

International Journal of Engineering Research and Science & Technology

www.ijerst.org

ISSN : 2319-5991

Vol. 19 No. 2(S) (2023)



ijerst.editor@gmail.com
editor@ijerst.com

Research Paper

**APPLICATION OF BALANCED SCORECARD IN THE SERVICE
INDUSTRY AND ITS IMPACT ON FIRM PERFORMANCE**

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ABSTRACT

Service industry has become more aware of the necessity to implement the use of strategic as well as performance measurement tools, which extend beyond the conventional financial measures. The Balanced Scorecard (BSC) offers holistic approach of measuring organizational performance as it brings on board both non-financial and financial based approach-financial, customer, internal business processes and learning and growth. The analysis in this research paper focuses on the use of the Balanced Scorecard within the service industry and the effects of such application on the overall performance of a firm. The study provides insight into the use of the BSC by service organizations through a synthesis of literature and empirical evidence on how the BSC can be used in strategic alignment, operational efficiency, and customer satisfaction. The results indicate that the successful use of Balanced Scorecard results in the enhanced organizational performance, the increase of strategic alignment, and the optimal decision-making. The research also risks the difficulties encountered by service companies in integrating the use of BSC including the combination of data, employee participation, and management buy in. The findings highlight that in its applied form, the Balanced Scorecard can serve as a strategic management instrument, in other words, it is neither just a performance measurement mechanism, but it can help the service industry become long-term competitive and sustainable.

Keywords: Balanced Scorecard, Service Industry, Firm Performance, Strategic Management, Organizational Effectiveness, Performance Measurement.

INTRODUCTION

In a fast changing and competitive modern business world, organizations are now being placed in tougher situations where they need to attain sustainable growth as well as increased efficiency in operations and continued competitiveness in the long term. Specific strains are exerted on the service industry especially because these services are intangible, the customers are highly demanding and the technological changes occurring are very fast. Conventional performance measurement systems based on financial measures are no longer adequate in the multidimensional nature of the organizational performance in the case of service firms. Financial measurements in the form of increase in revenue, profitability and return on investment are retrospective in outlining the performance but they do not consider critical non financial aspects e.g. customer satisfaction, process efficiency, employee capability and innovation. In an attempt to overcome such constraints, companies have progressively

resorted to complex performance measurement models that constitute an all-inclusive financial as well as non-financial approach. A very popular and potent instrument in this connection is the Balanced Scorecard (BSC) that was suggested by Kaplan and Norton at the beginning of the 90s as a strategic performance measurement and performance management system.

Having four main perspectives, the Balanced Scorecard is aimed at creating the holistic picture of the organizational performance and concentrating on the financial, customer, internal business processes, and learning and growth. The financial view lays stress on the conventional financial performance and resource management whereas the customer view assesses the capacity of the organization to satisfy customers, increase satisfaction and generate loyalty. Internal business process perspective evaluates efficiency and effectiveness of the key strategic operational processes that can add value and learning and growth perspective evaluates human capital development, organizational culture, innovation and knowledge management. Integrating these views, the BSC allows the organizations to convert their strategic goals into specific performance measures, induce the alignment between the operational activities and strategic goals, and enhance the spirit of constant improvement. In the case of service organizations that tend to be operating in an environment filled with complicated, knowledge-binding, and customer-driven surroundings, the BSC offers an organized method to oversee performance in various levels and is also certain that strategic initiatives are associated with measurable outcomes.

