Constructing a Strategy Map for Startup XYZ Using Balanced Scorecard's Strategy Map

Adhe Okthalia[1], Fajar S. A. Prabowo[2]

[1,2]Telkom University, Faculty of Business and Economics, Bandung, West Java, Indonesia

Abstract: *The success rate of ASEAN startups is quite low, Startup Company tends to fail and file bankruptcy before even reaching the fifth year from its establishment year. This is, however, have a correlation to the ability of how startups manage to conduct a suitable strategy for their companies to grow and sustain in the long run. In the past years, companies were measured by how much growth and revenue they are achieving as the strategic indicator. Financial measures and targets had been the only indicator of the success of the company. The result of this prescriptive research shows that there are some strategic ways the upper management can consider the strategy to be executed to the company in which it is not limited to one or two perspectives that are believed to increase shareholders value, but it can come from all perspectives in balanced. There are some strategic ways the upper management can consider the strategy to be executed to the company in which can come from all perspectives in balanced. The purpose of this research is to come out with a strategy map for Startup XYZ and to come up with improvement suggestion based on four perspectives in Balanced Scorecard. .*

Keywords: Strategy Map, Balanced Scorecard Strategy Map, Strategy Management, Kaplan and Norton's Balanced Scorecard.

1. Introduction

With the improving infrastructure in Indonesia, the country is now presenting many opportunities for information technology, especially e-commerce and fintech, among other emerging economies in the regions of Asia. Research by Google Temasek has shown that in 2017, the e-commerce sales of first-hand goods in Indonesia peaked at IDR 151.4 trillion (USD 10.9 billion) in gross merchandise value, growing 41% CAGR from 2015[1]. According to A leading consulting company of Indonesia, Cekindo [2], Indonesia has become the largest spender on Information Technology (IT) in Southeast Asia. The internet itself in Indonesia contributed to 2.5% of national GDP in 2016 and the internet users will gain 125 million by 2025.

Cekindo also publish a statement highlighting the economic growth of Indonesia through information technology. "The rapid development in the information technology sector, combined with drivers like mass consumption of products, urbanization, a surge in mobile usage, and a tech-hungry young population, makes a positive impact on the economic growth in Indonesia. Ranking third following China and India, current projections show that the nation's e-market will reach IDR 151.4 trillion (USD 130 billion) by 2020." [2] On top of that, a study by Deloitte claimed that internet in Indonesia in 2016 contributed to 2.5 % of the country's GDP, up from the mere 1.6% in 2011. Leveraging these trends in Indonesia, there is a disruptive force of information technology in the next few decades to come.

1.1 Market size landscape

Based on IDA report published in 2016 by straitstimes.com, there is 92,600 serviceable available market employed for software development in Singapore and there is 29,800 shortage of software developers in Singapore in 2017 itself. For a target market of 3,260 startups in Singapore that listed in TechSG. [3] For each startup, the median headcount needs

are 2 developers for basic development of MVP (minimal viable product), 5 developers for the launch in the growth phase, and another 2 developers for maintenance to keep the startup's stability. That resulted a target market of 10,106 positions for software development in the Tech Startup sector

Based on Startup XYZ Research Data, there are more than 3.1 billion investments invested in Tech Startup in the past 5 years while only 144,300 ICT Workers available in Singapore. The limited space of Singapore, there are more than 5,500 Startups in the technology space to serve 144,300 MNCs that have their overseas HQs in Singapore. For the Economic side, the annual revenue for Software and Development is more than $25 Billion, and more than $8.7 Billion taken from it to spend it on hiring technical talents every year. That is an expensive budget needed to be spent. With thus findings, Startup XYZ able to reduce the margins of supply and demand talent developer in Singapore and the surplus supply of talent developer in Yogyakarta. There is a rapidly increasing of number of talents deployed between September 2016 to March 2017 shown in Figure 1, in which until the early 2018, the number of talents deployed is reaching 125 talents.
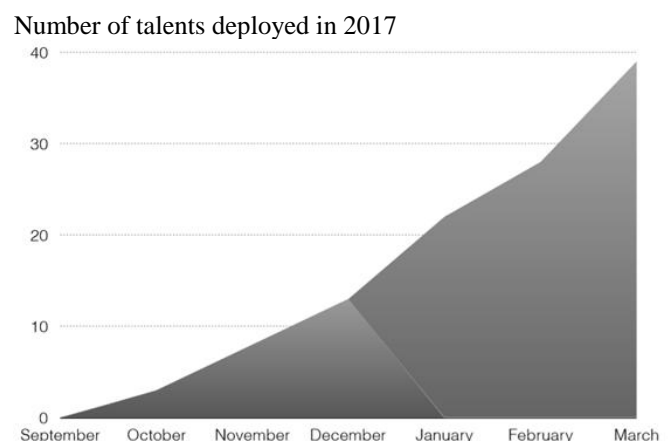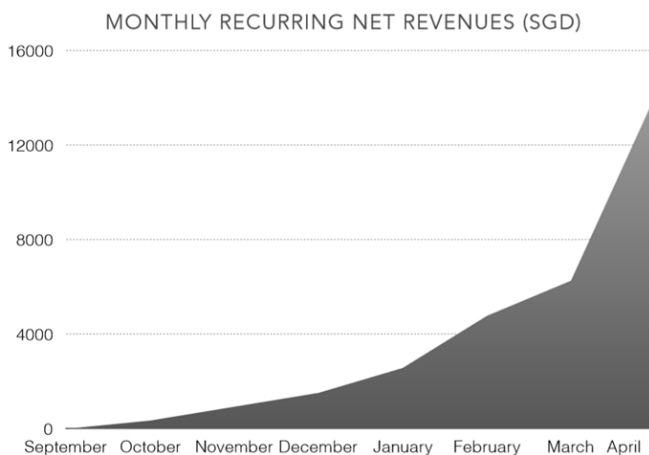
Number of talents deployed in 2017

