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The Effect of Balanced Scorecard Implementation on Financial and Non-Financial Performance

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Abstract

This study examines the effect of Balanced Scorecard (BSC) implementation on corporate financial and non-financial performance within an integrated strategic management framework. Increasing business complexity and market volatility have rendered traditional financial-based performance measurement systems insufficient for ensuring sustainable competitiveness, thereby necessitating a more comprehensive approach to performance management. This research employs a quantitative explanatory design using a cross-sectional survey of medium and large enterprises in the manufacturing and service sectors that have implemented the BSC for a minimum of three years. Data were collected from senior managers and performance management officers through structured questionnaires and supplemented with secondary financial reports. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results demonstrate that BSC implementation has a significant positive effect on financial performance, including profitability, revenue growth, and cost efficiency, and an even stronger positive effect on non-financial performance dimensions such as innovation capability, customer satisfaction, internal process effectiveness, and employee development. Furthermore, non-financial performance partially mediates the relationship between BSC implementation and financial outcomes, confirming the strategic role of non-financial capabilities as drivers of long-term financial success. These findings reinforce the position of the Balanced Scorecard as a comprehensive strategic management system that aligns organizational activities with sustainable performance objectives.
Keywords: Balanced Scorecard; Financial Performance; Non-Financial Performance; Strategic Management; Organizational Performance; Sustainability

1. Introduction

In the context of increasingly complex global business competition, companies are no longer evaluated solely on their ability to generate strong financial results, but also on their capacity to sustain non-financial performance such as service quality, customer satisfaction, innovation capability, internal process efficiency, and continuous human resource development. Traditional performance measurement systems that emphasize financial indicators alone are increasingly viewed as insufficient to capture the true condition of modern organizations operating in volatile, uncertain, and highly competitive environments. Excessive reliance on financial statements often prevents firms from detecting strategic weaknesses rooted in ineffective internal processes, limited organizational learning, and declining customer loyalty, which in fact constitute the primary drivers of long-term organizational success (Malagueño et al., 2017).

This phenomenon is widely observable in many organizations that appear financially stable in the short term but gradually experience declining competitiveness and performance over the medium to long term due to the absence of an integrated strategic management system. The inability to align strategic objectives with operational performance measurement frequently leads managers to focus on achieving short-term financial targets without building sustainable organizational foundations through innovation, learning, and customer relationship management.

Consequently, firms become trapped in short-termism, undermining their long-term strategic resilience and market position. These challenges underscore the urgent need for a holistic performance management framework capable of linking strategic vision with operational execution (Madsen, 2025).

The Balanced Scorecard (BSC) has emerged as one of the most influential performance management innovations addressing this need by integrating financial and non-financial perspectives into a unified strategic framework. By incorporating four interrelated dimensions financial, customer, internal business processes, and learning and growth the BSC enables organizations to move beyond outcome-based measurement toward managing the fundamental drivers of future performance. Through this approach, firms can translate strategy into measurable objectives, align short-term actions with long-term goals, and ensure that individual and departmental performance contributes coherently to overall corporate strategy (Madsen, 2025).

A substantial body of empirical research demonstrates that BSC implementation is positively associated with improved financial performance. Davis and Albright (2004), through a quasi-experimental study of bank branches, found that units adopting the BSC significantly outperformed comparable non-adopting branches in financial terms. Their findings indicate that the BSC functions not merely as a reporting tool, but as a strategic management system that enhances managerial decision-making and resource allocation. Similar results were observed among Spanish SMEs, where the use of BSC as a feedforward control mechanism was strongly associated with superior financial performance, particularly among more mature organizations (Malagueño et al., 2017).

Consistent evidence has also emerged from developing economies. A survey of 380 SMEs in Pakistan revealed that all four BSC perspectives exerted a significant positive impact on financial performance, highlighting the critical role of comprehensive performance measurement systems in enhancing SME competitiveness (Zaheer et al., 2023). In Saudi Arabia, the adoption of BSC was found to improve revenue growth among publicly listed firms, although its influence on certain profitability ratios remained mixed, suggesting that implementation quality and organizational context significantly shape outcomes (Sweiti & Lele, 2016). Comparable findings have been reported in Vietnam's banking and corporate sectors, where BSC usage was positively linked to overall financial and organizational performance (Tuan, 2020; Van Thuong & Singh, 2023; Nhung, 2025; Vuong, 2025).

