measure the organisation's progress towards achieving its vision; other indicators are maintained to measure the long-term drivers of success, thus acting as a performance management system. Through the BSC, the organization monitors both its current performance, and its efforts to improve processes, motivate and educate employees, and enhance information systems – that is its ability to learn and improve. This holistic approach results in better performance, resulting from more informed management decision-making (Hoffecker and Goldenberg, 1994).

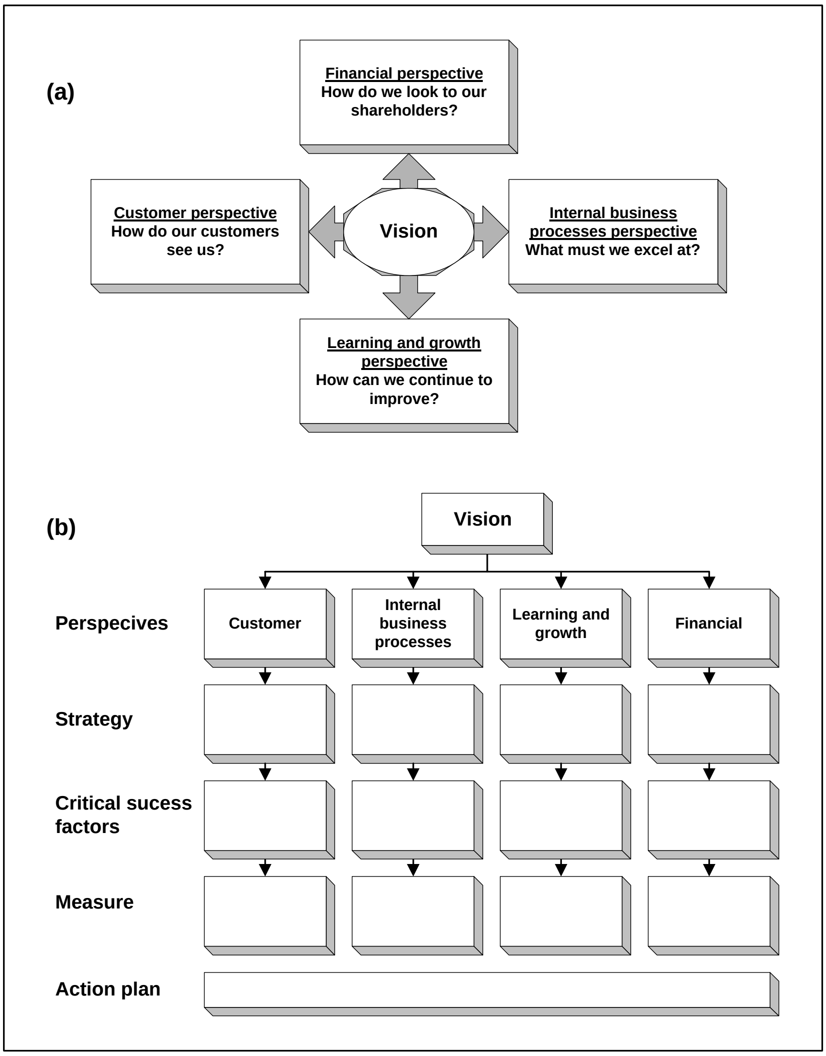
In viewing an organisation in four perspectives (Figure 2a) the BSC is intended to link short-term operational control to the long-term vision and strategy of the business and allows managers to look at the business from the four perspectives. The BSC also provides a valuable tool for enabling employees to understand the organisation's status, a must if the organisation is to achieve the dynamism it needs to be competitive in the long run. An overview of how the scorecard is developed is illustrated in Figure 2b:

1. The vision: vision addresses the organisation's desired future situation. This ensures that the performance measures developed in each perspective support accomplishment of the organisation's strategic objectives.
2. Strategy: derived from the organisation's vision, strategy is at the heart of the process. The strategy determines what is to be measured often referred to as the "critical success factors". The model makes it easier to decompose the

vision into specific, reality-based strategies which people in the organisation feel that they can understand and work with.

3. Critical success factors (CSFs): CSFs are used to determine progress towards achieving the strategic aims.
4. Develop and identify measures and cause and-effect relationships: the key to success with the BSC concept is the appropriateness and quality of the measures and whether they are used to enable management to follow the organisation's systematic efforts to exploit the CSFs considered most critical for goal achievement. Therefore, the measures must focus on the outcomes necessary to achieve the organisational vision and the objectives of the strategic plan. The great challenge is to find clear cause-and-effect relationships and to create a balance among the different measures in the selected objectives, which includes: - measures are proposed; and - feasibility of taking measurement is studied.
5. Action plan: in completing the scorecard, action plan describes the specifications and steps to be taken in order to achieve the above measurement levels. Goals must be set for every measure used. An organisation needs both short and long term goals so that it can check its course continually and take the necessary corrective action in time. The action plan includes both the people responsible and a schedule for interim and final reporting.

Figure 2. BSC and its development process (Kaplan and Norton, 1993; 1996)



It seems that the application of the BSC is far from simple and requires a comprehensive understanding of the principles involved and significant commitment towards accepting the new philosophy and implementing the necessary change. It is also important to note that not all BSC programs are implemented with success. Schneiderman (1999) identifies the following as reasons for the failure of the BSC concept in certain circumstances:

1. incorrectly identifying non-financial measures as primary drivers for future stakeholder satisfaction;
2. poorly defined metrics;
3. improvement goals arbitrarily negotiated rather than being based on stakeholder requirements;
4. non-existence of a deployment system that breaks high-level goals down to the sub-process level where actual improvement activities reside;
5. not using systematic state of the art improvement methods; and
6. breaking the cause-and-effect relationships, i.e. non-existence of links between non-financial and expected financial results.

