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**CLARIFYING THE BUSINESS STRATEGY OF THE  
INDONESIAN PAWNING STATE COMPANY: COMBINING  
AHP AND BALANCED SCORECARD**

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**Abstract :** The most source of failure in implementing business strategy of company is because of the inability to translate business strategy to strategic actions. Translating strategic objectives into strategic actions is very important since it will determine the strategy implementation success. Balance Scorecard has been proven as an effective method to translate the strategic objectives into strategic actions. It shows the cause-effect relationship among many aspects in the company, as well as relationship between strategic objectives, performance criteria and strategic actions. Nevertheless, this cause-effect relationship could even more be clarified and sharpened using the AHP. Many strategic actions that could not be derived from BSC method, could be derived using AHP resulting in clearer strategic actions that have to be taken by many units of the company.

**Introduction**

It has been recognized that AHP enhances the application of Balanced Scorecard. Not only that AHP clarifies more of cause-effect relationships between organization's objectives from the Balance Scorecard's four different perspectives, but it also enables an organization ensures prioritizing strategic actions based on the relative importance of the business strategies. The purpose of this paper is to show how combining the AHP and Balanced Scorecard could improve the quality of strategy formulation in the context of the Indonesian Pawning State Company.

The model developed here is based on, but not necessarily consistent with, what has been developed by Eduard Eliza Siahaya [1998]. It is important to note that, while the project was carried out with the permission of the management of the Indonesian Pawning State Company, the content of this paper is not necessarily in agreement with the actual business intention and the activities of the company.

**The Pawning State Company.**

The Pawning State Company is, by government regulation, a monopoly legal provider of pawning service in Indonesia. Its status has been developed gradually from a government service office when a Dutch pawning bank changed status in 1901, into a

state company with more business orientation and less dependence on the government financial support. However, its mission is still more of a public service than a business entity. It has targeted its market to the mid-lower class community; to prevent them from being the victims of profiteers who would take advantage of their desperation of short-term financial needs by demanding a very high interest. It has been realized that the company should position itself more as a business entity to be more effective in the current environment.

### The Development of Strategies and the Balanced Scorecard Model

Siahaya [1998] first brought forward his recommendation for the company to reformulate its vision and mission to address the expectation of its stakeholders. He then carried out SWOT analysis and developed eight strategies, guided by the recommended vision and mission. He used AHP to rate the strategies through a costs-benefits-opportunities-risks (CBOR) analysis, and obtained the following ratio: *Optimize service* (5.95), *Develop IT system* (3.61), *Improve image* (3.61), *Capital Restructuring* (2.19), *Company Restructuring* (0.77), *Expand to East Indonesia* (0.29), and *Change Status* (0.11).

### The Original Balanced Scorecard

Siahaya developed his Balanced Scorecard by formulating a set of strategic objectives for each perspective (financial, customer, internal business process, and growth/learning). For each objective, he identified core outcomes; performance drivers and strategic actions. His result is as follows:

No.	Strategic Objectives	Core Outcomes	Performance Drivers	Strategic Initiatives
	<b>Financial</b>			
F1.	Meet Government Criteria	Company Rating	Rentability, Solvability, Liquidity Profit Margin, Operational Ratio, Interest Vs Cost of Fund.	Conduct profitable business based on mission and vision.  Capital restructuring
F2.	Mix of Income	Income structure		
	<b>Customer</b>			
C1.	Customer Satisfaction	Customer retention Customer Claims	Quality of service	Improve operations
C2.	Customer Profitability	Customer Acquisition	Service products	Customer stratification
C3.		P3 ratio	# customer advised	Conduct advisory service
	Advisory for			