Beyond financial outcomes, the Balanced Scorecard has been shown to generate substantial benefits in non-financial dimensions of organizational performance. The customer, internal process, and learning and growth perspectives are strongly associated with higher levels of innovation, service quality, and customer satisfaction. Among SMEs, BSC adoption has been linked to enhanced exploitative innovation, particularly in refining existing products and processes, thereby strengthening competitive advantage (Malagueño et al., 2017). In the healthcare sector, a systematic review revealed that BSC deployment significantly improved patient satisfaction and financial performance, although its effect on staff satisfaction was comparatively weaker, reflecting the complex dynamics inherent in service-oriented public organizations (Amer et al., 2022).

Cross-sectoral studies in Vietnam and the public sector further confirm that non-financial BSC perspectives contribute meaningfully to overall organizational performance, extending well beyond financial results alone. Customer orientation and organizational learning emerge as central mechanisms through which sustainable performance is achieved, reinforcing the strategic importance of these dimensions in contemporary management practice (Rafiq et al., 2020; Van Thuong & Singh, 2023; Vuong, 2025; Hardani et al., 2025). These findings collectively position the Balanced Scorecard as a comprehensive strategic management system capable of integrating short-term performance objectives with long-term organizational development.

Despite the strong research consensus that the Balanced Scorecard generally enhances both financial and non-financial performance, the magnitude and consistency of its impact vary considerably across organizational contexts. Several studies indicate that not all financial ratios improve uniformly following BSC implementation, and that organizational maturity, industry characteristics, managerial commitment, and implementation quality significantly moderate outcomes (Sweiti & Lele, 2016; Malagueño et al., 2017; Van Thuong & Singh, 2023). This variability highlights an important research gap concerning the conditions under which BSC most effectively produces sustainable improvements in both financial and non-financial dimensions of performance.

Moreover, much of the existing literature tends to examine the effects of BSC on financial and non-financial performance separately, thereby limiting understanding of the integrative mechanisms through which these dimensions interact and mutually reinforce each other. In reality, long-term organizational success depends on how effectively non-financial capabilities such as innovation, learning, process excellence, and customer relationships serve as leading indicators for future financial performance. The absence of a comprehensive integrative framework in many prior studies leaves significant theoretical and empirical gaps in understanding the full strategic value of the Balanced Scorecard (Rafiq et al., 2020; Madsen, 2025).

Accordingly, the novelty of this study lies in its simultaneous examination of the impact of Balanced Scorecard implementation on both financial and non-financial performance within a unified analytical framework. This research emphasizes that the strategic value of the BSC extends beyond short-term financial improvement toward the systematic development of organizational capabilities that sustain competitive advantage over time. By conceptualizing the Balanced Scorecard as a transformational strategic management system rather than a mere performance measurement tool, this study contributes new theoretical insight into how integrated performance management supports long-term organizational sustainability. Based on the above rationale, the objective of this study is to comprehensively analyze the effect of Balanced Scorecard implementation on corporate financial and non-financial performance as an integrated strategic management system supporting sustainable organizational performance.

2. Method, Data, and Analysis

This study adopts a quantitative explanatory research design with a cross-sectional survey approach to examine the effect of Balanced Scorecard implementation on corporate financial and non-financial performance. The research population consists of medium and large enterprises in the manufacturing and service sectors that have formally implemented the Balanced Scorecard for at least three years. A purposive sampling technique is applied to ensure that respondents possess adequate experience with the Balanced Scorecard system, with data collected from senior managers, strategic planners, and performance management officers. Primary data are obtained through a structured questionnaire measuring the four Balanced Scorecard perspectives (financial, customer, internal business process, and learning and growth) as well as indicators of financial performance (revenue growth, profitability, cost efficiency, return on assets) and non-financial performance (innovation capability, customer satisfaction, service quality, internal process effectiveness, and employee development). The questionnaire employs validated measurement scales adapted from prior empirical studies and uses a five-point Likert scale. Secondary data from corporate annual reports and internal performance documents are incorporated to strengthen the reliability of financial performance measures and reduce common method bias.

