HOLISTIC PERFORMANCE MEASUREMENT TO ACHIEVE SUSTAINABLE COMPETITIVE ADVANTAGE

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Abstract: In the past, companies used balanced scorecard to measure its performance. Now, balanced scorecard as a performance measurement tool is no longer sufficient because business has been affected by changes to the natural environment and developing social expectations. In order to achieve sustainable competitive advantage, companies are beginning to address the risks and opportunities associated with these changes in their longer-term business planning. To turn risks into opportunities, companies have increasingly integrated environmental considerations and corporate social responsibility into mainstream business management and measurement processes.

Keywords: sustainable competitive advantage, balanced scorecard, corporate social responsibility, and environmental concerns

Abstrak: Di masa lalu, perusahaan menggunakan *balanced scorecard* untuk mengukur kinerjanya. Saat ini, *balanced scorecard* sebagai alat pengukuran kinerja tidak lagi memadai karena bisnis telah dipengaruhi oleh perubahan lingkungan dan berkembangnya harapan sosial. Dalam rangka mencapai keunggulan kompetitif yang berkelanjutan, perusahaan mulai untuk mengatasi risiko dan peluang yang terkait dengan perubahan tersebut dalam perencanaan bisnis jangka panjang perusahaan. Untuk merubah risiko menjadi peluang, perusahaan semakin mengintegrasikan pertimbangan lingkungan dan tanggung jawab sosial perusahaan dalam manajemen bisnis utama dan proses pengukuran.

Kata kunci: keunggulan kompetitif yang berkelanjutan, *balanced scorecard*, tanggung jawab sosial perusahaan dan masalah lingkungan

INTRODUCTION

Initial problem faced by the company is the absence of a mapping analysis of the condition of the company's performance, in addition to the existing financial performance, in supporting the achievement of the company's vision and mission or determined business target. The next major issue is the difficulty of measuring the contribution of a performance that has been formulated on the success of the company. Formulation of company's strategic management and marketing strategy, before it can be implemented, requiring supporting information systems as a management tool so that the proposed strategy can be implemented in an action plan that is measurable and can be managed either. Before, the company's vision only builds upon competitive advantage and ignores the spiritual environment. Now the company should pay attention to STEPS (Social, Technological, Economic, Political and Spiritual) in building the vision and mission. With a clear vision and mission, now the company can determine the appropriate strategy to be implemented. Once the strategy is determined, the company starts building a corporate management. A balanced corporate management consists of: efficiency, social equity, and ecology. Efficiency implies bottom line concerns which are competitive advantage. Social equity is reflected by Corporate Social Responsibility (CSR). Meanwhile, ecology is reflected by environmental concerns. Thus, in holistic corporate management find integration.Holistic corporate management performance is measured by using a holistic performance measurement. The past performance measurement that used the balanced scorecard is no longer relevant as a measurement tool for holistic corporate management.

Performance measurement system should "be balanced, be integrated, inform strategy, deploy strategy, focus on business processes that deliver value, be specific to business units, include competencies and include stakeholder contribution" (Bititci *et al.*, 2005). Najmi *et al.* (2005) explain that business performance is a dynamic quantity that is ever changing by nature. Consequently, all performance interactions must be accounted for when the system changes. A key challenge is to ensure that it continues to evolve over time.

For any performance measurement system, a foundational framework needed. The foundational framework is conceptualized in five key functions: strategy, marketing, finance, production and operations, human resources development. Implementing a balanced scorecard provides a comprehensive and consistent approach to managing for results using data-driven decisions aligned with the company's mission, vision, goals, and strategies (McGillicuddy, 2009).

The balanced scorecard consists of four perspectives, that is: financial, customer, internal business, learning and growth. Financial perspective is captured through performance scorecard of the finance function. Customer perspective is captured through performance scorecard of the marketing function. Internal business process perspective is captured through performance scorecard of the production and operations function. Learning and growth perspective is captured through performance scorecard of the human resource development function.

Balanced scorecard has its own limitations as its view is limited to organization as a business entity. Issues such as environmental performance and social responsibility are not included. The balance scorecard focuses solely on the efficiency which the main goal is competitive advantage. So, holistic corporate management as a social institution directs us to the holistic performance scorecards.

