

Standard Costs And The Balanced Scorecard In Pharmaceutical Industry

Nova Novitasari¹, Jehan Erwita Sari², Ahmad Hidayatullah³, Iskandar Muda⁴

^{1,2,3,4} Universitas Sumatera Utara, Medan, Indonesia.

E-mail: ¹novan3020@gmail.com, ²jehanerwita@gmail.com, ³Ahmahidayatjava@gmail.com

DOI: 10.47750/pnr.2022.13.S08.364

Abstract

The Balanced Scorecard (BSC) approach to performance measurement is gaining, over the last decades, an increased popularity due its strategic use of key non-financial measures along with the more traditional financial metrics. This dissertation outlines the process of development, implementation, usage and later on abandon, of the BSC in a Portuguese subsidiary of a leading international pharmaceutical company. In order to support my finding review in the existing literature on the BSC concept and highline the characteristics of this concept analyzing the reasons of its popularity. In addition this dissertation postulates the likely impact of such a performance measurement system on the organizational behavior and provides a framework on how the BSC implementation can effectively help an organization in clarifying its mission and strategy into new goals. Finally, this dissertation outlines the organizational challenges and potential pitfalls associated to the BSC implementation.

Keywords: Standard Cost, The Balanced Scorecard, Financial Perspectives, Pharmaceutical industry.

INTRODUCTION

The background to the present research is described. An introduction to the Balanced Scorecard (BSC) is presented followed by illustration of the purpose and the research method of the dissertation. Finally, an outline of the dissertation is presented. Therefore, along with the development of the status and characteristics of Listed Companies in the pharmaceutical industry, it is an urgent and significant issue to use scientific and effective evaluation methods to compare and analyze the performance of Listed Companies in the pharmaceutical industry.

The increasingly fierce competition requires companies to take appropriate actions in order to maintain the company's survival in accordance with the going concern concept. Therefore, to ensure its survival, the company implements various policies to achieve its main goals. The main objective of the company in general, namely to maximize profits achieved through increased sales of the company's products and cost efficiency (Muda et al., 2018a). The company in maintaining its continuity is an internal problem that is always faced as is the case when the local market is flooded with imported products coupled with competition among local products at very competitive prices, the continuity of the company will be guaranteed if the company is able to generate sufficient profits so that the choice of reducing resources production capacity or the quality and quantity of production will be avoided.

Therefore, it is necessary to have good management to achieve optimal profits and increase productivity by utilizing and managing production factors as optimally as possible so that efficient and effective results are obtained (Muda et al., 2018b). The development of a company is achieved, among others, by the creation of a good information system, the increasing and widening level of competition causes more and more complete information to assist management in managing the company more effectively. To achieve this goal, a company manager must be able to plan and control costs, especially production costs, because production costs are a major factor in the implementation of company production. Kaplan (2009) stated that in cost control, management needs to set standard costs. Production cost control requires a benchmark or standard as a basis that is used as a benchmark for production cost control. Costs that are used as control measures are called standard costs.

Accounting for cost control not only collects information relating to costs that occurred in the past, but also includes presenting information on estimated costs or costs that should have occurred for certain activities, also used to compare standard costs with actual costs. Within reasonable limits or not. The standard cost system provides guidance to management how much it should cost

to carry out certain activities so as to enable them to reduce costs by improving production methods, selecting workers, and other activities (Martusa and Nasa, 2012).

Production cost control includes controlling raw material costs, wage or labor costs and factory overhead costs. If production cost control is effective, this will affect the cost of the product, so that the product produced will be able to compete with other similar products at competitive prices. Management in carrying out its functions related to the planning and control of production costs requires a measuring device and a pattern of implementation, among others, by using predetermined costs or so-called standard costs. In general, production cost control is carried out by comparing the costs sacrificed with the costs previously determined whether they are still within reasonable limits or not. Deviations that occur must be identified quickly and analyzed so that action can be taken as effectively as possible, standard cost determination and cost analysis of the cost accounting function are for cost control.