Figure 1: Number of talents deployed in 2017

In addition to the customer success growth, the growth of monthly recurring net revenues showing a significant increase, shown in Figure 2

Figure 2: Monthly recurring net revenue graphic

The healthy growth of Startup XYZ, however, succeeded to attract more competitors to adopt the company business concept. In which, in the late of 2017, there are 2 new startups opened in Yogyakarta from Singapore and Malaysia to compete in the market with the same business concept. The first one is named Dploy Asia Pte. Ltd, providing a talented pool of developers & software designers for technology companies in Singapore to build a committed offshore team in Indonesia. Wonderlabs shared the same target market with Dploy Asia to Singaporean technology companies. The other competitor is named Brightan System Sdn Bhd also known as A Job Thing, a recruitment consultant for Malaysian technology companies. Although A Job Thing does not target to Singaporean technology companies, it is located in Yogyakarta and the company is advantaged by the fun and empowering working environment and attracting talented software engineer to join the startups which lead to A Job Thing to win Asia Recruitment Awards 2018 held by HR Asia Recruitment in March 2018.

1.2 Background

According to a report of Startup Failure Rate statistics based on (Mansfield, 2016) stated that More than 50% of small businesses fail in the first four years. In fact, of all small businesses started in 2011: only 4% made it to the second year, 3% made it to the third year, 9% made it to the fourth year, 3% made it to the fifth year. [4] The website also stating the Leading causes of small business failure which is 46% because of Incompetence, 30% because of Unbalanced experience or lack of managerial experience, 13% because of Catchall category (includes neglect, fraud, and disaster), and 11% because of Lack of experiences in line of goods or services.

The statistical conclusion is related to the ability of how startups manage to conduct a suitable strategy for their companies in order to grow and sustain in the long run. A newborn startup much likely to have an indistinct strategic planning for the company. As a result, the management is unable to link the company's long-term strategy with its short-term action. This will impact the overall performance of the company. However, each company has different characteristics on the business process in which in order to conduct the put the strategy actions, one have to conduct a profound observation and analysis to get the company insight.

1.3 Problem Statement

Looking at the past 2 years of the positive increase of Wonderlabs.io growth as the first to market company was not only assuring the potential of Wonderalabs.io in the future, but also brought out new challenges in the field such as new startups came to Yogyakarta to compete in the specific market in the middle of the declining of employee turnover. In order to succeed in dealing with the surge of new growing startup, the top management have to be able to manage the company with a strategic vision and all the strategic decision have to be made accordingly to meet the company vision and goals.

Kaplan and Norton's Balanced Scorecard Strategy Map allows the company to achieve their objectives by breaking them into structural strategies in order to be carefully executing the right move. Balanced Scorecard Strategy Map connects strategic objectives in explicit cause and effect relationship with Balanced scorecard perspectives: Financial, customer, internal business process, and learning and growth. Kaplan and Norton's balanced scorecard strategy map create a balanced view of the decision to be made for the long-term goals, Not simply rely on just financial perspectives to increase the shareholders values but the four perspective equally contribute to reach the vision and goals of the company.