	Productive Customer (P3)			
P1.	<u>Internal Business Process</u> Contextual Service	Empathy, Reliability, Responsiveness, Assurance, Tangible facilities (ERRAT)	Operational standards for every branch.	Create, document and implement standards.
P2.	Service system	Operating cycle	Availability of supporting functions.	Decentralization. Establish customer service at branch office.
P3.	Develop new products	Variety of service	R&D plan.	Innovate in the 3 categories of services.
P4.	Optimal Service Network	Visibility, Geographical reach	Profile of branch offices.	Restructure branch offices.
P5.	Optimal use of Working Capital	Working capital at the branches	Financial system	Alliance with BRI. Head office timely financial support. Reporting system
L1.		Income/employee	Manpower plan	Early retirement for 'deadwoods', Recruitment, Employee development.
L2.		Employee performance	HRD plan	Training, Recruitment system, employee audit.
L3.		Availability of IS support.	Sub-Directorate of IT.	Establish Sub-Directorate of IT at the Head Office.
L4.		Employee morale	Implement discipline and code of conducts.	Document code of conduct, implementation as a continuous activity.

### **The Need for AHP to Improve the Results of the Balanced Scorecard.**

Siahaya created a diagram to indicate cause-effect relationships between core outcomes and performance drivers both within and across the four perspectives. AHP can be used to describe such complex cause-effect relationships, along with other relationships that may exist between strategic objectives and strategic initiatives across different perspectives. Moreover, the systematic process of the AHP forces the user to be more specific in formulating the content of his Balanced Scorecard, which improves the quality of the plan.

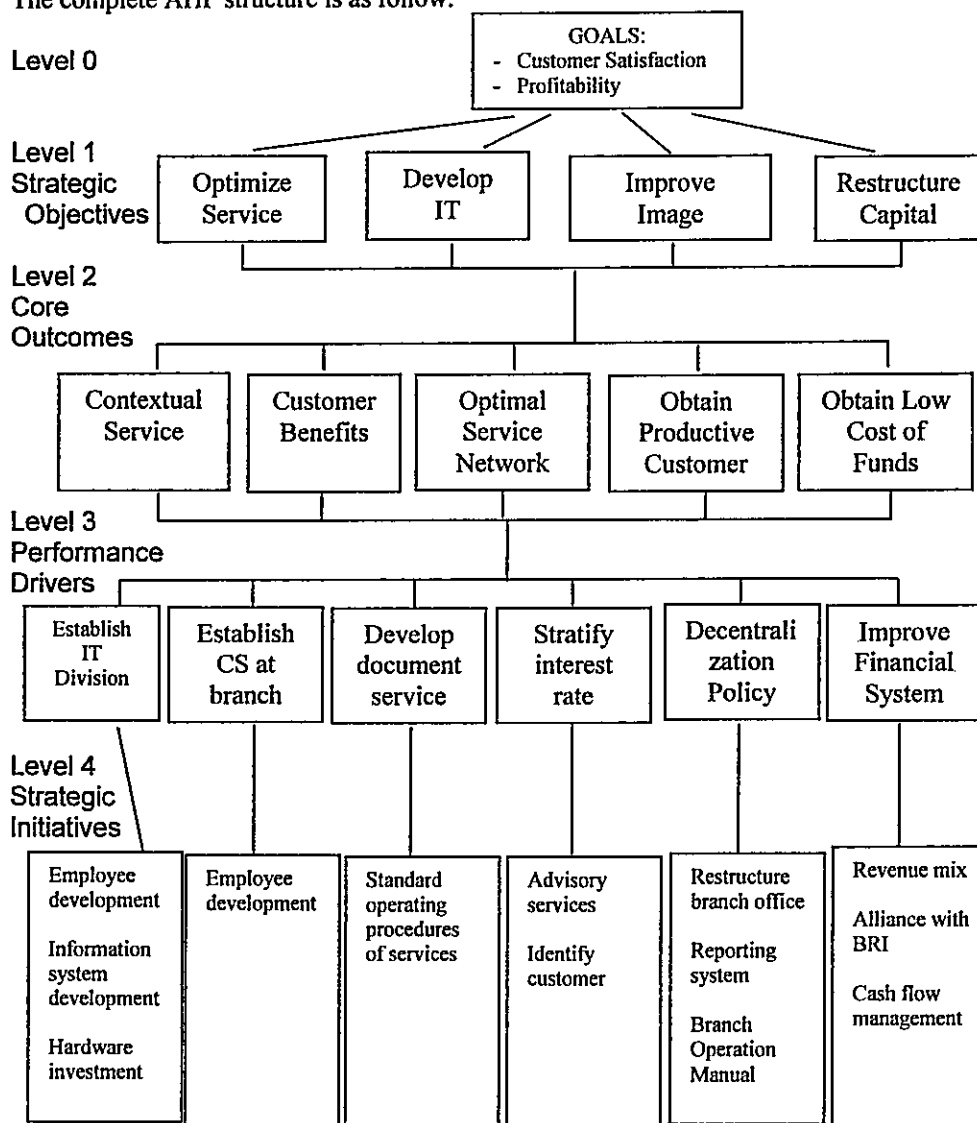
- A strategic initiative for one perspective could be a strategic objective for another perspective.
- There may be more than one level cause-effect chain in one perspective, which is difficult to show effectively in a Balanced Scorecard format.

