

## THE IMPACT OF UTILIZATION OF BALANCED SCORECARD CONCEPT ON COMPETITIVENESS OF HEALTH CARE COMPANIES

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### **Abstract:**

Health care is an industry that influences all the other industries and all the society groups, and it takes a more important role especially because of the ageing of society. A global trend indicates that there is a change needed in health care systems.

Globally recognized is the balanced scorecard concept that can allow companies to understand their competitive position. Latvian health care companies are not using in evaluation all of the main indicators influencing the company's competitiveness and they do not group them into four perspectives of balanced scorecard for analyzing healthcare companies' management, as well as by evaluating the factors which are significant for patients in choosing the health care company.

The goal of the paper is, by doing the research of health care companies' competitiveness and balanced scorecard theoretical aspect, to develop balanced scorecard concept aiming to increase of competitiveness and value of Latvian private health care company.

Research methodology includes the analysis of theoretical background and two survey data about private health care companies in Latvia.

Competition on value is crucial for health care companies, because they have to take into account the immaterial value - patient's health. Price level, quality of health care services and the company's images in Latvia are significant factors that can influence the health care company's competitiveness not only in the local markets, but in global ones as well.

*Key words: Balanced Scorecard, Competitiveness, Health Care Companies, Market Value, Patients' perspective*

## 1. INTRODUCTION

Health care is an industry that influences all the other industries and all the society groups, and it takes a more important role especially because of the ageing of society. Solving the social problems is an actual theme. One of the government responsibilities is to provide its inhabitants with available health care services, but the financial fund for health care services per one inhabitant in Latvia is one of the smallest in European Union. The basic indicators of health care in Latvia are reflected in Table 1 that shows the decreasing tendency of number of hospitals during the years 2006-2010 and increasing tendency of health care institutions providing outpatient services.

**Table1:** Basic Indicators of Health Care in Latvia at the End of the Year from the Year 2006 to 2011

Indicator	2006	2007	2008	2009	2010	2011
Physicians of all specialities	8 341	8 014	8 437	7 964	7 951	7 987
Residents and apprentices	420	478	637	489	463	440
Specialists with higher medical professional education	379	391	462	483	519	611
Nurses with higher education	593	700	692	831	1 090	1 480
Medical personnel with secondary medical education	14 751	14 546	15 197	13 492	13 217	12 494
Hospitals	106	94	88	69	67	70
Beds in Hospitals	17 599	17 497	17 001	14 434	11 920	12 111
Health care institutions providing outpatient services- total	3 183	3 285	4 078	4 583	4 756	4 658

Source: www.Csb.gov.lv, 2012

A global trend indicates that there is a change needed in health care systems by refocusing the emphasis on value for patients. In this situation, it is important to provide the best quality services for patients. The authors (Porter, Teisberg, 2006) also stress the importance of health care delivery questions. The private health care companies are dealing with difficulties because of too dynamic changes in environment when they are not able to balance their capabilities with change in insufficient demand. This all increases the competition for private health care companies and they need to tailor to this changing environment and should think strategically smarter to compete in a longer run. The tailored strategic management system can allow to measure company's success in achieving long-term sustainability in shareholder value growth and improvements in competitiveness. Globally recognized is the balanced scorecard concept that can allow companies to understand their competitive position. However, the question is how the balanced scorecard can be developed for private health care company in Latvia.

The goal of the paper is, by doing the research of competitiveness and balanced scorecard theoretical aspect, to develop balanced scorecard concept aiming to increase of competitiveness and value of Latvian private health care company. As qualitative methods there are used theoretical comparison analyses, interviews with experts, personal observations, expert method in making assumptions and evaluating certain aspects. As quantitative research methods the statistical data analysis and other financial calculations are used. Two surveys are carried out. The research findings show that Latvian health care companies are not using in evaluation all of the main indicators influencing the company's competitiveness and they do not group them into four perspectives of balanced scorecard for analyzing healthcare companies' management, as well as by evaluating the factors which are significant for patients in choosing the health care company.

## 2. HEALTH CARE COMPANY' S COMPETITIVENESS AND ITS FINANCIAL ASPECTS

The concept of *competitiveness* has multiple interpretations. Competitiveness depends on different variables, but by summarizing all the definitions by well-known authors, the authors came to conclusion that competitiveness is a strategic management comparison tool that shows the existing performance of the company and further ability to compete in a certain market. Competitiveness is company's flexibility and ability to maintain or to improve the position within the changing environment in the particular market. It shows the company's position in the market, because it is possible to

evaluate company's overall performance and compare it with other players in the local and global market. By competing, the companies use their capabilities, for instance, effective resource management. Usually, (Hamel, Prahalad, 1994), the effective use of resources is based on company's employees, for example, on their knowledge. In addition, the knowledge is very significant in contributing to company's intangible assets. The intangible assets are very important in the perspective of private health care company's competitiveness.