Sustainable Competitive Advantage. The manner in which corporations view their business has undergone considerable changes over the last several years. As Paranjape et al. (2006) note, "globalization, constant innovations, and well-informed customers have made modern business environments dynamic and complex." While profit remains an overriding goal, corporations are under increasing pressure from a broad cross-section of internal and external stakeholders to adopt a more holistic view of business success and to continually adapt to a dynamic competitive environment. In response to internal and external pressures, many corporations have made a commitment to apply the principles of sustainability to their business.

Achieving a competitive advantage position and enhancing firm performance relative to their competitors are the main objectives that business organizations in particular should strive to attain. In strategic management, sustainable competitive advantage is an advantage that one firm has relative to competing firms. The source of the advantage can be something the business does that is distinctive and difficult to replicate, also known as a core competency (Prahalad and Hamel, 1990; Grant, 1996b; Mascarenhas, Baveja and Jamil, 1998; Ma, 1999b; Colotla *et al.*, 2003; King, 2007b in Raduan, *et al*, 2009). If a core competency yields a long term advantage to the business, it is said to be a sustainable competitive advantage (Dierickx and Cool, 1989; Barney, 1991, 1995; Ma, 2000 in Raduan, *et al*, 2009). Competitive advantage is a concept that remains as a major research area as far as strategic management is concerned. In order to compete and sustain successfully, locally and globally, businesses must not only excel in their area but also persevere in the long run. Achieving such a "sustainable competitive advantage" status is not an easy task without a proper road map or strategy being outline and put into practice (Raduan, *et al*, 2009).

Earlier learnings have the strong basis about the link between cost advantage and organizational performance. Firms having margin in cost competency relative to their rivals as low built-up, low manufacture cost, low cost of goods sold and low prices have been practiced relatively better performance (Majeed, 2011).

Alderson (1965) was one of the first to recognize that firms should strive for unique characteristics in order to distinguish themselves from competitors in the eyes of the consumer. He stated that differential advantage might be achieved through lowering price, selective advertising appeals, and/or product improvements and innovations. While these concepts lay the core foundation for firms in moving toward a sustainable competitive advantage.

The idea of a sustainable competitive advantage surfaced in 1984. The actual term "Sustainable Competitive Advantage" emerged in 1985. The basic types of competitive strategies are that a firm can possess (low-cost or differentiation) in order to achieve a long-run sustainable competitive advantage.

Barney (1991) gives the formal definition by offering the following: "A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy".

Coyne (1986) proposes that in order to possess a sustainable competitive advantage, consumers must perceive some difference between a firm's product offering and the competitors' offering. This difference must be due to some resource capability that the firm possesses and competitors do not possess. Also, this difference must be some product delivery attribute that is a positive key buying criterion for the market. The key is being able to predict the actions of others in the industry over time; by matching the firm's resources to the gaps and voids that exist in the industry, a competitive advantage can be created. This advantage is sustained if competitors either cannot or will not take action to close the gap.
The advantage is sustained (or prolonged) as long as the unique strategy provides added value to customers, and as long as competitors cannot find a way to duplicate it. The formal conceptual definition is offered: "Sustainable competitive advantage is the prolonged benefits of implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitors along with the inability to duplicate the benefits of this strategy."

Day and Wensley (1988) focused on the elements involved in competitive advantage. Specifically, they identified two categorical sources of competitive advantage: superior skills, which are "the distinctive capabilities of personnel that set them apart from personnel of competing firms" and superior resources, which are "the more tangible requirements for advantage that enable a firm to exercise its capabilities."

Barney (1991) stated that not all firm resources hold the potential of sustainable competitive advantage; instead, they must possess four attributes: rareness, value, inability to be imitated and inability to be substituted. Similarly, Peteraf's (1993) resource-based view of the firm designates four conditions that underlie sustainable competitive advantage, including superior resources, ex-poste limits to competition (including imperfect imitability and imperfect substitutability), imperfect mobility, and ex-ante limits to competition. Diericks and Cool (1989) discuss inimitable resources such as non-tradeable assets which are immobile and thus bound to the firm.

