West Science Business and Management
Vol. 2, No. 03, September 2024, pp. 1031~1037

Evaluation of Financial Performance with the Balanced Scorecard Approach in Retail Companies

Loso Judijanto[1], Meiske Wenno[2], Muhammad Faisal[3], Hasmia Melati Arifin[4], Erfendi Regar[5]
[1]IPOSS Jakarta
[2,3,4,5]Universitas Pattimura

Article Info

Article history:

Received September, 2024
Revised September, 2024
Accepted September, 2024

Keywords:

Balanced Scorecard
Financial Performance
Retail Companies
Customer Satisfaction

ABSTRACT

This research assesses the financial performance of retail enterprises utilizing the Balanced Scorecard (BSC) methodology. The study used a quantitative methodology, gathering data from 75 retail firms via a Likert-scale questionnaire (1 to 5). The analysis use SPSS version 26, concentrating on four key Balanced Scorecard perspectives: financial, customer, internal business processes, and learning and growth. The findings indicate substantial positive relationships across the customer, internal processes, and learning and growth perspectives with financial success, with the customer viewpoint serving as the most robust predictor. The results indicate that retail firms can improve financial performance by prioritizing customer satisfaction, operational efficiency, and ongoing innovation. These insights offer significant recommendations for retail managers seeking to synchronize strategic objectives with operational performance.

Corresponding Author:

Name: Loso Judijanto
Institution: IPOSS Jakarta
e-mail: losojudijantobumn@gmail.com

1. INTRODUCTION

Financial performance evaluation in the retail industry is important to maintain competitiveness and long-term sustainability. As traditional financial metrics often do not cover the entirety of business operations, companies have started adopting the Balanced Scorecard (BSC) that combines financial and non-financial indicators for a holistic view and better decision-making. The BSC includes perspectives such as financial, customer, internal processes, and learning, which are proven to improve retail performance through a flexible and comprehensive approach [1], [2]. Non-financial indicators such as customer satisfaction and innovation provide a more accurate reflection of a company's economic position than traditional financial statements [1], [3]. Although the effectiveness of BSC depends on managerial perceptions, the consistent application of non-financial indicators remains a challenge that requires further research [4].

The Balanced Scorecard (BSC) is a strategic tool used in the retail industry to enhance performance measurement by integrating financial and non-financial metrics, offering a comprehensive view of operations focused on customer satisfaction, internal processes, and innovation. Its ability to align strategy with performance metrics improves both financial and non-financial outcomes. BSC positively impacts managerial performance, especially at upper management levels, where it enhances individual, store, and corporate performance [2]. In luxury retail, BSC improves customer satisfaction through brand-consistent service [5], and its strategic analysis helps assess profitability and guide long-term decisions [6]. BSC also fosters innovation and agility by identifying strategic issues [7], while its non-financial metrics support growth and competitiveness [8]. However, its effectiveness depends on high-quality performance measures and managerial support [2]. In this study, the financial performance of retail companies is evaluated using the BSC approach, focusing on four key perspectives: financial, customer, internal business processes, and learning and growth.

2. LITERATURE REVIEW

2.1 Financial Performance Measurement

The evolution of financial performance measurement exposes the limitations of traditional metrics like profitability, ROA, and ROE, particularly in retail, where non-financial factors like customer satisfaction and operational efficiency are key to success. The Balanced Scorecard (BSC) offers a comprehensive approach by integrating financial and non-financial indicators, linking metrics like customer satisfaction to financial outcomes [9]. Non-financial measures are essential for translating strategy into actions and motivating employees [10]. BSC also helps adjust strategies by connecting non-financial measures to future value through cause-and-effect analysis [11]. The lack of a unified performance system highlights the need for integrated financial and qualitative indicators [12]. In retail, BSC enhances performance and employee satisfaction, though its success depends on measure quality and managerial support [2].