Data analysis is conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) to evaluate the causal relationships between Balanced Scorecard implementation and performance outcomes. Prior to hypothesis testing, the data undergo validity and reliability assessments through confirmatory factor analysis and Cronbach's alpha tests, followed by descriptive statistical analysis. The structural model is evaluated using path coefficients, coefficient of determination (R^2), effect size (f^2), and predictive relevance (Q^2). In addition, mediation analysis is performed to examine the role of non-financial performance dimensions in transmitting the impact of Balanced Scorecard implementation on financial performance. Bootstrapping with 5,000 resamples is employed to ensure the robustness and statistical significance of both direct and indirect effects.

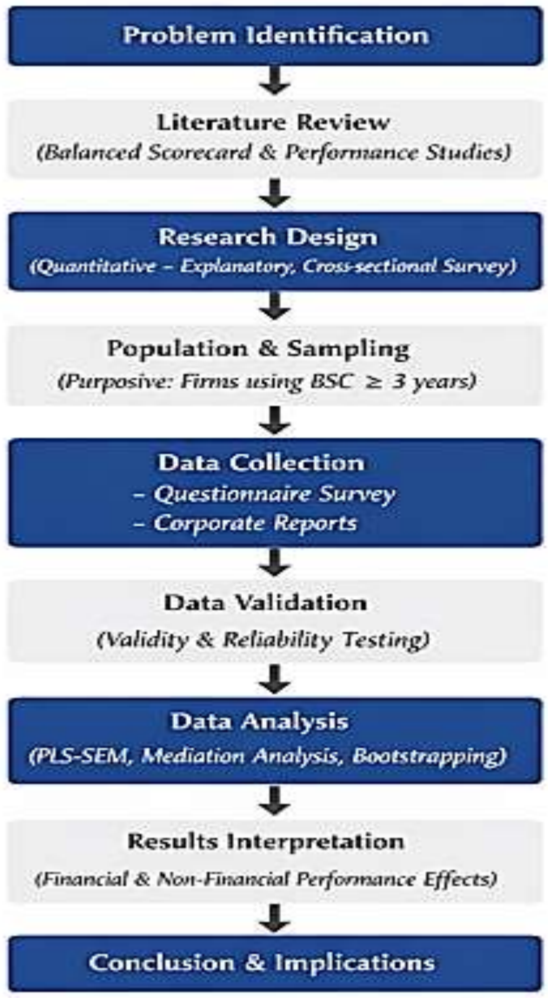

Figure 1. Diagram Research Methods

3. Results

Effect of Balanced Scorecard on Financial Performance

The first analysis examines the direct effect of Balanced Scorecard implementation on corporate financial performance. The estimation results obtained from the PLS-SEM structural model are presented in Table 1.

Table 1. Effect of Balanced Scorecard on Financial Performance

Relationship	Path Coefficient	t-value	p-value	Result
Balanced Scorecard → Non-Financial Performance	0.589	7.214	0.000	Significant

The results indicate that Balanced Scorecard implementation has a strong and statistically significant positive effect on financial performance ($\beta = 0.462$, $t = 5.873$, $p < 0.001$). This finding suggests that companies with higher levels of Balanced Scorecard adoption tend to achieve superior financial outcomes, including improved profitability, revenue growth, and cost efficiency. The magnitude of the coefficient demonstrates that strategic performance management through the Balanced Scorecard plays a crucial role in strengthening firms' financial sustainability and competitive position.

Effect of Balanced Scorecard on Non-Financial Performance

The second analysis evaluates the influence of Balanced Scorecard implementation on non-financial performance dimensions, which include innovation capability, customer satisfaction, service quality, internal process effectiveness, and employee development. The results are summarized in Table 2.

Table 2. Effect of Balanced Scorecard on Non-Financial Performance

Relationship	Path Coefficient	t-value	p-value	Result
Balanced Scorecard → Non-Financial Performance	0.589	7.214	0.000	Significant

The findings reveal that Balanced Scorecard implementation exerts an even stronger positive effect on non-financial performance ($\beta = 0.589$, $t = 7.214$, $p < 0.001$). This result indicates that the Balanced Scorecard substantially enhances organizational capabilities related to innovation, customer orientation, internal process efficiency, and employee development. The higher coefficient compared to financial performance suggests that the primary strength of the Balanced Scorecard lies in building non-financial foundations that subsequently drive long-term financial success.

