ASSESSING THE IMPACT OF USING BALANCE SCORECARD TOWARDS PERFORMANCE OF STARTUP COMPANY

UNDERGRADUATE THESIS

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Submitted to fulfill the requirement
of the undergraduate degree program

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BSD City, Serpong, Tangerang, Indonesia
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APPROVAL PAGE

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CHAPTER I
INTRODUCTION

I.1 BACKGROUND OF RESEARCH

A startup is a young company that is just beginning to develop. Startups are usually small and initially financed and operated by a handful of founders or one individual (Fontinelle, 2017). The role of startup companies that are usually classified as small and medium enterprises (SMEs) is very important, they are often described as the engine of the real economy and also as a contributor to the creation of new jobs.

In fact, the number of startup companies that went bankrupt before turning 4 years is still high. Since 9 out of 10 startups fail, future entrepreneurs should well advise seeking the reasons of failure or how to achieve a success (Kotsch, 2017). It could happen because there is the problem in internal and also external management.

In this thesis, is to find the correlation of balanced scorecard towards the performance of startup company. The balanced scorecard is using to make some necessary point about company strategy, know customer value proposition and one of the way to measure the financial company. Also, it is important as one framework for getting the investor. Balanced Scorecard as a tool to analyze the strategic planning and management system that organizations use to communicate, align the day-to-day work with strategy, prioritize projects, products and services and also measure and monitor progress towards strategic targets (Balance Scorecard Institute, 2017).

This research is trying to find out and analyze the using of balanced scorecard toward Startup Company to measure from financial and non-financial perspective. Because one of the phases of a startup is to introducing the situation within the company, that's why it is a great opportunity to do research with the balanced scorecard.

I.2 RESEARCH PROBLEMS

Based on background that has been explained, there is two aspect of research problems which are:

1. To analyze balanced scorecard to measure company performance towards company performance
2. To determine company performance and value-based management as the tool for analysis company situation

I.3 RESEARCH QUESTIONS

Regarding research problems, there are some research questions are stated:

1. Questions #1: What is the element of balance scorecard that applies for Startup Company?
2. Questions #2: What is the impact of using balance scorecard for company performance?
3. Questions #3: How to implement value-based management and company performance together?

I.4   RESEARCH PURPOSE

This study tries to define the correlation between balance scorecard, company performance, and value-based management. There is some purpose are made:

1. This research is to analyze the impact of using balanced scorecard as a tool to measure the company performance
2. The second purpose is to compare the performance of startup company that has been established in Indonesia and Germany

I.5   SCOPE AND LIMITATIONS

The study is limited as follows;

1. This research is focused on Startup Company in the education field, by comparing one company in Germany and the other company in Indonesia. By analyzing the financial performance and non-financial performance.

2. To analyze the company performance and seek the element that can be used for observing the value-based management, this study only chooses to evaluate the profit margin and asset turnover that as a necessary measurement for a startup company.

1.6   REPORT STRUCTURE

This research is divided into five main chapters, and each chapter has several subcategories. There are consists of:

1. CHAPTER 1: Introduction, which is discussed about the background of research, research problem, research questions, research purpose, scope and limitations, and report structure.
2. CHAPTER 2: Literature Review, which consists of literature and theories related to the topics of the thesis proposal.
3. CHAPTER 3: Research Methodology, which consists of the research process, type of study, type of data, population and sampling method
4. CHAPTER 4: Result and Discussion, consist of analysis of data and discussion about the finding
5. CHAPTER 5: Conclusion and Recommendation, which outlines of the research and the recommendations that can be used for the future research.

CHAPTER II
LITERATURE REVIEW

II.1 BALANCE SCORECARD DEFINITION

The meaning of balance scorecard is a strategic planning and management system which takes into account non-financial aspects of corporate performance, such as customer satisfaction and business processes, to create a complete picture of how the company is likely to perform in the future (Magloff, 2018).

The other definition is a strategic performance measurement model which is developed by Robert Kaplan and David Norton. Its objective is to translate an organization's mission and vision into actual to actions and also it can help provide information on the chosen strategy more, manage feedback and learning processes and determine the target figures. The actions are set up with measurable indicators that provide support for understanding and adjusting the chosen strategy (Vincent, 2010).