Hunt and Morgan (1995) propose that "potential resources can be most usefully categorized as financial, physical, legal, human, organizational, informational and relational." They go on to state that a comparative advantage in resources can translate into a position of competitive advantage in the marketplace, but only if the criteria proposed by Barney (1991) are satisfied and the offering has some perceived value in the marketplace. Competitive advantage are realized only when the firm combines assortments of resources in such a way that they achieve a unique competency or capability that is valued in the marketplace (Morgan and Hunt, 1996).

Day and Wensley (1988) suggest using perspectives of both the customer and the competitor to assess the firm's performance. Measures of customer input such as satisfaction and loyalty balance the competitor focus and help to complete the assessment of sustainable competitive advantage of a firm.

Bharadwaj, Varadarajan and Fahy (1993) also stress the importance of customers in determining the sources of competitive advantage; they state that a firm's skills and resources can be considered sources only if they offer benefits desired by customers.

Slater (1997) suggests a new theory of the firm that is customer-value based. Under this theory, the reason that the firm exists is to satisfy the customer; the focus on providing customers with value forces firms to learn about their customers, rather than simply from their customers. This theory suggests that those firms that provide superior customer value will be rewarded with superior performance as well as a sustainable competitive advantage.

Balanced Scorecard. Balanced, in this case, does not necessarily mean equal; rather, it is a tool to encourage managers to develop and use performance metrics that cover all aspects of performance. Traditional financial measures are necessary, but no longer sufficient. Financial measures tell the story of past events, an adequate story for industrial-age companies for which investments in long-term capabilities and customer relations were not critical for success. These measures are inadequate, however, for guiding and evaluating the journey that information-age company must take to create future value through investment in customers, suppliers, processes, technology, and innovation (Lawrence and Weber, 2008).

One tool that has been used in both the public sector and private sector is the balanced scorecard system (Dawe, 2007). Organization report several motivations for adopting a balanced scorecard approach. These include economic considerations, ethical considerations, innovation and learning, employee motivation, risk management or risk reduction, access to capital or increased shareholder value, reputation or brand, market position or share, strengthened supplier relationships, and cost savings. In a survey of nearly two hundred firms that use the balance scorecard system, four primary reasons were cited for adopting this system: the need to track progress toward achieving organizational goals, the need to align employee behavior with an organization's strategic objectives, the need to communicate strategy to everyone in a clear and simple manner, and the need to measure performance at different levels in an organization's strategies (Lawrence and Weber, 2008).

According to Kaplan and Norton (2001), the balanced scorecard has three key structural features: its measures are derived from strategy, there is balance among measures and the measures are causally linked. Measurement is the key. If you cannot measure it, you cannot control it. If you cannot manage it, you cannot improve it. The primary purpose of the balanced scorecard is to help implement strategy. If the organization's performance measures are not derived from its strategy, the organization's performance measurement system cannot be called a balanced scorecard.

The balanced scorecard is a management tool that can assist organizations seeking to adopt a strategic focus. Phases in building a balanced scorecard:

Phase 1: The Strategy Map.

> The strategy map captures strategic objectives and spreads them across the four perspectives.

Phase 2: Strategic Objective Ownership.

> With the strategy map and strategic objectives identified, the next phase is to establish specific owners for each strategy.

Phase 3: Measures or Indicators of Success.

Measures or indicators of success for each strategic objective are then identified.

Phase 4: Establishing Targets for Each Measure and Initiatives.

The targets should identify the current performance state and the desired state. The difference between the two states is called the performance gap.

Phase 5: Prioritizing Projects and Processes.

Each project and process must demonstrate how and where it is linked to the strategic objectives within the strategy map (Dawe, 2007).

Kaplan and Norton (1996) suggested that vision and strategy of an organization should be linked with the following four perspectives: (1) Financial perspective; (2) Customer perspective; (3) Internal Business perspective; (4) Learning and Growth perspective Financial performance measures appear at the top. Based on an empirical study, current performance measurement system is focused too strongly on financial performance indicators. However for several reasons, financial performance measures are not sufficient in themselves - they should be integrated with nonfinancial measures in a well-designed balance scorecard. First, financial measures are lag indicators that report on the results of past actions. In contrast, nonfinancial measures of key success drivers such as customer satisfaction are leading indicators of future financial performance. Second, top managers are ordinarily responsible for the financial performance measures - not lower-level managers.

