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Strategic Management of Finance Theory: Use Balanced Scorecard in Finance Theory

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Abstract: Strategic Management of finance is to use balanced scorecard in evaluating performance of creditee. Balanced scorecard covers organizational performance and financial performance. So, financial analysists may measure both organizational and financial performance of creditee firms to analyze their payback credibility of loans. There are two analyses of strategic management. They are internal analysis and external analysis. Both analyses provide of analyzing organizational strength and organizational performance of firm. After apply of balanced scorecard for credit rating, analysists make decisions of releasing financial loan or not. This paper aims to argue use of strategic management in finance theory to include organizational performance analysis in credit rating. With balanced scorecard, analysists apply both organizational and financial performance for firms in credit analysis.

Key words: balanced scorecard; strategic management; credit ratings
JEL codes: L10, M16, M37, O11

1. Introduction

This paper aims to apply strategic management to finance theory. Because financial analysists use finance theory in order to assess performance of creditee. Therefore, application of strategic management into finance theory enable analysists to practices balanced scorecard in finance.

Balanced Scorecard perspective is developed by David Norton to assess performance of managers. Performance of managers is traditionally based on financial performance. Balanced Scoreceard perspective uses organizational performance variable to assess performance of executives and performance of firms. David Norton adds organizational performance variable to financial management to assess performance of executives and managers. There are two dimensions in balanced scorecard: financial performance and organizational performance. Organizational performance variables are, for example, employee trust, employee satisfaction, customer satisfaction, quality of products, cost minimization. So,

Balanced scorecard = organizational performance + financial performance

This paper aims to use balanced scorecard in credit ratings. Firms apply for financial credits to support their business; and financial banks evaluate their credit applications. Financial analysists in banks usually use financial

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variables to assess credibility of firms. In addition, analysists may use organizational performance to assess credibility of firms. Strategic Management in finance enables analysists to use organizational performance and financial performance together in credit ratings.

Balanced Scorecard represents use of strategic management in finance. Accordingly, financial analysists apply organizational performance analysis to understand payback ability of firms. Analysists apply organizational performance analysis in addition to financial performance analysis in balanced scorecard. So, analysists use both financial performance and organizational performance variables to understand financial credibility of firms.

Strategic Management of firms is based on environment analysis. There are internal environment and external environment in firm management. Internal environment is made up by business functions of firms; and external environment is made up by industry (sector). So, internal analysis is named as "firm analysis", and external analysis is named as "sector analysis". Those analyses both internal and external enable analysists to measure organizational performance of creditee. And it is use of strategy in finance, and it is use of balanced scorecard in finance. Both external and internal analyses of firm help analysists to measure organizational performance of creditee in addition to financial performance. This is balanced scorecard. Balanced scorecard is to monitor financial and organizational performance of firm in order to assess performance of executives and performance of firm.

In addition, there are also strategic management theories. Those theories enable managers and analysists to implement internal and external environment analysis in firm management. They are 5 factor theory, System theory, Resource Dependence theory, SWOT analysis.

This is use of strategic management in finance theory.

2. Strategic Management

Strategic management is to do environment analysis in firm management at upper level. It is divided into internal environment and external environment. Managers analyze business functions of firms in internal analysis; and they analyze sector in external analysis.

Business functions of firms are stock, logistics, accounting, finance, marketing, production, supply, HRM and others. Financial analysists in credit ratings are to analyze those business functions in internal analysis in order to understand strength of organizational performance of firms. Financial analysists analyze market positions of firms in external analysis to analyze strength of firms against its competitors in sector.

There are also some strategic management theories. They can be used in finance theory to do internal environment and external environment analysis to assess organizational performance of firms. They are Five Factor theory, System Theory, Resource Dependence theory, SWOT analysis. Those theories can be used to do internal environment analysis and external environment analysis. For example, 5 Factor theory can be used by analysists to implement sector analysis; System theory can be used to implement firm analysis; SWOT analysis can be used to implement both internal and external analysis in strategic management. Therefore, strategic management theories may be used to assess organizational performance of firm. Therefore, strategic management theories may be used by financial banks to analyze organizational strength and payback ability of creditee with balanced scorecard perspective.