Balance scorecard contains four elements which are financial perspective, customer perspective, internal process and learning and growth. Each element has defined some of the perspective.

Figure 1: BALANCE SCORECARD
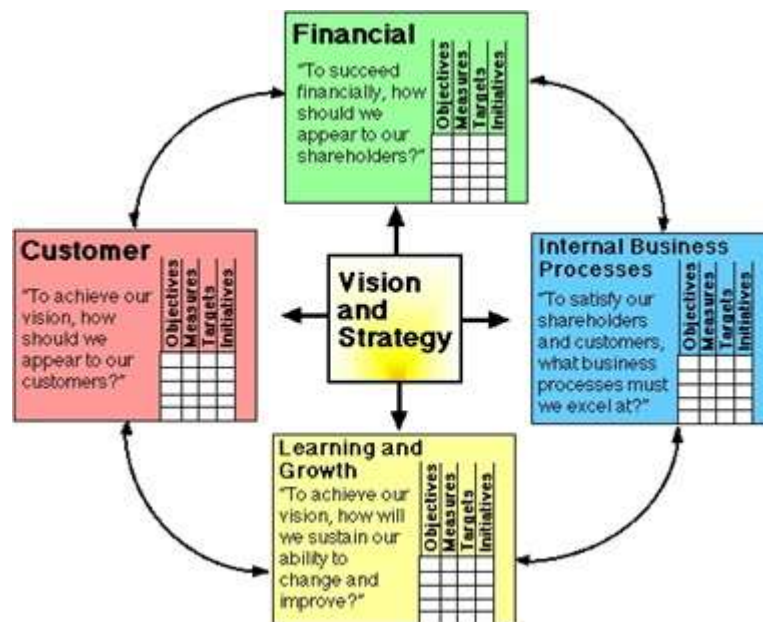
SOURCE: *(Balance Scorecard Institute, 2017)*

II.1.1 FINANCIAL PERSPECTIVE

Managing the financials of a company has been and will always be the most important objective for the executives (MBAskool, 2018). The company must do well on

its balance sheet for the shareholders to be satisfied and for continuously getting the required funding. Some of the metrics which can be looked at under this some points:

- Return on investment
- Cash flow
- Return on capital employed
- Financial results (quarterly/Yearly

It provides a reliable insight into the operational management and the sustainability of the chosen strategy. The delivered added value from the other three perspectives will be translated into a financial success. This is, therefore, a quantification of the added value that is delivered in the organization. After all in the balanced scorecard, when there is a higher added value, the profits will also be higher (Vincent, 2010).

II.1.2 CUSTOMER PERSPECTIVE

Each organization serves a specific need in the market by focusing on the customer. Customers determine for example the quality, price, service and the acceptable margins on these products and/or services. Organizations always try to meet customer expectations that may change at any time. The existence of alternatives (those of the competitor) has a large influence on customer expectation. This perspective answers the question: "*How attractive should we appear to our customers?*"

The basis here is the customers' satisfaction and unsatisfied customers will prefer the competitor's product instead. Low performance in this perspective might cause a decay of business even if current financial and other perspectives are well performed. In order to create indicators of customer's satisfaction special research is needed (BSC Designer, 2016).

II.1.3 INTERNAL BUSINESS PROCESS

This allows business managers to discern whether the business is going in the right direction and moving smoothly or not. Here, the main check is to see whether mission statements are being compiled or not and that the business principles are being implemented (Vincent, 2010). The factors which can be:

- Process bottlenecks
- Process automation
- Alignment of processes in the right direction
- Duplicate activities across functions
- Number of activities across functions

Also, views organizational performance through the lenses of the quality and efficiency related to our product or services or other key business processes (Balance Scorecard Institute, 2017).