If the balance scorecard is correctly constructed, the performance measures should be linked together on a cause-and-effect basis. The perspective should take precedence is the learning and growth. This is because the learning and growth are needed to improve internal business perspective. Improved internal business perspective needed to improve customer satisfaction. Increased customer satisfaction needed to improve the financial perspective (Garrison, Noreen and Brewer, 2008). This suggests that the increase in non-financial perspective will lead to improved financial perspective (Horngren, *et al.*, 2009).

Learning and growth perspective identifies the infrastructure that company must be built in creating growth and company's performance improvement. This perspective can be measured by: employee capabilities; information systems capabilities; motivation, empowerment, and alignment (Kaplan and Norton, 2001). Example of key performance indicators are: employee satisfaction index, company culture index, or number of training and development hours of each employee (Kaplan and Norton, 1996).

Internal business perspective focuses on internal operations that create value for customers that, in turn, further the financial perspective by increasing shareholder value. The internal business perspective comprises three sub processes:

1. Innovation process: creating products, services, and processes that will meet the needs of customers.
2. Operations process: producing and delivering existing products and services that will meet the needs of customers.
3. Post sales-service process: providing service and support to the customer after the sale of a product or service (Horngren, *et al.*, 2009).

Example of key performance indicators are: defect rate, velocity of production process, number of process and product's innovation, on-time delivery, and compliance of standard operating procedures (Kaplan and Norton, 1996).

Customer perspective in balanced scorecard requires companies to give satisfaction to the customer. To measure customer perspective can be done through customer core measurements, and customer value propositions (Kaplan and Norton, 2001). Example of key performance indicators are: customer satisfaction index, brand image index, brand loyalty index, percentage of market share, and market penetration level (Kaplan and Norton, 1996).

Financial perspective evaluates the profitability of the strategy. Due to cost reduction and growth relative to competitors is the initial strategy, the financial perspective focuses on how much operating income and return on capital resulting from reduced costs and increased sales (Horngren, *et al.*, 2009). Financial indicators commonly used are Return on Investment, Economic Value Added, and Return on Equity (Kaplan and Norton, 2001). Example of key performance indicators are: company's profitability, sales revenue and operation cost efficiency (Kaplan and Norton, 1996).

The balanced scorecard emphasizes both the aspects of the financial and non-financial, long-term and short-term strategies; and also emphasizes internal and external business measures. By combining learning and growth perspective, internal/business process perspective, customer perspective, and finally financial perspective, the balanced scorecard helps the managers understand the interrelations and tradeoffs between alternative performance dimensions, and leads to improved decision-making and problem-solving (Frigo, 2002). The balanced scorecard keeps companies looking and moving forward instead of backward (Kaplan and Norton, 1992).

Kaplan and Norton in Jayashree and Hussain (2011) provide evidence that strategy-focused organizations using Balance Scorecard frameworks are able to execute their strategy more successfully compared with those that do not because it systematically links lag indicators with lead indicators, through cause and effect linkages in the form of a strategy map, thus providing a holistic view of the value-creation process.

Corporate Social Responsibility. Organizations are becoming aware of the effect of the corporate social responsibility practice and performance relationship. Organizations appear to be at an awakening stage of corporate social responsibility, mainly involving the ethical principles of avoiding harm or damage to their most immediate external stakeholders and working to legislative and regulatory requirements for economic, financial, health, safety and environmental issues. Companies should adopt corporate social responsibility. Corporate social responsibility can be an important means for companies to manage non-financial risks and maximize their long-term financial value.

Johnson (1971) presented a variety definition or views of corporate social responsibility. Johnson first presented what he termed "conventional wisdom," defined as the following: "A socially responsible firm is one whose managerial staff balances a multiplicity of interests. Instead of striving only for larger profits for its stockholders, a responsible enterprise also takes into account: employees, suppliers, dealers, local communities and the nations." It is worth noting that Johnson is hinting at the possibility of a stakeholder approach as he references a "multiplicity of interests."

A second view of corporate social responsibility: "Social responsibility states that businesses carry out social programs to add profits to their organization." In this view, social responsibility is perceived as long-run profit maximization.