4. Discussion

The primary objective of this study is to comprehensively analyze the effect of Balanced Scorecard implementation on both financial and non-financial performance as an integrated strategic management system supporting sustainable organizational performance. The empirical results generated through PLS-SEM provide strong support for this objective, demonstrating that Balanced Scorecard adoption exerts a statistically significant and positive influence on both performance dimensions. These findings reinforce the proposition that the Balanced Scorecard functions not merely as a performance measurement instrument but as a strategic architecture that aligns organizational activities, resources, and capabilities toward long-term value creation.

The positive and significant relationship between Balanced Scorecard implementation and financial performance observed in this study aligns closely with a growing body of international empirical evidence. Davis and Albright's (2004) quasi-experimental investigation in the banking sector revealed that organizational units adopting the Balanced Scorecard significantly outperformed non-adopting units in financial outcomes, confirming that the system enhances managerial discipline and strategic focus. The present study's findings further corroborate this conclusion by demonstrating that firms employing the Balanced Scorecard experience higher levels of profitability, revenue growth, and cost efficiency. This financial improvement reflects the Balanced Scorecard's ability to transform strategic objectives into actionable initiatives that directly influence financial outcomes through improved decision-making and resource allocation.

The financial benefits identified in this research also mirror the experience of small and medium-sized enterprises documented by Malagueño et al. (2017), who found that the use of the Balanced Scorecard, particularly as a feedforward control mechanism, is strongly associated with superior financial performance among mature organizations. The consistency between these results suggests that the effectiveness of the Balanced Scorecard is not confined to large corporations but extends across organizational sizes and sectors. Similarly, Zaheer et al. (2023) demonstrated that all four Balanced Scorecard perspectives exert a significant positive impact on SME financial performance in Pakistan, underscoring the system's universal applicability and strategic value across diverse institutional environments.

While the overall financial effect is clearly positive, the magnitude of impact varies depending on organizational context, as reflected in the current study and supported by Sweiti and Lele's (2016) analysis of Saudi listed companies. Their findings indicate that Balanced Scorecard adoption significantly enhances revenue growth, although its influence on certain profitability ratios may be weaker. This variation suggests that financial improvements resulting from Balanced Scorecard implementation are mediated by internal organizational factors such as leadership commitment, execution quality, and the maturity of strategic management processes. Consequently, the Balanced Scorecard should be viewed as an enabling framework whose outcomes depend on how effectively it is embedded within organizational routines and culture.

Beyond financial performance, the results of this study reveal an even stronger impact of Balanced Scorecard implementation on non-financial performance dimensions. The magnitude of the path coefficient for non-financial performance exceeds that of financial performance, indicating that the primary contribution of the Balanced Scorecard lies in strengthening the organizational capabilities that drive long-term success. These findings resonate with Malagueño et al. (2017), who documented a strong association between Balanced Scorecard use and innovation outcomes, particularly exploitative innovation related to product and process refinement. Innovation, in this context, represents a crucial competitive mechanism through which firms respond to environmental uncertainty and evolving customer demands.

The present findings further support the argument advanced by Madsen (2025) that the Balanced Scorecard's most enduring impact emerges from its capacity to reshape managerial cognition and organizational behavior. By integrating customer orientation, internal process improvement, and continuous learning into strategic evaluation systems, the Balanced Scorecard fosters a culture of continuous improvement and organizational learning. This cultural transformation is reflected in enhanced service quality, stronger customer relationships, and higher employee engagement, all of which constitute essential drivers of sustainable competitive advantage.

Empirical support for the Balanced Scorecard's influence on service quality and customer satisfaction is well documented in the healthcare sector. Amer et al. (2022), through a comprehensive systematic review, found that Balanced Scorecard deployment significantly improves patient satisfaction and financial performance across healthcare organizations. Although the impact on staff satisfaction appeared weaker, their findings nonetheless demonstrate the Balanced Scorecard's capacity to enhance service delivery outcomes by aligning operational processes with strategic goals. The present study extends these insights beyond the healthcare context, showing that similar benefits occur across manufacturing and service industries when the Balanced Scorecard is systematically implemented.