II.1.4 LEARNING AND GROWTH

This refers to both "individual" and "corporate" aspects of learning and growth. The discoverer Dr. Kaplan emphasizes more on learning than on growth and hence suggests the presence of mentors in the organization who can help junior business executives to learn which will automatically lead to growth. Kaplan says that learning and growth should be a continuous process especially in today's world where technology is changing so fast and employee skills and knowledge are the only resources that a company has in the longer run. The factors which can be considered which are:

- Correct knowledge skills abilities for the job
- Job satisfaction
- Training centers/opportunities in the organization

This company's activity refers to staff training and development of corporate culture. The philosophy of such concept is based on every staff member's high educational level at our modern age of information (MBAskool, 2018). Oppositely to old management studies, it might be effective to give more freedom to employees concerning the way how they are to execute their tasks. Also, the role of relationships between employees has become much more important than in it was considered by old-style industrial companies. Psychological researchers of business define corporate culture as "the character of an organization" with its unique ethical norms and managerial behaviors. Much work needs to be executed to form and support such culture.

II.2 SALES GROWTH

The definition of sales growth is a metric to measures the sales to increase revenue over a fixed period of time. Without revenue growth, the company is at risk of being overtaken by competitors. And also, sales growth is a strategic indicator that is used in decision making by top and middle managers and having some influence on the formulation and execution of business strategy (Marz, 2018).

Perhaps, it is to overstate the importance of the sales growth metric because it is tied directly to revenue and profitability. Growth is the drumbeat by which all organizations march. When performance decreases, pressure mounts on the sales organization to deliver results. Then, a high percentage growth in sales is cause for optimism for all stakeholders such as executives, the board of directors, and shareholders (Hessong, 2017).

II.3 CUSTOMER FEEDBACK

Customer feedback is one of the way company can maintain the relationship with the customer. By giving the customer, the media to use as the feedback tool, it will make customer feels being involved with the company. It also gave a big advantage for the company to know about the customer preferences and can do improvement for

anything that makes the customer not satisfied with company performance (Jahn, 2011). For company. They can know also about the employee's performance by treating their customer. It is good enough or needs improvement.

II.4 VALUE-BASED MANAGEMENT

The meaning of value-based management is the management basis of value, it is trying to find out about how they create value of the organization. VBM is usually used to calculate the internal financial management. By using VBM, the company can focus to determine their strategy into reality. The main factors that determine a corporate value are: the ability of a firm to generate a return or revenue that is greater than its cost of capital, growth reflecting both the volume of invested capital and its positive trend of expansion and cost of capital which among other things also reflects a risk of a company (Bukvic, 2014).

II.4.1 PROFIT MARGIN

The profit margin is a ratio of a company's profit divided by its revenue. It's always expressed as a percentage. It will give information about the revenue of the company. A high ratio is defined that the company generates a lot of profit for every dollar of revenue then a low percent tells that the firm's high costs reduce the profit for each dollar of income (Amadeo, 2017).

$$Profit\ Margin = \frac{Net\ income}{Sales}$$

II.4.2 ASSET TURNOVER

The asset turnover ratio is defined as the total revenue for every dollar of assets a company owns. The ratio has been using as the tool to know the ability of an organization to efficiently produce sales and is typically used by third parties to evaluate the operations of a business. Actually, a company with a high total asset turnover ratio can operate with fewer assets than a less efficient competitor, and then it requires less debt and equity to operate. The result should be a comparatively greater return to its shareholders (Kennon, 2018).

$$Asset\ Turnover = \frac{Net\ Sales}{Average\ Total\ Assets}$$

II.5   PREVIOUS STUDIES

The following table shows several studies in relation to balanced scorecard, company performance, customer relationship, customer satisfaction, and value-based management