A third view of social responsibility, which he calls "utility maximization." In this view, he asserted, "The third approach of social responsibility assumes that the prime motivation of the business firm is utility maximization; the enterprise seeks multiple goals rather that only maximum profits."

Finally, a fourth view, which he called the "lexicographic view of social responsibility." Lexicographic utility theory suggests that strongly profit-motivated firms may engage in socially responsible behavior. Once they attain their profit targets, they act as if social responsibility were an important goal – even though it is not."

Corporate social responsibility is usually described in terms of a company considering, managing and balancing the economic, social and environmental impacts of its activities (PJC, 2006). This is in line with the concept of triple bottom line where companies report to stakeholders not just their financial results–as in the traditional annual report to shareholders- but also their environmental and social impacts. Financial, social, and environmental results, taken together as an integrated whole, constitute a company's triple bottom line (Lawrence and Weber, 2008).

Corporate social responsibility occurs because there is increasing demand for transparency and growing expectations that corporations measure, report and continuously improve their social, environmental and economic performance.

According to Frooman in Tsoutsoura (2004), corporate social responsibility is "An action by a firm, which the firm chooses to take, that substantially affects an identifiable social stakeholder's welfare." A socially responsible corporation should take a step forward and adopt policies and business practices that go beyond the minimum legal requirements and contribute to the welfare of its key stakeholders. Corporate social responsibility is viewed, then, as a comprehensive set of policies, practices and programs that are integrated into business operations, supply chains and decision-making processes throughout the company and usually include issues related to business ethics, community investment, environmental concerns, governance, human rights, the marketplace as well as the workplace.

For successful implementation, it is crucial that the corporate social responsibility principles are part of the corporations values and strategic planning, and that both management and employees are committed to them. Furthermore, it is important that the corporate social responsibility strategy is aligned with the company's specific corporate objectives and core competencies.

Implementing corporate social responsibility involves cost, it should generate benefits as well in order to be a sustainable business practice. To identify cost, drivers have to be identified. The following economic drivers have been identified by the World Economic Forum and Business in the Community as explaining the voluntary adoption of corporate social responsibility by companies across the world (ADL, 2003):

1. Employee recruitment, motivation and retention
   Recent surveys indicate that corporate social responsibility is increasingly an important factor in attracting and retaining a talented and diverse workforce. Companies that account for the interests of their employees by offering good working conditions will achieve better performance in terms of quality and delivery, and therefore, experience higher levels of productivity.
2. Learning and innovation
   Learning and innovation are critical to the long-term survival of any business. Corporate social responsibility can be a vehicle for business to respond to environmental and societal risks and turn these into business opportunities.
3. Reputation Management
   Companies operate in a market of opinion. How companies judged by customers, suppliers and the broader community will have an impact on their profitability and success. Corporate social responsibility offers a means by which companies can manage and influence the attitudes and perceptions of their stakeholders, building their trust and enabling the benefits of positive relationships to deliver business advantage.
4. Risk profile and risk management
   Corporate social responsibility offers more effective management of risk, helping companies to reduce avoidable losses, identify new emerging issues and use positions of leadership as a means to gain competitive advantage.
5. Competitive and market positioning
   Corporate social responsibility branding can draw consumers away from competitors and thereby improve profitability.

6. Operational efficiency
   Corporate social responsibility can offer opportunities to reduce present and future costs to the business thereby increasing operational efficiency.
7. Investor relations and access to capital
   The investment community is increasingly viewing corporate social responsibility as akin to long-term risk management and good governance practices. Recent surveys indicate that analysts place as much importance on corporate reputation as they do on financial performance.
8. License to operate
   Companies that fail to manage their responsibilities to society as a whole risk losing their license to operate – a concept whereby a company's stakeholders grant the company an unwritten authority to do business. This may be evidenced by favoring competitors, boycotts or calls for deregistration.

Time frame of the costs and benefits can be out of alignment – the costs are immediate, and the benefits are not often realized quarterly. Nevertheless, many benefits can be identified. Socially responsible companies have enhanced brand image and reputation. Consumers are often drawn to brands and companies with good reputations in corporate social responsibility related issues. A company regarded as socially responsible can also benefit from its reputation within the business community by having increased ability to attract capital and trading partners (Tsoutsoura, 2004).