1.4 Company Profile

Founded on December 1st, 2015 in Singapore, Startup XYZ is a software company aim to help companies build offshore technical teams in Indonesia, connecting jobs opportunity and projects to technical talents from Indonesia. Startup XYZ scours Indonesia for the top software developers, UI/UX designers, animation artists, and graphic designers, accepting only 5% of applicants. Startup XYZ put those talents to work at two offices in Yogyakarta, Indonesia, and accelerate their careers rapidly through different postings with companies from Jakarta, Singapore, and Hong Kong. With the total seed funding of SGD580,000, startup XYZ is backed by Click Ventures, and Plug and Play. Startup XYZ has four different locations, which is Indonesia, Singapore, and Australia with a number of employee 51-100. Startup XYZ service is offering companies around the world, talented engineers from Indonesia to work within which the talented engineers and designers are graduated from Indonesia's Top Universities. The service offers is quite varied, from basic web development to special requirements from the clients such as blockchain developers, iOS developers, Android Developers and so many more. Startup XYZ' clients are coming from different business fields, from education, government, to enterprise fields. Startup XYZ is trusted by several companies for theirs projects developments such as IBM

(International Business Machines Corporation), Singtel, NUS (National University of Singapore), REFASH, UNFRAMED, SCAPE, SOULSCAPE, SMU (Singapore Management University), and C&P Rent-A-Car.

Startup XYZ offers services such as offshoring service, project development, academy, and catering service. First, An offshoring Service is a service that provides technical talents in software engineering to be hired for overseas clients and help clients manage their technical team. Second, the project development service provides a rapid prototyping development studio based in Singapore and Yogyakarta with a full technical team and project management. Third, Startup XYZ Academy, A training program that teaches technical skills in software engineering to youth at the age of 18-26 in order to prepare them with important and updated skill verticals in the tech industry. Fourth, a catering business that sells Singaporean meals to Yogyakarta market not only as a B2B business for companies but also as a B2C business for general market.

2. Literature Review

2.1 Balanced scorecard strategy map

In the past years, companies were measured by how much growth and revenue they are achieving as the strategic indicator. Financial measures and targets had been the only indicator of the success of the company. Most companies' operational and management control systems are built around financial measures and targets, which bear little relation to the company's progress in achieving long-term strategic objectives. Thus, the emphasis most companies place on short-term financial measures leave a gap between the development of a strategy and its implementation. (Kaplan & Norton, 1996) [5]

3. Methodology

The research method used in this research is a Qualitative method, whereas the process of observation and accurate data collecting is based on the data field featuring an in-depth interview with stakeholders of the company. The study explored in detail about each perspective that represents the company to come up with a strategy map for Startup XYZ.
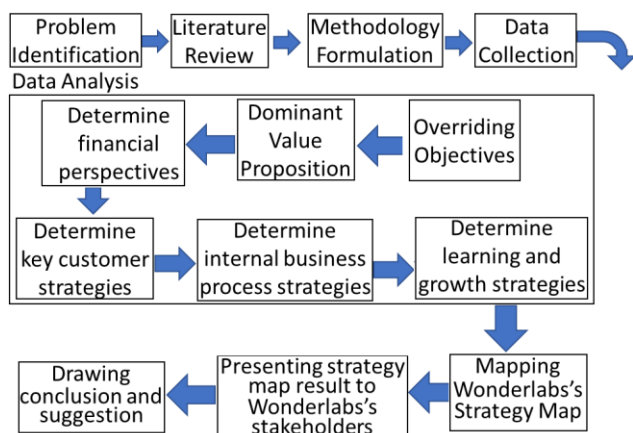

Figure 3: Research Stages

This research started with identifying the phenomena and problem. Then, the research objective is defined including a literature review done by getting insights from the theoretical background. The research will be continued to the methodology formulation in which this research is conducted with Qualitative Approach.

3.1 Data Collection

Data collection consists of gathering data from internal sources of the company, 10 months observation of the company, and in-depth interview with the significant informants of the company.

The criteria of the informants based on the expertise in the company function department. The experts of the company functions in Startup XYZ are still limited. The informants are the expert in their fields in which each of them has a minimum 5 years of experience in their fields and has a minimum 1.5 years of experience working with the company.

3.2 Data Analysis

Based on Miles, M. B., & Huberman, A. M (1994), there are generally three steps in qualitative data analysis: Data reduction, Data display, and Data drawing of conclusions. [6]

For data reduction, The first thing that the researcher has to do after done the interview with the stakeholders, is to write down the interview. After that, the researcher will analyze the data by reducing the data after the data has been collected. To reduce the data, the researcher will combine all of the data that has been collected and will examine the unnecessary or irrelevant data/information. The reduced data would give a clearer description and make it easier for the researcher to do the next data collection. The result of this data reduction would be in the form of memos or sticky notes in order to make the researcher easier to discover a pattern and in a form of script for the paper documentation.