Table 1: SELECTED PREVIOUS STUDIES

Title of Research or Article, including authors (using the automated referencing)	Variables & Sub-Variables	Findings
1. Does BSC Represent an Organizational Development? Evidence from Indonesian Manufacturing Firms (Nawangwulan, Anantadjaya, & Finardi, 2014)	Balanced Scorecard: • Financial • Customer • Internal Business Process • Learning & Growth • Environment Firm's Performance: • EV, EBITDA, PBV, PER	BSC has the positive impact 60% on firm's value that happens in the internal company which is the environment
2. A Customer Retention Model using Balance Score Card for Small and Medium Enterprises in the Hospitality Industry (Erinle & S., 2013)	Balanced Scorecard Customer Relationship Management: • Customer Retention • Customer Intimacy • Customer Touch-Point	BSC that applied in SME show good impact through the increase of customer relationship like customer retention
3. Performance Measurement and Balanced Scorecard Implementation: Case evidence of a Government-linked-Company (Zin, Sulaiman, Ramli, & Nawawi, 2013)	Balanced Scorecard: • Financial • Customer • Internal Business Process • Learning & Growth Performance Measurement: • Government-Linked Company	The implementation of BSC has been applied in Government-Listed Company in vision and strategy and the four elements become critical success factors for that company
4. Balancing the Firms' Scores: A	Balanced Scorecard: • Financial	Balance Scorecard has total value 71%

Title of Research or Article, including authors (using the automated referencing)	Variables & Sub-Variables	Findings
Performance and Control Study in Indonesian Financing Industry (Indra & Anantadjaya, 2017)	- Customer - Internal Business Process - Learning & Growth Company Performance: - Financial Ratio	impact to firm value learning and growth become the most dominant factor to the firm value
5. Impact of Balanced Scorecard on Firm Value of Quoted Manufacturing Companies in Nigeria (Okoye, Odum, Chidoziem, & Odum, 2017)	Balanced Scorecard: - Financial - Customer - Internal Business Process - Learning & Growth Firm Value: - Tobin's Q Model	The use of balanced scorecard with financial perspective will create firm value by having high financial performance

Source: Various

II.6   DIFFERENCES IN RESEARCH

The differences between those previous studies above and this study are on the variables. These paper variables are Balanced Scorecard, Company Performance, and Value-Based Management. The sub-variable some are the same as the previous study but there is a difference in sub-variable for the second and third variable; The sub-variable divided into 7 (Financial, Customer, Internal Business Process, Learning & Growth, Sales Growth, Feedback, Profit Margin and Asset Turnover). The analysis of this study is to seek the impact of using balance scorecard towards business performance, especially start-up company.

II.7   RESEARCH MODEL & HYPOTHESIS

The illustration shows the research model. By using the four elements of the balanced scorecard to know the performance of the company and because the focus on a startup company, this study tries to elaborate value-based management, which is profit margin and asset turnover for value added of a startup company.