Further, 5 factor theory can be used by managers to implement external analysis (sector analysis). Resource Dependence theory enables financial analysists to implement internal environment analysis of firms. System theory enabled financial analysists to apply internal environment analysis, and SWOT analysis is able managers and financial analysist to implement both internal and external environment analysis in strategic management. Because SW is related with internal environment of firms, and OT is related with external environment fo firms.

2.1 Case Study

2.1.1 Fazıl Bey's Coffee against Starbucks[1]

Starbucks is coffee chain that operates global and in Turkey. Most important rival of Starbucks in Turkey is Gloria Jeans. Gloria is also American company.

Turkish economy witnesses global coffee chains in 1999. Gloria Jeans opened its first store in 1999. It has 46 stores now across Turkey. Then Starbucks opens their stores across Turkey. Starbucks has 78 stores. Later on, Barney, Coffee and Chocolate, Johns, Schiller, Tchibo, İlly opened their stores in Turkish market. Their products are, for example, mocha, latte, Americano, macchiato, Coffe press, frapucciono. They serve 50 varieties of products to their customers. Their sales achieved 50 million dollars amount.

Then, Turkish entrepreneurs followed those brands in coffee markets. Their target is to become international chain. Kahve Dünyası is the first coffee chain in Turkey. They open first store in Istanbul in 2004. Kahve Dünyası benchmarks its counterparts as a business model. Gönül Kahvesi is planning to open 200 stores in Turkey. Kocatepe Kahvecisi opens its first store in 1996 in Ankara, and it plans to have growth of stores across Turkey. Kocatepe Kahvecisi adopts franchising strategy.

Turkish brands aim to become international coffee chains same as their counterparts such as Fazıl Bey's Coffee. Fazıl Bey's opens its first store in Dubai, UAE.

Ragıp Tuncalı, founder of Fazıl Bey's Coffee, started cafe business in 2001 with brand Cafe Del Mono. Ragıp Tuncalı buys Yavuz Coffee in 2005, and changed the brand name to Fazıl Bey's Coffee. Fazıl Bey is father of Ragıp Tuncalı, and he likes drinking coffee. and Fazıl Bey's Coffee run its business against Starbucks, Gloria and others in İstanbul. Objective of Ragıp Tuncalı is to become international coffee chains.

2.2 Apply of Strategic Management in Finance Theory

Suppose Starbucks or Fazıl Bey's Coffee apply your banks to loan financial credits? How would you answer, you are financial analysist?

Financial Analysist may apply balanced scorecard in finance theory. Analysists may apply strategic management to assess organizational performance of those firms, and they use financial analysis to assess financial performance of firms.

Strategic management is environment analysis of firm. It is divided into two parts: internal environment analysis and external environment analysis. Financial analysists apply strategic management to Starbucks and Fazıl Bey's Coffee in order to decide their organizational performance. Because internal analysis reveals organizational strengths of firms; and external analysis demonstrates market position of firms in its industry. So, financial analysist may evaluate those two analyses. For example, both companies have market reputation in coffee business. And Fazıl Bey's is growing company, and Starbucks has good financial capital. In addition, financial analysists may apply SWOT analysis to these firms.

In addition, financial analysist considers financial performance of firms for loan together with organizational performance. This is use of balanced scorecard in credit ratings.

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[1] This case study is taken with Business Policy textbook written by B. Zafer Erdogan and Atıl Taşer, 2010, Ekin Publishing, Bursa, Turkey.

3. Credit Ratings by Financial Analysist and Conclusion

This paper recommends financial analysists to use strategic management in credit ratings. The use of strategic management enables analysists to understand financial credibility of firms. In addition, use of strategic management enables financial analysists to measure organizational performance of firms. This is called as balanced scorecard perspectives in this study. Balanced scorecard in finance is to use financial performance and organizational performance together determine financial credibility of firms. In finance theory, use of balanced scorecard provides analysists of measure payback ability of firms.

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