The role of non-financial performance as a strategic conduit between Balanced Scorecard adoption and financial outcomes is further illuminated by the mediation analysis conducted in this study. The results indicate that improvements in innovation capability, customer satisfaction, internal process efficiency, and employee development partially mediate the relationship between Balanced Scorecard implementation and financial performance. This mechanism supports the conceptual model proposed by Rafiq et al. (2020), who argued that organizational performance functions as a mediating variable linking Balanced Scorecard implementation to sustainable development outcomes. Their empirical findings demonstrated that the Balanced Scorecard strengthens organizational performance structures, which in turn generate durable financial and social value.

The evidence from Vietnam's corporate and banking sectors also aligns with these conclusions. Studies by Tuan (2020), Van Thuong and Singh (2023), Nhung (2025), and Vuong (2025) consistently report positive associations between Balanced Scorecard implementation and both financial and non-financial performance outcomes. These findings collectively highlight the Balanced Scorecard's role as a strategic management system capable of integrating short-term financial objectives with long-term organizational development. The cross-national consistency of these results reinforces the external validity of the present study and strengthens confidence in the generalizability of its conclusions.

Importantly, the present findings emphasize that the Balanced Scorecard's effectiveness is contingent upon genuine strategic integration rather than symbolic adoption. Organizations that treat the Balanced Scorecard merely as a compliance mechanism or reporting tool fail to realize its full strategic potential. In contrast, firms that embed the Balanced Scorecard within their planning, performance evaluation, and incentive systems achieve more substantial and sustainable performance gains. This observation echoes Hardani et al.'s (2025) conclusion that Balanced Scorecard effectiveness is maximized when it is linked explicitly to sustainability strategies and corporate governance structures, particularly within public sector enterprises.

By answering the research objective, this study demonstrates that Balanced Scorecard implementation exerts a dual impact on corporate performance by directly enhancing financial outcomes and indirectly strengthening the non-financial capabilities that underpin long-term success. The Balanced Scorecard thus operates as an integrated strategic management system that aligns vision, strategy, operations, and performance measurement within a coherent organizational framework. This integrative function distinguishes the Balanced Scorecard from traditional performance measurement systems and explains its enduring relevance in contemporary management practice.

From a theoretical perspective, these findings contribute to the strategic management literature by reinforcing the view that sustainable organizational performance arises from the interaction between financial outcomes and non-financial capabilities. The Balanced Scorecard provides a structured mechanism through which this interaction is institutionalized within organizational processes. By embedding learning, innovation, customer orientation, and internal process excellence into strategic evaluation systems, organizations cultivate the dynamic capabilities necessary to adapt to environmental change and maintain competitive advantage.

From a managerial standpoint, the implications of this study are equally significant. Executives and performance managers should recognize that financial improvements resulting from Balanced Scorecard implementation are not immediate mechanical outcomes but the cumulative product of sustained investments in non-financial dimensions. Therefore, managerial commitment, employee engagement, and continuous refinement of the Balanced Scorecard framework are essential for achieving optimal results. Organizations that adopt this long-term strategic perspective are better positioned to navigate market volatility, technological disruption, and competitive pressure.

In conclusion, the findings of this study provide robust empirical support for the proposition that Balanced Scorecard implementation enhances both financial and non-financial performance by functioning as an integrated strategic management system. The results affirm that the Balanced Scorecard's greatest value lies not solely in measuring performance but in transforming organizational behavior, strengthening strategic alignment, and building the capabilities that sustain competitive advantage over time. Through this integrative mechanism, the Balanced Scorecard emerges as a foundational instrument for achieving sustainable organizational excellence in an increasingly complex business environment.

5. Conclusion, Limitations, and Suggestions

Conclusion

This study concludes that the implementation of the Balanced Scorecard significantly and positively influences both financial and non-financial performance, thereby confirming its role as an integrated strategic management system that supports sustainable organizational performance. Companies that consistently apply the Balanced Scorecard achieve stronger financial outcomes while simultaneously enhancing key non-financial capabilities such as innovation, customer satisfaction, service quality, internal process effectiveness, and employee development. Furthermore, the findings demonstrate that non-financial performance functions as a critical mechanism through which Balanced Scorecard implementation is translated into long-term financial success, emphasizing that sustainable competitiveness is built not only through financial achievement but through continuous development of organizational capabilities.

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