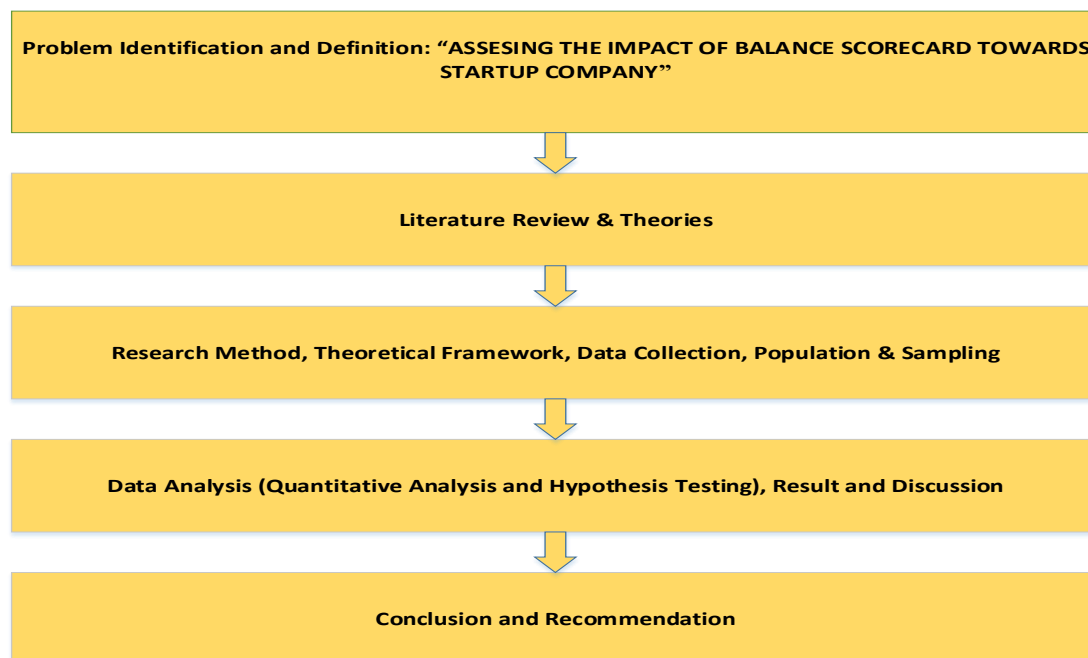According to the following research method, this study determines the following hypotheses:
H1:   Balanced Scorecard has a positive impact towards company performance
H2:   Company performance has a positive correlation with Value Based Management
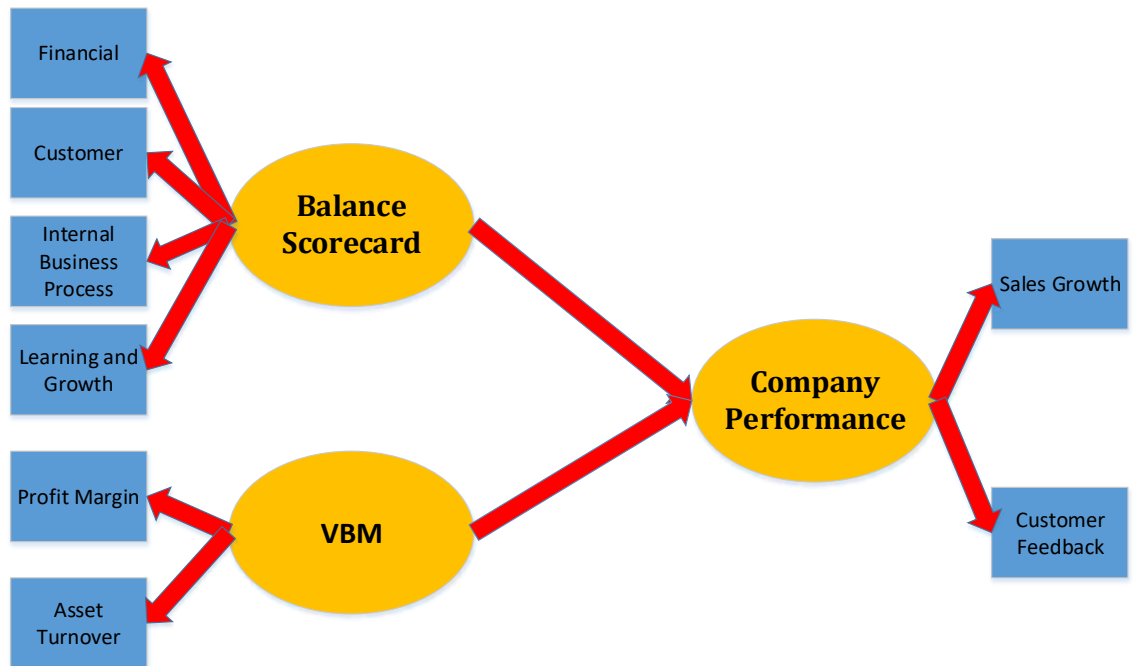
CHAPTER III
RESEARCH METHODOLOGY

III.1   RESEARCH PROCESS

The process or workflow that is utilized in this research will be shown in the figure Below.

Problem Identification and Definition: "ASSESING THE IMPACT OF BALANCE SCORECARD TOWARDS STARTUP COMPANY"
Literature Review & Theories
Research Method, Theoretical Framework, Data Collection, Population & Sampling
Data Analysis (Quantitative Analysis and Hypothesis Testing), Result and Discussion
Conclusion and Recommendation

III.2   TYPE OF STUDY

The purpose of this thesis is to analyze the impact of using balanced scorecard as a measurement tool for startup company performance. The second purpose is to compare the startup company in Indonesia and Germany.