Competition promotes new solutions, values. Every private health care company is involved in competition environment, some are more, some less, but the approaches that companies use to strive for better results in the market and be more competitive are different. The success base of this is a tailored company strategy and the balance between the available resources. However, for excellent results companies ought to evaluate also their competitive advantage that increases the company's possibility to compete in the particular market segment (Porter, 1998). Thus it is also possible to increase the market value of the company.

Creating *competitive advantage* (Swayne, Duncan, Ginter, 2006) "is often a matter of selecting an appropriate basis on which to compete, it is the means by which the organization seeks to develop cost advantage or to differentiate itself from other organizations". According to this definition, it might be focused on image, higher quality services, as well as excellent and widely recognized personnel. Not only strategic manager researchers (Porter, 1998), (Barney, 2007), but as well Latvian authors of strategic management research (Caune, Dziedons, 2009) point out that *competitive advantage* is not only a question of internal environment analysis, it needs to be analyzed also in the context of external environment; it is also necessary to find out the impact of industry on company's competitive advantage.

Other authors (Prahalad, Ramaswamy and Venkartram, 2004) point out that as consumers and technologies advance, the traditional, preventive medicine and the improvements in the quality of life are rapidly merging into a "wellness space", assuming a more centric role. It is also focused that in the past health care was generally doctor-centric, but now the health care process is more complex, because if a consumer feels ill, it is possible to learn about the experience of other patients and opinions of health care professionals, thus the patient can determine the "value bundle" that is more appropriate for him. Now is important, how the patient can actively participate in health care process; how the patient's interactions with the doctor can affect the quality of the patient's overall experience; what is the value for patient; what is the role of the network in this value creation and how much the intangible aspects of a patient's context influence the experience. According to previously mentioned authors, the main question that arises is how health care companies can develop such environment where companies can co-create the value with patients. In health care patients think about the continuity of well being, so this it is also an aspect which should be taken into account when thinking about how to be more competitive in the health care industry.

The opinion of the authors` of the paper is, in order to create base for competitive advantage, company can use the concept developed by Jay Barney (Barney, 1991), who is considered as the father of modern resource based view. The four empirical indicators of the potential of company resources to generate sustained competitive advantage are following (Barney, 1991):

*V = Valuable, R = Rare, I = Imperfectly Imitable, N = Non Substitutability*

The author Phadtare (Phadtare, 2011) believes that companies are able to compete on the three primary elements: quality, price, availability. According to this theory, the focus is on how suitable the characteristics of the product or service are how affordable the price is in relation to products or service quality.

The Lead economist director at the World Economic Forum Jennifer Blanke reveals by pointing out the key findings (Global Competitiveness Report, 2011-2012) that the most competitive economies in the world are Switzerland, Singapore and Sweden. One of the 12 pillars of competitiveness that drives productivity and competitiveness is Health and primary education. Therefore, it is possible to conclude that health has important role in driving the competitiveness level of a country. In this meaning, the health care companies are a base that can provide the humans with good health. A healthy workforce is vital to a country's competitiveness and productivity. The main idea derived from this is that healthy human resources are more productive, which can lead to lower costs in business and people can work

at higher level of efficiency. This means the health care sector is very important for human capital and shows its sustainable necessity as well as proves that it will always be an actual discussion topic. Health care sector has a significant role when talking about the overall development of society, industry, economy, country etc.

The company competitiveness is influenced by the changing internal and external environment of the company. In evaluation of the company's internal environment the focus is on competitive advantage development, the company value chain and its ability to tailor to internal changes. When discussing competitive forces, derived demand has also always been one of the powerful competitive forces in existence. According to Michael E. Porter (Porter, 1998) the five forces that can be used in order to reflect the industry's competition level are *rivalry among current competitors, bargaining power of suppliers, threat of new entrants, bargaining power of buyers, threat of substitutes*.

Porter and Teisberg (Porter, Teisberg, 2006) have shown the fundamental nature of competition and value for the customer in health care industry in United States of America. They have come to fact that health care delivery ought to be transformed. They believe that in order to reform the health care, the competition in the field itself needs to be reformed first. In order to reform the competition, first of all the strategies should be transformed, measurement practises. They have also shown that value based competition in health care industry has a significant impact, because improves the value to customers, the quality in relation to the price level.