The key approach to overcome the above is to implement a systematic and structured improvement process to underpin the measurement system. In the following some enhancements have been by which, capabilities of BSC are improved.

New methodology: Integration of benchmarking, BSC and strategic management

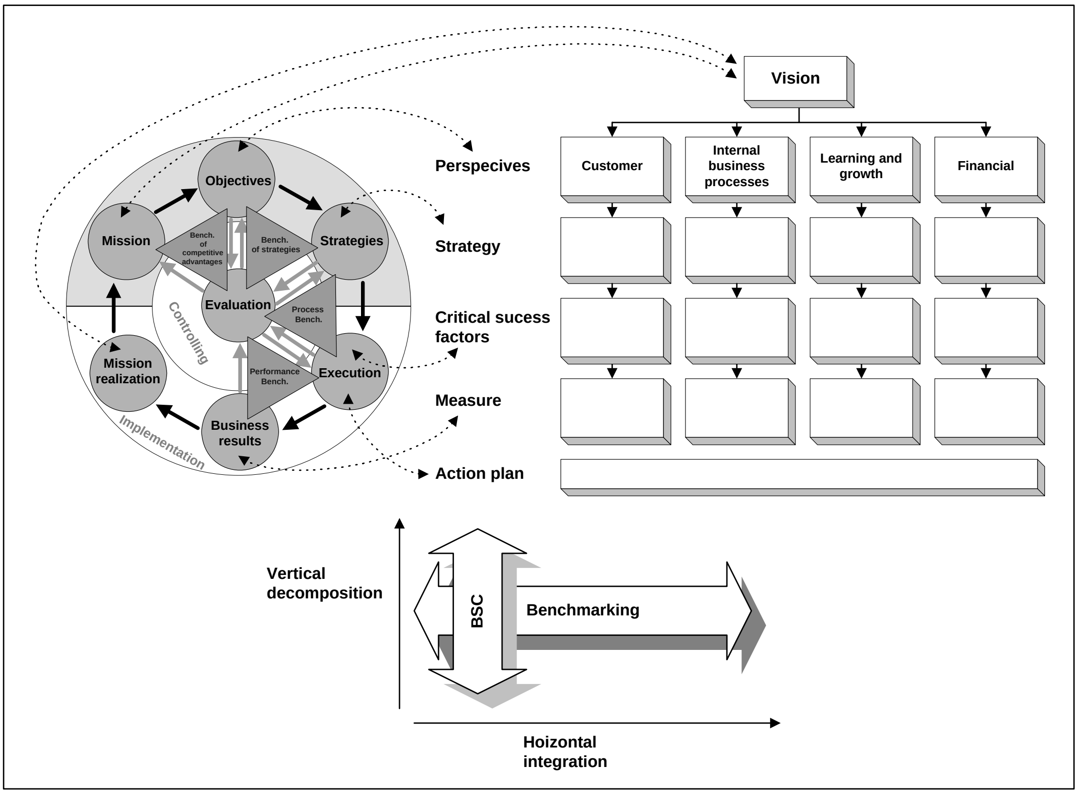
For proposing an integrated model of benchmarking, BSC and strategic management, the BSC development process (Figure 2b) is compared with the integrated model of strategic management and benchmarking (Figure 1c). In comparison between the elements of strategic management (i.e mission, objectives, strategies, execution and business results) and those of the development process of BSC (i.e. vision, perspectives, strategy, critical success factors and action plan) a consistency is found and highlighted by dotted lines in Figure 3. The consistencies are summarized in Table 1.

Table 1. Consistency between BSC and strategic management

Strategic management	**BSC**
Mission, Mission realization	Vision
Objectives	Perspectives
Strategies	Strategy
Execution	Critical success factors, Action plan
Business results	Measure

Considering the clockwise stream from mission to business results in the model of strategic management and the down stream from vision to action plan in BSC, it is concluded that the use of BSC provides a means of vertical decomposition of vision to action plan and applying benchmarking implies horizontal integration of compatible elements of BSC towards evaluation in the model of strategic management.

Figure 3. New methodology: Integration of benchmarking, BSC and strategic management



Conclusions

In this paper a new methodology was proposed for the integration of strategic management, benchmarking and Balanced Score Card (BSC). For this purpose, each of the approaches was demonstrated separately and their integration was specified precisely. It is important to note that virtually no reference exists which can offer an integrative approach in order to take the above three issues all together into account and with precision in the decision making process.

Although it seems that the proposed model has several advantages, its applicability should be tested in different organizations.

Beside different kinds of benchmarking, which were addressed, another popular classification of benchmarking could be applied, in order to make the proposed methodology more comprehensive. This classification includes internal, external, competitive, industry and generic benchmarking.

The integrated model not only provides a holistic approach for performance evaluation, it still has great flexibility to be further extended and integrated with other quality management approaches.

However, the discussed approaches individually seem to be insufficient for strategic performance measurement in organizations. They have to be accompanied by new efforts, and they should be viewed from a new, much more integrative and comprehensive perspective. The proposed methodology in this paper was an attempt to achieve a new vision in modern quality management.

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