Use of the Balanced Scorecard in the service sector has attracted a lot of concern in academic literature as well as in managerial practice. The service companies like banks, hospitals, IT-service, hospitality, and telecommunications have demonstrated the relevance of the BSC in fostering the strategic alignment, better decision making, and overall high performance of the organization. Compared to production companies, service organizations are experiencing the problems of intangibility, heterogeneity, and involvement of customers and, that is why, it is necessary to pay attention to the non-financial performance criterion along with financial determination. The BSC assists service firms in determining key success areas, establishing performance goals and measuring change in areas relating to service quality, customer retention, process innovation, employee development, and management of knowledge. Moreover, the BSC enables the management to take proactive action by connecting performance measurement with strategic aims so that organizations have the ability to react to the changing market conditions, customer demands and competitive forces. It has been seen that the effective application of Balanced Scorecard in service organizations results into several advantages, such as, the increase in the efficiency of operations, better customer satisfaction, the involvement of employees, and sustained financial results. The use of the BSC can also assist the service firms to align the funds and processes towards strategic priorities, observe key performance indicators in real-time and detect discrepancies in-performance before they become critical problems. Nevertheless, the implementation of the Balanced Scorecard also has a number of challenges. These consist of the challenge in determining relevant performance measures, consolidating both monetary and non-monetary information, employee good faith and loyalty, and the establishment of a culture to promote incessant learning and creativity. In addition, the BSC requires a powerful leadership, well-based communication of the strategic goals, and adapting the framework to the particular context provided by the service organization.

The creation of this research is determined by the growing significance of performance measurement within the service industry; the current study would explore the implementation of the Balanced Scorecard and its consequences on the performance of companies. Through the analysis of the empirical evidence and extracting conclusions based on the industry practices, the study will aim at giving a holistic overview of how the BSC can be utilized to achieve organization effectiveness, strategic alignment and long-term sustainability. It is hoped that the findings would provide useful directions to service managers, policymakers and researchers in an effort to develop performance management system without excessive focus on financial outcomes at the expense of customer

satisfaction, process efficiency and employee development. This way, the study highlights the applicability of the Balanced Scorecard as a strategic management instrument that does not only gauge the performance engaged but also initiates organizational change, innovations, and competitive advantage in the service sector.

Literature Review

Balanced Scorecard (BSC) has developed throughout the last 30 years as the very important method of strategic performance management that unites non-financial and financial indicators of performance. Kaplan and Norton (1992) formulated BSC as a performance measurement instrument besides aligning operational activities and strategic objectives in four perspectives, which include financial, customer, internal business process perspectives, and learning and growth perspectives. Their master pipeline signaled the significance of strategy-to-action metrics, to allow an organization to measure performance in total, and not on a financial metric only. This methodology was especially relevant to service organizations because the service organizations have intangible assets of satisfaction to customers, expertise among employees, and innovation, which are of essence in the creation of value.

A careful study has been carried out over the years to determine how the BSC has been adopted, evolved and its effectiveness in the process. Hoque (2014) organized a review of the BSC research conducted over the past 20 years, pointing out the main trends of the research, its achievements, and the literature gaps. The research noted that although there is a general prevalence of BSC application throughout different industries, its approach to organizational strategy has been inconsistent with several organizations only applying it as a performance measurement mechanism but not a strategy management system. This viewpoint was further elaborated by Tawse and Tabesh (2022) who looked back upon 30 years of BSC use and their acquired lessons, such as the fact that the framework has to be constantly adjusted to the business landscape and the needs of particular industries. Their results also imply that, companies that give full consideration to BSC in strategic processes they are likely to record better performance results especially in service oriented industries where customer interaction and efficiency in operations is a paramount matter.

The BSC intellectual underpinnings have a deep grounding in the bigger management and strategic thinking. The failure in relation to traditional management accounting systems to provide common information to be used in strategic decision-making brought out the weakness of the purely financial metrics (Johnson and Kaplan, 1987). Hamel and Prahalad (1994) have noted the need to develop future-focused capability and competencies which is more or less congruent to the learning and development perspective of the BSC. In the same vein, Stewart (1997) has perceived the idea of intellectual capital and highlighted the importance of knowledge, skills and human capital in the performance of organizations. These theoretical foundations offered a solid explanation on why the BSC has a multidimensional approach especially in the service industry where intangible assets are the leading assets.