In order to analyze the company's value and competitiveness at first the company's financial position should be researched. The company's competitiveness and market value are closely related.

In order to have stable company's financial position there should be a well-balanced and organized financial management system. In order to have a well-balanced system, companies should first identify the factors that influence them internally and externally. Companies ought to analyze the possible risk factors and to be able to adapt to market conditions. The financial risk mainly is influenced by the capital structure, but the operational risk takes a very important role in company's daily activities as well. Both of them are related to company's strategy. The company's financial position shows how the company is managing its internal process mechanisms and responds to changing environment external modifications. This financial position is one of the perspectives that allow determining company's competitiveness (Glen, 2008). The adequacy of financial management system to company's strategy is also a condition that influences company's market value (Damodaran, 2001). In order to detect company's future financial position, at first the company should analyze its actual financial position. At the micro level, company can analyze its financial position through internal company data and financial statements. Afterwards the company can proceed to more detailed analysis and perform following analysis of the financial statements (Vause, 2005): dynamic (comparing with the past period), structural (comparing the structure), tendency (analyzing the dynamics), comparison (comparing with the certain optimal levels, industry's average and competitor data). Furthermore, the company can calculate their financial ratios, by making the comparison (Van Horne, Vachowisz, 2005), for instance, with the average ratios of competitors and industry.

Evaluation of results can be used further in making projections and evaluating company's financial position further development. In order to calculate the company's economic value added, EVA<sup>®</sup> ratio that can assist in company's market value and competitiveness determination can be used. It is calculated as follows (Stern Stewart & Co, 2012):

$$EVA^{\circledR} = NOPAT - Capital Invested * WACC, (1) \text{ where}$$

EVA<sup>®</sup> – Economic Value Added,  
NOPAT – Net Operating Profit After Tax,  
WACC – Weighted Average Cost of Capital.

In evaluating the position of company's competitiveness and finding roots for improvements, it is advisable for the company to analyze its future cash flows, investments and possible market value (Damodaran, 2001). In Table2 three business evaluation concepts, approaches and methods are reflected.

**Table 2:** Business Evaluation Concepts, Approaches and Methods

Concepts	Approaches	Methods	Formula
INCOME	Income capitalization	Profit capitalization, Net cash flow capitalization, Gross cash flow capitalization	Projected Value <sub>1</sub> /(r-g) <sup>1</sup> + Projected Value <sub>2</sub> /(r-g) <sup>2</sup> + Projected Value <sub>3</sub> /(r-g) <sup>3</sup> + ... + Projected Value <sub>∞</sub> /(r-g) <sup>∞</sup>
	Discounting future income flow	Discounting net cash flow, Discounting future profit	Please, view Damodaran, 2001
MARKET	Market data comparison	Price / EBITDA, Price / Net profit, Price / Dividends, Price / Gross cash flow, Price / Book value	Market Value <sub>1</sub> = (Market Value <sub>2</sub> / Variable <sub>2</sub> ) * Variable <sub>1</sub>
COST	Asset - based approach	Net asset value	(Assets – Liabilities) + Not Listed Assets
		Liquidation value	(Fixed Asset Liquidation value + Inventory, Debtor forced sale selling value – Liquidation costs – Liability value) * Discount coefficient

Source: Created by the authors based on different author works

According to the Table 2 one of the financial performance indicators` is Free Cash Flow (FCF) (Glen, 2008) that can be calculated in accordance with formula (2):

$$FCF = NOPAT + Depreciation \& \text{ Amortization} - \text{Change in Net Working Capital} - CAPEX, (2) \text{ where}$$

FCF – Free Cash Flow,

NOPAT – Net Operating Profit after Tax,

CAPEX – Capital Expenditure.

Weighted Average Cost of Capital (WACC) that is based on capital structure and its price can be used as a discount rate.

### 3. BALANCED SCORECARD AS A STRATEGIC MANAGEMENT SYSTEM

The solution to improve the health care environment is a healthy competition to improve value for patients, the quality of services relative to their price (Porter, Teisberg, 2011). The health care company performance in the past was more often measured only from financial and quality improvements` point of view, but the further described Balanced Scorecard (BSC) has combined four perspectives that are crucial for company to be competitive.

Robert S. Kaplan and David P. Norton published article `The Balanced Scorecard - Measures that Drive Performance` in Harvard Business Review (Kaplan, Norton, 1992) where created a new management system where the strategic objectives of companies have been transformed into the balanced set of indicators. The purpose of this system was to balance company`s financial and non financial measurements.