For data display, The researcher will display the data in two ways. The first way is in a narrative text, the second way is to put the data displayed in the meeting room at the office in order to make it easier to put them into the existing framework. By displaying the data, it will make it easier to plan the next phase or process of the research.

For drawing conclusion, The third step is to draw the conclusion regarding to the research to come out with Constructing A Strategy Map For Wonderlabs. Io Using Balanced Scorecard Strategy Map as well as to provide clearer strategy map and suggestions to Wonderlabs.io for the company to grow and sustain in the long run.

After that, presenting the result of strategy map to Startup XYZ.io's Stakeholders. If there's any suggestion to the model, revise the strategy map, then presenting the updated strategy map. At last, the conclusion and suggestion is formed for the research.

4. Result and Discussion

4.1 Key financial strategies of startup XYZ

The Interview results show that the key financial strategies of Startup XYZ are Revenue Growth Strategy and Productivity Strategy. The research result highlight Revenue Growth Strategy as the priority. Although, not every informant explained more about the revenue growth strategy according to their expertise fields, moreover, several informants mentioned the focus that highlight the revenue growth strategy which are (1) Expand to new business opportunities, and (2) Enhance customer value. The two aspect of revenue growth strategy shall be achieved with using the measurement which are Revenue of new business units and Customer profitability.

On the other hand, the interview results show that all informants the productivity strategies. there are (1) Improve cost structure, and (2) Manage total life-cycle of idle talent. The measure of achievement of those strategies are Operating cost reduction, and budget utilization ratio

4.2 Key customer strategies of startup XYZ

The Interview results show which strategic goals are to be set with regard to meeting customer needs in order to attain the financial goals. The Key Customer strategies that are mentioned and explained by informants included Operational Excellence, Customer Intimacy, and Product Leadership. However, Operational Excellence is the dominance key strategy that Startup XYZ has followed by Customer Intimacy and the least dominant key strategy is Product Leadership

The interview result shows that the product/service attributes of Startup XYZ are Price, Quality, Time, Availability, and Selection. Meanwhile, the relationship attribute that supports the business according to the interview with the informants is Service and Partnership. All of the four informants emphasize the company deepen the relationship with customers are interconnected with the service that the company is able to be delivered. The measure of achievement of this strategy is customer retention and customer satisfaction.

4.3 Internal business process strategies of startup XYZ

The interview results show that Internal business process objectives of Startup XYZ that is mentioned and explained by informants fall to following categories: Build Franchise through Innovation, increase customer value through customer management process, achieve operational excellence through operation and logistics process, and Become a good corporate citizen through the regulatory and environmental process.

From the interview result, several informants indicate that expanding new business units through innovation is an important strategy for the growth of the company. Moreover, the internal business process strategies to implement are (1)

Create a non-technology product or services, and (2) Create technology to automate a process. This strategy's measure of achievements is a new product/service acceptance rate and new business unit return on investment.

From the interview result, each of the informants highlights 4 different points to increase customer value through customer management process. The classification is fell to 2 different classification, which is (1) Improve the customer experiences. (2) Improve cycle time of customer's relationships. Customer satisfaction and customer retention are the measures of achievement of this strategy.

From the interview result, the strategy to achieve operational excellence through operation and logistics process fell into 4 different classifications, which is (1) Improve the cycle time of the internal process on project development. (2) Maximize Talent Allotment in offshore and in-house projects. (3) Add more channels to attract more talents (4) Implement 360-degree review on talents and employee. With this strategy to measure the achievement of the strategy, the indicators are Employee retention rate, Operating cost, Employee/staff happiness index, and numbers of job applicants.

From the interview result, several informants mentioned how the company becomes a good corporate citizen through the regulatory and environmental process. It is classified to (1) Increase personal branding of upper management, and (2) Maximize community development program, in which the achievement of this strategy is measured by the company review.

4.4 Learning and growth strategies of startup XYZ

The Interview results show which strategic goals are to be pursued to develop key potentials in order to provide an excellent basis for outstanding results in the other perspectives. Learning and Growth Objectives of Startup XYZ that is mentioned and explained by informants included Employee Competencies, Technology, and Corporate Culture.

From the interview, all of the informants agreed that to promote functional excellence, develop leadership skills, and create an integrated view of the company among employees is to implement personal development program, training, and seminar to the employee.

From the interview, only one informant give opinions about adopting new technology that encourages and aids process improvements. The rest of the informants did not give an opinion due to their field of designation in which only placed to the one who gives a strategic command of the company. The informant mentioned developing an automated system of a structured learning and development platform that supports learning and growth of the employee.