2.2 The Balanced Scorecard (BSC)

The Balanced Scorecard (BSC) is a strategic management tool that goes beyond traditional financial metrics by incorporating non-financial perspectives, offering a comprehensive view of organisational performance [13]. The financial perspective, which focuses on profitability and cost management, remains crucial in aligning financial results with strategic objectives, particularly in countries like India where it is often prioritised [14], [15]. The customer perspective evaluates satisfaction, retention, and market share, encouraging organisations to adopt customer-centric strategies [14], [16]. The internal business processes perspective emphasises operational efficiency, such as supply chain management, to enhance productivity and profitability [15]. The learning and growth perspective focuses on innovation, employee development, and adaptability, ensuring long-term success by building future capabilities [14], [16]. Although implementing the BSC can be challenging due to the complexity of weighting perspectives and establishing cause-and-effect relationships, it remains a powerful tool for integrating financial and non-financial measures to provide a holistic view of organisational performance [15], [17].

2.3 Application of the Balanced Scorecard in Retail Companies

The Balanced Scorecard (BSC) is a strategic management tool that has proven effective in the retail industry by aligning business strategy with key performance indicators (KPIs) across multiple perspectives. The customer perspective emphasizes the importance of customer satisfaction, which directly impacts financial results by improving service and loyalty, thereby increasing market share and revenue [2]. Retailers using a combination of low-cost and differentiation strategies through the BSC outperform those relying on a single approach, underlining the importance of customer-focused strategies [18]. In terms of internal business processes, BSC aids in optimizing supply chain and inventory management, reducing costs, and boosting profitability [19], [20], while integrating IT applications enhances process automation and operational efficiency [21]. The learning and growth perspective promotes continuous learning and innovation, ensuring retailers invest in employee development and technology to stay competitive, with BSC-adopting companies typically outperforming those relying solely on financial metrics [2].

2.4 Gaps in the Literature

While the Balanced Scorecard has been widely applied in various industries, including retail, there are still gaps in the literature regarding its specific impact on different types of retail companies. Most studies focus on large retail chains, leaving a gap in understanding how the BSC framework applies to smaller retail businesses or niche markets. Additionally, there is a need for more research on the long-term impact of the BSC on financial performance, as most studies focus on short-term outcomes. Finally, while quantitative analysis has been extensively used in BSC studies, more research is needed to explore the integration of qualitative data, such as employee feedback and customer insights, into the BSC framework.

By addressing these gaps, this study contributes to the growing body of knowledge on the Balanced Scorecard and its application in retail companies, providing valuable insights for managers and researchers alike.

3. METHODS

3.1 Research Design

This study employs a quantitative research design to evaluate the financial performance of retail companies using the Balanced Scorecard (BSC) approach, which is appropriate as it systematically investigates the relationships between financial and non-financial performance indicators. The BSC framework assesses four key perspectives: financial, customer, internal business processes, and learning and growth, aiming to identify how these perspectives contribute to the overall financial performance of retail companies. Using a cross-sectional approach, data are collected from retail companies at a single point in time, providing a snapshot of their performance based on BSC metrics. Data are gathered through a Likert-scale questionnaire and analyzed using SPSS version 26 to draw insights and test the relationships between BSC perspectives and financial performance.

3.2 Sample and Sampling Technique

The target population for this study comprises retail companies operating in Indonesia, with a sample of 75 companies selected using purposive sampling. This method is chosen to focus on specific characteristics of the population, particularly retail companies that have adopted the Balanced Scorecard or are familiar with performance measurement techniques. The selection criteria include companies that have been in operation for at least five years and are engaged in implementing performance management systems, as these companies are more likely to have established metrics across the Balanced Scorecard's four perspectives. The sample size of 75 companies is considered sufficient to ensure reliable statistical analysis and capture a variety of performance indicators across the BSC framework.

3.3 Data Collection

Data for this study were collected through a structured questionnaire designed to measure performance across the four perspectives of the Balanced Scorecard, using a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) to capture the extent of the company's performance in each perspective. The questionnaire was designed to evaluate financial, customer, internal business process, and learning and growth perspectives, and was distributed via email to senior managers or performance evaluation teams within retail companies. Participants rated their company's performance in each BSC perspective, and the data collection process took about four weeks to complete, allowing sufficient time for responses. Follow-up emails and reminders were sent to increase response rates and ensure all completed questionnaires were collected before proceeding to data analysis.