Now this system is popularly used in wide range of businesses by its adaptability in different industries, the main reason is because of the balanced view which is provided by this system. So the balanced scorecard framework can be used daily in business activities.

"Balanced scorecard has been hailed as one of the 75 most influential business ideas of the 20th century" (Niven, 2005). Nowadays employee knowledge, relationship with customers, cultures of innovation and change generate success and this success can be generated by the company`s intangible assets that can be measured through balanced scorecard.

In addition, Blokdijk (Blokdijk, 2008) considers managerial accounting as criticized over the past years, but the introduction of balanced scorecard has accepted the process innovation to the corporate world. It sets operational measures on customer value that can lead to business growth and

development. So Brown (Brown, 2007) discloses that BSC is not a reporting tool, it is an analytical tool and is like aid to improving performance.

According to previously discussed concept, BSC means various things to different people. To ones it simply is performance measurement framework, for others it is a robust organization-wide strategic planning, management and communication system (Rohm, 2008).

The tendency of the 21<sup>st</sup> century indicates that the basis of effective management of health care companies is the balance between the service quality and patients' satisfaction. The BSC can assist in achieving strategic goals. BSC is important for service companies, especially for health care industry because health care companies should balance their business activities with patient's health. BSC allows better to plan and measure certain aspects to company's strategy.

BSC is a management's system that supports the company's management in leading significant processes and changes in order to be more competitive in the market. In order to be competitive each company ought to have a developed system of its effective measures that are responsible for company's performance not only in a short term, but in a long-term perspective as well. The BSC includes not only usual financial indicator analysis as, for instance, indicator profit, but also measurements in perspectives such as relationship with customers, innovation and employee learning and growth, as well as measurements in company's internal process management. This system can be used to achieve significant improvements in changing company's competitiveness position, because it can help the company to add value in its processes, contribute to customer satisfaction and product positioning by improving company's overall performance. The advantage of this system is its ability of being tailored to specific company or specific company group. In addition, this system allows evaluating company's existing performance and points out milestones of further company's development. This system can assist successfully by indicating the actions for improvement, but factors like market situation and competition conditions should be taken into account regularly. The BSC should be subordinated to company's strategy and focus on company's vision by providing the balanced evaluation between the measures influencing company's inside and outside environment and the overall company's performance. This system should be tailored to suit the company's corporate culture, capabilities, information system, technological level of development etc. The BSC can be used for gathering information for various user groups, the management, potential investors, employees, customers etc. The BSC can be considered as a basis tool for competition strategy. According to previously mentioned authors, as a success factor for BSC there can be mentioned the systems transparency with 15 – 20 indicators that assist in monitoring and controlling the strategy of competitiveness, previously the yearly budget used to be the prime mechanism for planning the financial management, but now the BSC is being used as a language and basis for evaluation of all the new projects and businesses. BSC includes four perspectives: *Financial, Customer, Internal Business, Innovation and Learning Growth Perspective*.

*Financial Perspective* provides with information on how the company intends to create its sustainable shareholder value growth. *Customer Relationship Perspective* highlights the customer and market segments in order to determine the strategy that is tailored to the needs of customer and market segment. *Internal Business Perspective* is responsible for defining the processes that are the most relevant in achieving customer and shareholder objectives. *Innovation and Learning Growth Perspective* links company's objectives and measures the company's learning and growth.

All BSC aspects can assist in intangible asset evaluation and develop company's strategy in compliance with company's objectives. It ought to be noted that all of these measures should be created with the aim to increase the company's economic value added.

The intangible assets can be defined as intangible value of a company that shows the company's performance. It can be evaluated positively if the intangible assets create positive association with the company and improve the company's competitive position.

According to Kaplan and Norton (Kaplan, Norton, 2004), following asset contributors usually relate to the intangible assets:

- Human capital – employee knowledge, skills, talent,
- Information capital – technology infrastructure, databases, information networks and system,
- Organization capital – knowledge management, organizational culture, teamwork, employee learning ability.

The intangible assets can be measured and analyzed through the BSC.

The global trend shows that economy is rather knowledge and service than product driven, and intangible assets which are not measured by financial system account for more than 75% of the company's value in contradiction to average company's tangible assets that net book value minus liabilities reflect for less than 25% of market value" (Kaplan, Norton 2004).

If the company's value mostly consists of intangible asset contribution then company's strategy should also be based on intangible asset maintenance and improvements and a BSC can be a powerful system that can lead to higher company's market value. In order to have a whole picture of the company's performance the company should focus its evaluation in four previously mentioned perspectives. The measurement system can provide managing company in a more accurate way.