III.3   TYPE OF DATA

There are two types of data used in this research. They are primary data and secondary data. Primary data is gathered by distributing the questionnaire to employee and customer of Startup Company (in Indonesia and Germany). Then secondary data will be gathered from collecting data from company data, literature and Internet journal.

III.4   POPULATION AND SAMPLE
III.4.1 POPULATION

This population for this research will be the employees and customers of Startup Company (Tutoring) in Germany and Indonesia and also focus on one company

in each country. The target population actually based on the comparison between the companies that already exist in Indonesia and in Germany. By distributing the questionnaire to the employee that works in that company and to the customer of that company. For this thesis proposal, I have already distributed questionnaire for the customer in Indonesia.
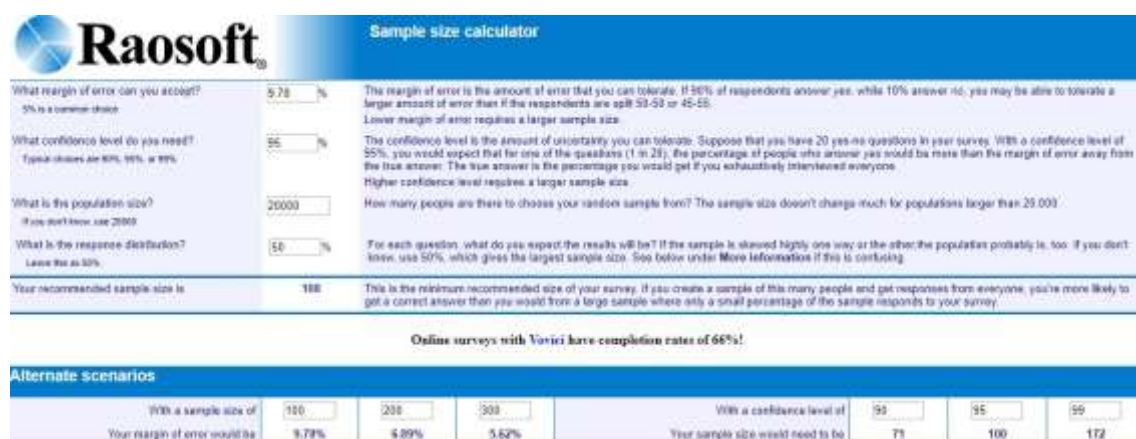
III.4.2   SAMPLE SIZE & PROCESS

This research is targeted to get 100 sample size by using cluster sampling. The cluster sampling is divided into four islands in Indonesia and in overseas (Germany). To get 100 sample size, each island has to get 20 respondents. Then, the result is 126 respondents.

The steps listed below are the ones used in Internet Website named Raosoft to measure sample size:
1. Search Raosoft Sample Size Calculator
2. Choose margin error (common 5-10%)
3. Choose confidence level 95% (common)
4. Fill up the population size with 20000 (If we do not know)
5. Leave the column response distribution as 50%
6. The result of sample size will come up
7. Then, see alternative scenarios if the number of sample size is too big

Figure 3: Raosoft Sample Size Calculator

III.5   VALIDITY TEST

Validity relates to the extent to which the survey measures right elements that need to be measured and also defined as the extent of the accuracy and precision measuring instruments (Anantadjaya & Nawangwulan, 2018).

To perform validity test using SPSS Software, first, click "Analyze-Scale-Reliability Analysis and click all the variables and put them into the items box. Click "Statistics" and on the "Descriptive for" click "Scale if item deleted". Click "Continue" then click "OK".

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,830
Bartlett's Test of Sphericity	Approx. Chi-Square	663,718
	df	78
	Sig.	,000

Source: SPSS

III.6   RELIABILITY TEST

Reliability is the degree to which an assessment tool produces stable and consistent results. Reliability indicates the stability and consistency of an instrument that measures a concept. In this research, reliability test is the degree of precision and accuracy of variables (Anantadjaya & Nawangwulan, 2018).

To perform reliability test using SPSS Software, click "Analyze-Scale" then click "Reliability Analysis" and check the items, then click "OK".

Table 3: Reliability Statistics

Cronbach's Alpha	N of Items
,738	13

Source: SPSS

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