LITERATURE REVIEW

1. Standard Cost

Standard Cost Definition

Standard costing is another term for standard costing. This is a measure of the costs that must be used by companies in producing an item or financing certain activities (Hansen et al., 2021). These costs are made based on various assumptions, both in terms of economy, efficiency, or other factors. Standard costing is generally at the start, its purpose is to serve as a benchmark for the actual costing process at a later date. However, if the actual cost does not match the standard cost, then the amount that is considered correct is the standard cost, as long as the basic assumptions do not change. Then before determining the standard cost, company managers must conduct research in advance regarding production operations.

In pharmaceutical companies, production costs are a major factor for companies to process products. Production cost is a very important cost factor that always needs to be measured, controlled and analyzed, because the motivational effort to control and account for this factor of production costs is one of the important issues that affect the management of a company.

Brewer et al (2015) translated by Hinduan and Tanujaya state that standards are benchmarks or "norms" in measuring performance. "Standards, or technical standards in full, are norms or requirements which are usually formal documents that establish uniform technical or technical criteria, methods, processes and practices."

Garrison, Noreen, and Brewer (2003) translated by Hinduan and Tanujaya stated that standards can be categorized into two ideal and practical, the explanation is as follows:

- a. An ideal standard is one that can only be attained under the best conditions. This standard does not allow for machine breakdowns or other work interruptions, and requires a certain level of effort that can only be achieved by trained and efficient workers working a maximum of 100% of their time.
- b. Standards of practice (standards of practice) are defined as "strict but achievable" standards. This standard allows for normal machine downtime and employee rest periods, and is achieved through reasonable effort and high efficiency of the average employee. Variances from this standard reflect deviations from normal operating conditions and indicate a need for management attention.

Hansen and Mowen (2021) translated by Kwary stated that standards are generally classified as something ideal and something that can currently be achieved. The ideal standard requires maximum efficiency and can only be achieved if everything operates flawlessly. No broken, annoying machines, or lack of skill (even if only temporarily) is profitable. Current achievement standards can be achieved by operating efficiently. Allowance is made for normal damage, glitches, lower-than-perfect skills, and more. These standards are very challenging but achievable. Garrison, Noreen, and Brewer (2003) stated that the standard cost (price) determines how much must be paid for each unit of input. Actual quantities and actual costs of inputs are then compared against these standards. If the quantity or unit cost of an input differs significantly from the standard, the manager then hides the difference. The goal is to find the cause of the problem to then solve it so it doesn't happen again. Hansen and Mowen (2021) stated that in manufacturing companies, the standard cost per unit is the sum of the standard costs for direct materials, direct labor, and overhead. The standard cost sheet provides the breakdown on which the standard cost per unit is based. Cost calculation system for improving planning and control standards, as well as improving performance measurement. Standard unit is a fundamental requirement for a flexible control system which is the key to a good planning and control system.

The balanced scorecard as an effective management and estimation tool. Companies need to set strategic guidelines and operational objectives at all levels (Gusnardi, 2019). The balance scorecard gives that indication; it provides the link between the measurement system and the strategy. The transformation from an industrial economy to a worldwide knowledge economy motivated us to use the BSC. Studying the level of practice of implementing responsible accounting in Jordanian banks, provides several recommendations such as: it is necessary to set goals and budgets for responsibility centers in banks. Banks in Jordan should be encouraged to use other modern management accounting methods in business such as the Balanced Scorecard (BSC). Kaplan and Norton demonstrated The Balanced Scorecard (BSC) in 1992. BSC balances between financial and non-financial indicators and measures important activities and processes to control the implementation of business strategy. Balance can be

found in short term and long term goals.

BSC, a theoretical model outside the proposed BSC. Andy (1999) proposed a "performance indicator record scale" based on Kaplan and Norton's research according to application cases, this paper summarizes experience, shows the advantages and disadvantages of scale performance index recording, and provides a relatively fixed picture and functional framework for evaluation design. Company performance.