### **Creating an AHP Structure with Balanced Scorecard Approach**

An AHP structure with Balanced Scorecard approach can be developed through same steps in original BSC combined with steps in AHP :

- Level 0 is the goals, which are Customer Satisfaction and Profitability
- Level 1 is the strategic objectives, which have to be performed in order to achieve the goals
- Level 2 is the core outcomes, the generic results which expressed the strategic objectives
- Level 3 is the performance drivers, the specific results of core outcomes
- Level 4 is the strategic initiatives, the actions that have to be taken in order to perform the performance drivers.

The complete AHP structure is as follow:



Using a systematic approach of AHP, some strategic initiatives have been derived from the structure, which is not shown in original BSC approach.

#### Revised Balanced Scorecard for the Indonesian Pawning State Company

The revised Balanced Scorecard for the Indonesian Pawning State Company concerning Customer Satisfaction and Profitability as strategic goals described in the table below :

STRATEGIC OBJECTIVES	CORE OUTCOMES	PERFORMANCE DRIVERS	STRATEGIC INITIATIVES
INTERNAL BUSINESS PROCESS Optimize service	Contextual service Customer benefits Optimal service network Obtain productive customer	Establish CS at branch Develop document service standard Decentralization policy	CS SOP at branch Branch organization restructuring SOP of services Restructure branch office Reporting System Branch operation manual
LEARNING & GROWTH Develop IT	Contextual service Customer benefits Optimal service network Obtain productive	Establish IT division Develop document service standard	Employee development IS development Hardware investment Employee discipline
CUSTOMER Improve image	Contextual service Customer benefits Optimal service network Obtain productive customer Obtain low cost of funds	Stratify Interest Rate	Advisory services Customer assessment Database development
FINANCIAL Restructure capital	Obtain productive customer Obtain low cost of funds	Improve Financial System	Revenue mix Alliance with BRI CF/WC management

The AHP structure process result in a set of sharper and clearer strategic actions. Some actions could not even be derived from the original BSC model. The cause and effect relationship between strategic objectives, core outcomes, performance drivers and strategic actions can be formulated with more obvious.

The strategic actions derived from performance drivers using AHP structure will be best to implement by prioritizing the strategic actions. Pair wise comparison of all strategic actions shows that Customer assessment is the most urgent action that the company should take, and the employee discipline is the least priority, concerning the goal: Customer satisfaction and profitability.

### Conclusion

Translating strategy into action would be best carried out using the combination of Balanced Scorecard and AHP:

1. Develop alternative strategies and select the best strategies using the AHP's CBOR analysis.
2. Construct a Balanced Scorecard
3. Refine BSC using AHP structure
4. Redesign BSC based on AHP result
5. Reprioritize the strategic actions.

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