From the interview, all of the informants agreed that it is important to implement corporate culture by aligning business and personal goals. All of the informants have the same saying that implementing Career Rocket session as a way to align employee vision with company vision.

4.5 Startup XYZ's strategy map

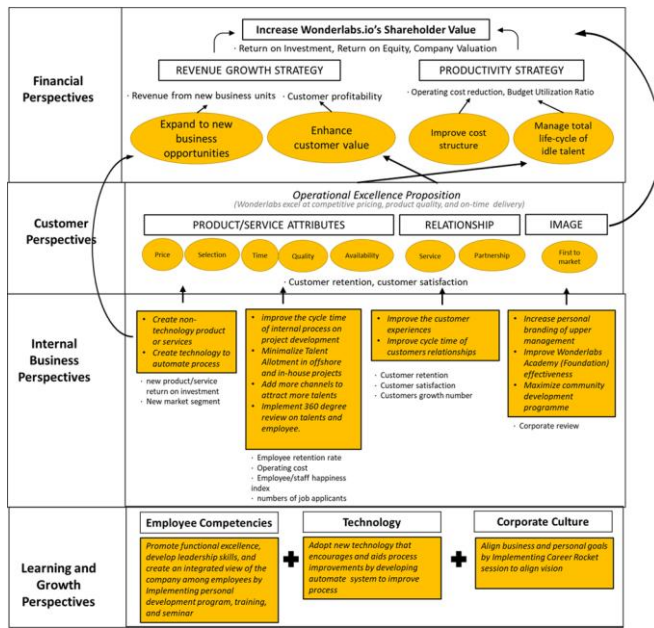The result of the research is the following strategy map.

Figure 4: Startup XYZ's Strategy map

5. Conclusion

Based on the research analysis, result and discussion, There are some strategic ways the upper management can consider the strategy to be executed to the company in which it is not limited to one or two particular perspectives that are believed to increase shareholders value, but it can come from all perspectives in balanced. All of the perspectives have their parts to equally contribute to achieve the company objectives and increase shareholders value because the four perspectives are related to each other and have a cause and effect correlation to one another that linked them together.

From the Financial perspective, it is important for the company to focus on generating revenues through some new sources and through increasing customer value. Apart from the revenue growth strategy, putting cost-saving strategies to implementation is important also be done in parallel. From the Customer perspective, the competitive pricing, product quality which is the service quality, and on-time delivery of the service are the strong points that Startup XYZ offers to the customers. Apart from that, customer intimacy as customer relationship which is in service and partnership regarding the customers' retention also takes apart complete the dominant value proposition of Startup XYZ. From the Internal business perspective, every effort that is mentioned in the Startup XYZ's Strategy Map must be made to keep the projects and clients coming as long as possible. The combination of these internal process themes will lead to customer and financial objective success. From the Learning and growth perspective, to match the right kind of competencies that meet customers' expectations, it is important to Startup XYZ to conduct training and development programs for talents and employees. Another often neglected aspect that highlighted in the map is that to develop an appropriate innovative culture and alignment of

goals, these methods, will increased employees and talents performances thus, will affect to the other perspectives including affecting the shareholders' value.

The proposed strategy map can provide a reference of priority for management in determining strategic improvement paths and how it affects the other aspects of the company. Management is advised to link up the company's strategies with its competencies and to further transform the strategies into significant tasks and results-oriented program services and supports.

References

[1] Google Temasek. (2017). *e-Conomy SEA Spotlight 2017: Unprecendented growth for Southeast Asia's $50B internet economy.* Singapore: Google Temasek.
[2] CEKINDO. (n.d.). *Information Technology*. Retrieved from Cekindo.com: http://www.cekindo.com/sectors/information-technology-in-indonesia
[3] Weizhen, T. (2016, February 8). IT talent in short supply amid Smart Nation push. Singapore. Available at: https://www.straitstimes.com/singapore/manpower/it-talent-in-short-supply-amid-smart-nation-push
[4] Bhajaria, N. B. (2015, August 11). Why do so many startups fail? Retrieved from LinkedIn: https://www.linkedin.com/pulse/why-do-so-many-startups-fail-nishant-bhajaria
[5] Kaplan, R. S., & Norton, D. P. (1996). Using Balanced Scorecard as a Strategic Management System. Focusing Your Organization on Strategy with the Balanced Scorecard, 2nd Edition, 37
[6] Miles, M. B. (1994). Qualitative data analysis: An expanded sourcebook. Sage Publication.