#### 4. RESEARCH RESULTS

The further research results are based on the two survey results conducted by the authors of the paper - the private health care company patients` and private health care company managers`, as well on the industry and on the private health care company`s analysis, company which is used as an example. In order to achieve the aim of the paper the questionnaire included different questions about competitiveness, market value and balanced scorecard, as well included indicators in four Balanced Scorecard categories for private health care companies and patients to evaluate which are the most important indicators for them. Altogether 36 responses from the private health care company managers and 184 responses from the private health care company patients were received (Mavlutova, Babauska, 2012). In evaluating the factors that influence competitiveness, the survey results show that patient and public appreciation, resource base of medical professionals and technological equipment level are the most important competitiveness factors from the perspective of the private health care company manager. Detailed results are reflected in Table 3.

**Table 3:** Importance of Factors Influencing Private Health Care Company's Competitiveness

Factor	Rank	Factor	Rank
Patient and public appreciation	1	Satisfaction of patient needs	5
Resource base of medical professionals	2	Health care service differentiation level	6
Technological equipment level	3		
Financial factors	4	Cost savings	7

Source: Survey results

The survey results of the importance of factors that influence the competitive advantage show that the quality is the leading factor of importance. Majority or 67% of private health care company managers, do not know what the Balanced Scorecard is, but they would like to know what it is. Only 3% say that they know what it is; however, they do not use it in their company's strategic management. 30% of respondents do not know and that is why do not see it as an using option. This shows that the main problem is the lack of information about using the BSC in health care sector in Latvia. Based on the survey results and analysis, indicators in four categories of balanced scorecard system that can be used for intangible asset evaluation were created, the indicators were listed in the order of importance in each BSC category based on the private health care company patients` and managers` survey results. The survey results in Table 4 show that private health care company managers, who evaluate their company's competitiveness level as average also think that balanced scorecard assists in managing company's market value and can increase the competitiveness of the company. According to survey results also the most important intangible aspect indicators are related with accurate patient problem identification, interest in providing qualitative health care service, staff education and qualification and from the financial point of view profitability ratios.

**Table4:** The Balanced Scorecard Role for Private Health Care Companies

BSC assists in managing company's market value and can increase the competitiveness	Private Health Care Company's Competitiveness Evaluation			Total
	Low	Average	High	
Yes	2	22	2	26
No	1	2	1	4
Hard to say	1	3	2	6
Total	4	27	5	36

Source: Survey results

In conclusion, implementation of the BSC is one of the management approaches to strengthen company's strategy. The discussion for further research is described further. The problem that may arise is that the BSC approach is rather built on long term and it can conflict with short-term objectives. The problem that may arise in intangible asset evaluation - it is very hard to evaluate intangible asset contributors separately, since all the components together provide the value to company and assist in achieving its strategy.

## 5. CONCLUSIONS

1. Competitiveness is a concept, which assists as a comparing tool, it allows to make comparisons and to make decisions, how the company's competitiveness can be improved. Majority of those private health care company managers, whose companies have strategy and who consider strategy and management skills as the most important success factor for maintaining the competitive position, also evaluate their company's competitiveness.
2. By summarizing opinions, authors came to conclusion that price level, quality of health care services and the company's image in Latvia are significant factors that can influence the health care company's competitiveness not only in the local markets, but in global ones as well.
3. The private health care companies should think about a value-based competition where companies can compete in delivering better value to customer. One of the ways to deliver the better value to customer is through the management of factors that are important for patients.
4. The use of BSC can allow companies to focus on things that are the most important for company and measure their success. Intangible assets play an important role of market value management in health care companies. The intangible asset value increase the company's market value and that is why also the company's competitiveness. Balanced scorecard can better allow organizing the health care company's work showing those business areas, which require better strategic management.
5. It would be preferable to implement assessment criteria's such as technological, personnel qualification and patient satisfaction level of evaluating the performance of Latvian health care companies. This would allow differentiating companies in categories or levels so that patients have the opportunity to choose the best health care provider.
6. According to the developed BSC concept for Latvian private health care companies the results show that improvements should be on such areas:

### *Innovation and learning growth perspective:*

1. Publications by medical staff, 2. Investments in staff training and development, 3. Training course, seminar, and conference attendance

### *Patient's relationship perspective:*

1. Needs to be change in price level, 2. Time for patient spent on problem solving, 3. Improvements in waiting time to get to the doctor.

### *Internal business perspective:*

1. Compliance with ISO quality standards, 2. Length of time in order to make important management decisions, 3. Collaboration with suppliers and partners.

### *Financial perspective:*

1. Gearing ratios, 2. Activity ratios, 3. Liquidity ratios.

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