3.4 Data Analysis Techniques

The data collected from the questionnaire are analyzed using SPSS version 26, employing several statistical techniques to assess the relationships between the Balanced Scorecard perspectives and financial performance. Descriptive statistics, including mean, standard deviation, and frequency distribution, summarize the performance of retail companies in each BSC perspective. Reliability testing using Cronbach's alpha ensures the internal consistency of the questionnaire items, with a value of 0.7 or higher indicating acceptable reliability. Pearson correlation analysis is conducted to examine the relationships between the four BSC perspectives (customer satisfaction, internal processes, learning and growth) and financial performance, determining the strength and direction of these relationships. Multiple regression analysis is then performed to identify key drivers of financial performance among the BSC perspectives, assessing the impact of each perspective on financial outcomes while controlling for other variables. The results of the correlation and regression analyses are used to draw conclusions about the significance of each BSC perspective in influencing financial performance, and hypotheses are tested to determine whether these relationships are statistically significant.

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

The data collected from 75 retail companies were analyzed using SPSS version 26 to evaluate their financial performance across the four Balanced Scorecard (BSC) perspectives: financial, customer, internal business processes, and learning and growth. The descriptive statistics in Table 1 summarize the mean and standard deviation for each perspective. The financial perspective has an average score of 4.12, indicating strong financial performance with moderate variability (SD 0.64). The customer perspective averages 4.05, reflecting consistent performance in customer satisfaction (SD 0.58). Internal business processes score 3.85 on average, with some variability in operational efficiency (SD 0.69). The learning and growth perspective averages 3.77, suggesting companies are investing in employee development but could improve in fostering continuous learning (SD 0.72). These statistics show that while financial and customer perspectives are strong, there is room for improvement in internal processes and learning and growth.

4.2 Demographic Sample

The demographic characteristics of the 75 retail companies in this study, including company size, years in operation, annual revenue, type of retail business, and geographic location, provide context for the financial performance evaluation using the Balanced Scorecard (BSC). Company size is categorized by the number of employees, with 40% being small companies, 37.3% medium, and 22.7% large. Most companies (58.7%) have been in operation for more than six years, reflecting a mix of newer and established businesses. Annual revenue shows that 46.7% earn less than IDR 5 billion, indicating a majority of smaller businesses. Retail types include fashion and apparel (33.3%), electronics (26.7%), food and beverage (20%), and others (20%). Geographically, 60% operate in urban areas, while the rest are in suburban (26.7%) and rural areas (13.3%), highlighting different market dynamics and challenges across regions.

4.3 Reliability Testing

Cronbach’s alpha was calculated for each of the Balanced Scorecard (BSC) perspectives to assess the reliability and internal consistency of the Likert-scale questionnaire. The results indicate that all Cronbach’s alpha values are above 0.70, signifying acceptable reliability for each of the four perspectives: Financial Perspective (0.838), Customer Perspective (0.795), Internal Business Processes Perspective (0.758), and Learning and Growth Perspective (0.815). These findings suggest that the questionnaire is a reliable tool for measuring performance across the BSC perspectives, and the data collected can be considered consistent and dependable for further analysis.

4.4 Correlation Analysis

Pearson correlation analysis was conducted to examine the relationships between the four Balanced Scorecard perspectives and financial performance. The results of the correlation analysis are presented in Table 1.

Table 1. Correlation

BSC Perspective	Correlation with Financial Performance
Customer Perspective	0.685**
Internal Business Processes	0.618**
Learning and Growth	0.543**

The results indicate that all three non-financial perspectives (customer, internal business processes, and learning and growth) are positively and significantly correlated with financial performance at the 0.05% level. The customer perspective has the strongest correlation (r = 0.685), followed by internal business processes (r = 0.618), and learning and growth (r = 0.543). These results suggest that improvements in customer satisfaction, internal process efficiency, and learning and growth are associated with better financial performance in retail companies.