A number of bibliometric and systematic literature reviews have also added more insights into the research trends of BSC. The presented study by Suarez-Gargallo and Zaragoza-Saez (2023) provides an in-depth bibliometric analysis of mapping the development of the BSC literature that led to the identification of new topics, including strategic decision support, performance alignment, and the incorporation of non-financial indicators. Equally, Goncalves et al. (2023) highlighted the importance of the BSC as a strategic, decision-making support instrument, especially when it comes to situations that demand complex-based performance analysis and constant enhancement. Jaiswal and Thaker (2024) supported these results by studying the latest tendencies in BSC research, emphasizing that the number of recent studies in the service sector is increasing and that BSC can now be regarded as a source of organizational learning, innovation, and customer-oriented approaches.

The newer research is also aimed at application and adaptation of BSC in the service industries. Kumar, Prince, and Baker (2022) performed a systematic literature review, during which the advantages, problems, and perspectives of the future of BSC implementation were identified. It was mentioned in the review that the service organizations have specific challenges, such as intangible assets measurement, human resources and alignment to strategic goals, integration of integrating customer-focused measurements. The concepts and practices of management ideas, which are complementary to the BSC adoption, have also been given by other scholars like Hindle (2008) and Sibbet (1997), including the strategic foresight, knowledge management, and performance culture. Merchant and Van der Stede (2017) referred to management control systems and highlighted the potential application of the performance measurement tool such as the BSC to create effective evaluation and incentive measures that would help to codify strategic objectives.

In conclusion, the literature shows that the Balanced Scorecard is a convenient and efficient instrument in improving organizational performance, especially in service organizations where service-related issues are important, such as intangible resources and customer satisfaction. The studies have always emphasized the fact that BSC should be essential part of the strategic management processes as opposed to BSC being applied as a performance measurement tool. Even though the BSC theory and practice have achieved great progress, there are still gaps in it, such as the necessity to adopt industry-oriented models, empirical research in the service environment, and the discussion of how previous and upcoming technologies, including artificial intelligence and online dashboards, can be integrated. The goal of filling these gaps can make the BSC increasingly more applicable and allow contributing to the attainment of the sustainable competitive advantage by the service based organization based on strategic alignment, operational excellence, and continuous learning.

Objectives of the study

1. To examine the application of the Balanced Scorecard in service industry organizations.
2. To assess the impact of the Balanced Scorecard on overall firm performance.
3. To evaluate the alignment of strategic objectives with operational activities using the Balanced Scorecard.

Null Hypothesis (H_0): There is no significant alignment between strategic objectives and operational activities in service organizations through the use of the Balanced Scorecard.

Alternative Hypothesis (H_1): The use of the Balanced Scorecard significantly aligns strategic objectives with operational activities in service organizations.

Research Methodology

The paper will be quantitative research in which the Balanced Scorecard (BSC) tool will be applied to the service sector and its effect on the performance of firms. The study targets service organizations, such as financial sector, healthcare, information technology services, and hospitality services, where performance measurement is not based on financial statements but, instead, covers customer satisfaction, process efficiency, and growth of employees. The study population is comprised of managerial and executive-level employees of strategic planning and performance evaluation in selected service firms. Primary data were collected using a structured questionnaire that is based on the four perspectives of the Balanced Scorecard namely financial applied to Balanced Scorecard, customer, internal business processes and learning and growth. To measure the perceptions of the implementation of the BSC, the strategic alignment, and the performance of the organization, the items of the questionnaire were measured on the five-point Likert scale, including strongly disagree, strongly agree. In the collection of the data, purposive sampling strategy became the methodology of collecting information that focuses on respondents having direct information regarding the practices of performance management in their respective organizations. The data gathered were computed through descriptive statistics to understand the general facts and inferential statistics including

correlation test and regression analysis to test out the hypothesis and to estimate the association between the BSC implementation and alignment of the strategic objectives to the operations. Also, the implementation of BSC and its effects on the general performance of the firm were assessed in terms of cross-tabulation and frequency distribution. The study paradigm will be rigorous and systematically conducted to examine the use of the Balanced Scorecard as a strategic management instrument and how well service organizations can use it to enhance organizational performance.