From the company point of view, product innovation needs a lot of money, and at the end it will be a selling price component. But with constant increase of customer awareness in using energy saving products, this innovation costs could be covered, even a profit could be gained through a positive corporate image creation.

Another corporate social responsibility activity can be considered as a cost center is the community development through training. A lot of companies do these activities as a way to maintain good relations with the society. This activity should be planned as good as possible. Providing proper training according to the company is a way of decreasing the cost in searching potent employees. If this works, then a sense of belonging can be inserted to the local employees. This is also the case with directed training which can develop a society independent economy which can decrease their dependence towards the company, which means social cost saving can be noted (Gunawan, 2009).

With a good planned and targeted CSR program, it will provide significant results for developing a sustainability of the company and a more balanced ecosystem.

Environmental Concerns. Organizations face increasing demands to measure their environmental performance. This is necessary in order to achieve sustainable development to reassure financial stakeholders that their investments are not at risk, to satisfy the demands of regulators and other non-financial stakeholders and to provide information for customers and employees (James, 1994).

In generating long-term value for shareholders, companies need to be responsive to those parties who are affected by their activities. The environment is but one of those parties.

Since the United Nations Conference on the Human Environment in Stockholm in 1972, the environmental agenda has greatly progressed. The 1980s witnessed major environmental accidents and the 1990s the emergence of Environmental Management Systems and the need to transform policies on paper to policies in practice. With increasing evidence of the environmental impact of climate change, waste generation and resource use, it is no longer enough to demonstrate improvement in the management of environmental issues. It is now essential to demonstrate real progress in performance.

Corporate engagement on the environment has evolved tremendously as companies have grown to recognize the competitive advantage environmental action can bring. This is based on average overall score of companies participating in the environment index, that has increased from 60% in 1996 to 83% in 2005 (Bureau Veritas, 2006)

According to the UK Government's Chief Scientific Advisor, Sir David King, climate change is a greater threat than global terrorism. Business will therefore need to understand, measure, and reduce their impact upon the earth's climate (Haywood in Bureau Veritas, 2006). In the past, environmental performance has been seen as a burden on business. Now, it will be seen as a great opportunity as companies will gain four overarching benefits from measuring environmental performance, namely: (1) Glean perspective on what is working and what is not working; (2) Understand and prove progress toward sustainability, environmental goals, and environmental quality; (3) Create an essential feedback and learning mechanism to support management decisions and effectively apply future effort(s) and investments in environmental improvement; (4) Market effectiveness of programs and opportunities.

Some additional benefits of measuring include: (1) Effective management and reduction of wastes, emissions, discharges, and accidents; (2) Ensuring up-to-date environmental practices at each facility; (3) Controlling environmental costs; (4) Understanding the effectiveness and environmental benefits of investments; (5) Choosing wisely between alternative projects; (6) Meeting voluntary business initiatives; (7) Easier environmental reporting (regulatory, publicity, stakeholder reports, other), (8) Justifying corporate support for capital requests and allocations; (9) Public relations and improving public image. (Pollution Prevention Resource Exchange, 2008)

With ever-increasing energy prices, energy efficiency is no longer a luxury but an essential for business. Waste is no longer just an operational by-product but a real cost to the bottom line. Successful companies are able to convert environmental issues into cogent financial arguments comparable with the more traditional investment decisions made by companies on a daily basis (Pettit in Bureau Veritas, 2006).

Businesses that are managing their environmental impacts today will be better placed to compete in the future. Companies that have undergone profound changes in the past are now able to see how reducing their environmental impact has led to better business performance through lower costs, product/service differentiation, enhanced competitiveness and stronger reputation.

CONCLUSION

Performance measurement has begun to shift from using only financial indicators to viewing these as only part of a broader set of measures which also include quality of products, market share, customer satisfaction, and human resources. Nowadays, society has become increasingly concerned with the health of the natural environment and the role of corporations in impacting ecosystems and human health. Given the increasing importance given to the relationship between corporations and the environment, it is important to consider environmental measurement criteria as well. Balanced scorecard is no longer relevant as a measurement tool as it is only focuses on the efficiency (financial). So, holistic performance measurement is needed.

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