4.5 Regression Analysis

Multiple regression analysis was conducted to identify the key drivers of financial performance among the four Balanced Scorecard perspectives. The regression model used financial performance as the dependent variable and customer satisfaction, internal business processes, and learning and growth as independent variables. The results of the regression analysis are presented in Table 2.

Table 2. Multiple Regression

Predictor Variable	Beta Coefficient	t-Value	sig
Customer Perspective	0.397	4.154	0.000**
Internal Business Processes	0.345	3.826	0.000**
Learning and Growth Perspective	0.278	3.013	0.003**

The regression model explains a significant portion of the variance in financial performance (R^2 = 0.52, sig 0.01). All three independent variables—customer perspective (β = 0.397, sig 0.000), internal business processes (β = 0.345, sig 0.000), and learning and growth perspective (β = 0.278, sig 0.003)—are statistically significant predictors of financial performance. These results suggest that customer satisfaction, efficient internal processes, and investment in learning and growth contribute positively to the financial success of retail companies.

DISCUSSION

The study's findings suggest that retail organizations excelling in the non-financial dimensions of the Balanced Scorecard are likely to attain superior financial performance. The consumer perspective appeared as the paramount predictor of financial performance, underscoring the significance of customer satisfaction and retention within the retail sector. This corresponds with prior research by [1], [5], [22], which highlighted the significance of customer happiness in influencing financial results.

In the retail sector, where consumer preferences and market trends fluctuate swiftly, organizations that emphasize customer pleasure are more effectively positioned to cultivate loyalty and secure repeat business. The favorable correlation between the internal business processes perspective and financial success highlights the significance of operational efficiency in retail. Organizations that optimize their internal operations, including supply chain management and inventory oversight, can save expenses and enhance profitability.

The learning and growth perspective, albeit marginally less impactful than the customer and internal company operations perspectives, is essential to financial performance. Organizations that prioritize staff development and cultivate innovation are generally nimbler and more responsive to evolving market dynamics. This is especially crucial in retail, where maintaining a competitive edge necessitates ongoing enhancement and innovation in service provision and product offerings.

The findings of this study align with the Balanced Scorecard literature, which posits that non-financial performance metrics are essential determinants of financial success. Retail organizations employing a comprehensive approach to performance measurement—assessing both financial and non-financial dimensions—are more adept at aligning their strategic objectives with operational results.

Implications for Managers

The findings of this study offer several practical implications for retail managers:

a. Given the strong relationship between the customer perspective and financial performance, retail managers should prioritize customer satisfaction initiatives. This may include improving service quality, enhancing the customer experience, and addressing customer feedback promptly.
b. Retail companies should invest in improving the efficiency of their internal business processes, particularly in areas such as supply chain management, inventory control, and operational workflows. Streamlining these processes can lead to cost savings and improved financial outcomes.
c. Retail companies should continue to invest in employee development, innovation, and organizational learning. This not only enhances the skills and capabilities of the workforce but also enables companies to adapt to market changes and stay competitive.

Limitations and Future Research

While this study provides valuable insights into the financial performance of retail companies using the Balanced Scorecard approach, it has certain limitations. First, the sample size of 75 companies, though sufficient for statistical analysis, may limit the generalizability of the findings to the entire retail sector. Future research could expand the sample size and include retail companies from different regions or market segments to validate the results. Second, this study focuses on cross-sectional data, offering a snapshot of performance at a single point in time. Longitudinal studies that track performance over multiple years would offer a more comprehensive view of the long-term impact of the Balanced Scorecard on financial performance.

5. CONCLUSION

This study demonstrates that the Balanced Scorecard approach is an effective tool for evaluating financial performance in retail companies by incorporating both financial and non-financial perspectives. The findings reveal that the customer perspective is the most significant predictor of financial success, followed by internal business processes and learning and growth. Retail companies that prioritize customer satisfaction, operational efficiency, and continuous employee development are more likely to achieve better financial outcomes. These results provide important implications for retail managers, suggesting that a holistic approach to performance measurement can lead to improved financial sustainability. Future research could explore the long-term impact of the Balanced Scorecard on financial performance by using larger and more diverse samples across various retail segments.

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