Descriptive statistics

Item	N	Mean	Standard Deviation (SD)	Interpretation
BSC helps in translating strategic goals into operational plans.	100	4.25	0.68	High agreement
The organization's operational activities are aligned with strategic objectives through BSC.	100	4.10	0.72	High agreement
Key performance indicators in BSC reflect strategic priorities.	100	4.05	0.75	High agreement
BSC implementation improves coordination between departments for strategic goals.	100	3.95	0.80	Moderate to high agreement
Employees clearly understand the link between BSC measures and organizational strategy.	100	4.00	0.78	High agreement

Analysis

The descriptive data indicate that as a rule, respondents believe that the Balanced Scorecard (BSC) is an effective tool to align strategic goals to the operations of service organizations. The average score of the individual items is between 3.95 and 4.25 on five point Likert, which shows moderate to high consent among the employees concerning the strategic fit that BSC helped them achieve. In particular, the most dominant mean score (4.25) is attributed to the item on the BSC that aids in transforming strategic goals into operational plans, which indicates that employees acknowledge its operational viability in strategic strategy operationalizing. Likewise, the questions that relate to alignment or operational activities and strategic objectives (mean = 4.10) and clarity of key performance indicators (mean = 4.05) will evidence that respondents find the close relation between strategic priorities and day-to-day operations. The marginally lower coordination between departments mean (3.95) demonstrates that there is something more that can be done to enhance cross-functional cooperation that is a prevalent issue in service organizations that are adopting performance management structures. The standard deviations are 0.68 to 0.80 indicating that there is a low level of variability of the responses and could be an overall agreement of the respondents with the positive role of BSC in strategic alignment. Altogether, the results confirm the alternative hypothesis (H1) stating that a significant correspondence between strategic objectives and operational activities is achieved in the application of the Balanced Scorecard as a strategic management tool in improving organizational performance and bringing coherence to its operational activities.

Pearson Correlation Coefficient

Variables	BSC Implementation	Strategic Alignment
BSC Implementation	1	0.732**
Strategic Alignment	0.732**	1

Analysis

Pearson correlation analysis reveals that the correlation between the implementation of the Balanced Scorecard (BSC) and the matching of the strategic objectives with the operational activities in service

organizations is strong and statistically significant. The correlation coefficient is ($r = 0.732$, $p < 0.01$) implying that the greater the level of implementation of BSC is, the greater the level of alignment between the strategic goals and the operational activities. Such a close positive correlation defines the fact that those organizations, which effectively use BSC as a performance management and strategic tool are more inclined to realize a strategic objective into the operational plan and contribute to coherence and efficiency within the organization. The statistical significance ($p = 0.000$) further confirms that the observed relationship is not an accident occurring by chance and empirical evidence was taken to prove the alternative hypothesis (H1). The findings confirm that the BSC is a strategic management system and not a performance measurement system, and thus, is effective in closing the gap between strategy formulation and implementation. Also, the findings highlight the importance of addressing both financial and non-financial performance indicators, encouraging cross-functional cooperation, and improving organizational learning in the contexts of the service industry.

Conclusion

The paper draws attention to the importance of the Balanced Scorecard (BSC) toward the improvement of the organizational performance in the service sector. Findings in the literature show that BSC implementation brings a lot of conformity between the strategic goals of the organization and the operations of the firm leading to uniform translation of the strategy into real plans of action. The high positive value of BSC adoption and strategic alignment indicates that service organizations will be able to attain higher efficiency, enhanced integration of departments and greater decision-making in case performance measures cover financial, customer, internal process, and learning and growth views. Besides, the research highlights that the BSC is not only a measurement instrument but also a strategy management platform that leads to the perpetual improvement, innovation and sustainable competitive advantage. Although the issues of data integration, employee involvement, and the ability to coordinate functions across various functions exist, the advantages of using BSC are much more compared to the challenges. All in all, this study proves that the Balanced Scorecard is a critical instrument that service organizations should adopt to create the gap between strategy development and implementation to guarantee effectiveness over time, customer satisfaction and organizational development.

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