Niven (2002) published the monograph "Practical Guide to balanced scorecard", which explores the tension between BSC theory and practice. Cheng and Hunpheys (2012) tested the role of the BSC strategy through an experimental method. Goswami (2018) believes that BSC can be used as a strategic tool for sustainable company operations and management. The latest generation of BSC has introduced a set of objectives that are closely related to the destination strategy – called the Destination Statement. The lack of such statements in the Balanced Scorecard model proves to be highly demotivating to look at the bigger picture of strategy. Furthermore, without its presence the BSC becomes static and slow.

2.2.1 The Four Processes of the Balanced Scorecard

The framework of the BSC is based on the premise that the properties of the financial accounting system such as conservatism, transaction emphasis, and monetary base unit of measurement, prevent it from measuring the key activities of the company adequately (Lubis 2016). Rather, Kaplan and Norton suggest complementing the traditional financial measurement system with non-financial measures of customer relations, internal business processes, and organization learning and growth in order to specify what the organization expects to receive from and give to the various stakeholder groups in exchange for those groups continued contribution toward the organization's pursuit of its objectives.

METHODS

A descriptive approach was applied in this study through a collection of previous literature on case studies of the pharmaceutical industry Result and Discussion. Process and meaning (subject perspective) are emphasized in descriptive research. The theoretical basis is used as a guide so that the research focus is in accordance with the facts in the field. The method used in this research is a case study study of literature. Case study research is research that is carried out intensively and in detail.

RESULTS

The results of the study show that the seven elements of the responsibility accounting model combined with the balanced scorecard all have a positive effect on the organizational performance of companies in the pharmaceutical industry including:

1. Dividing the organizational structure into responsibility centers according to the strategy.
2. Assign management to management according to the vision.
3. Allocating costs and revenues.
4. Make budget estimates according to the balanced scorecard (BSC).
5. Evaluating estimates with reality by BSC.
6. Make a BSC analysis report.
7. Awards based on BSC. Allocation of costs and revenues is a factor that has the strongest impact on the organizational efficiency of pharmaceutical companies.

DISCUSSION

Apart from 3 specific limitations, to be exposed later in this chapter, there is a significant limitation to this dissertation as a whole by the time this study was realized the target company, Alparma Portugal, had ceased to exist. In a worldwide merge with another pharmaceutical company, the activity, people, processes and values of Alparma were integrated in a different cultural and business environment. Thus, this study performed in a retrospective perspective, might have been influenced by the absorption of the new company values, influencing people's retrospective views over past events. In order to give the reader additional foundations to evaluate the results from this dissertation I would like to point out some critical aspects identified during the research process. As mentioned this study aimed to investigate the implementation of the BSC through a retrospective analysis of people's stories of the implementation, complemented by all the other documentary evidence.

CONCLUSION

The purpose of this dissertation is to increase the understanding of the use of a BSC in a subsidiary of an international pharmaceutical company in Portugal. Findings from the case study show that the BSC in the company studied was used primarily in strategy, planning, reporting and follow-up activities. In addition, the BSC was used in discussions between employees, to disseminate information throughout and outside different departments in the company, thus creating an orderliness and understanding of the annual activities and developmental activities.

Comparing the use of the BSC with the purposes of its introduction in the company indicates that the BSC was used to fulfill its original purposes, thus laying part of the answer to my initial research question. The findings indicate that the BSC was used as

a strategic management system that aimed to increase company management control - the BSC was also used as an information system from which managers receive measurable information about the operational activities that provide the basis for follow-up, planning and developmental activities.

The use of the BSC at Alpharma in Portugal was thus a dynamic process that involved all employee participation and adaptations to existing measurement systems, as well as discussions between people to create a common framework for interpreting measures and goals in the BSC.

My findings show that the studied company had potential for developing the BSC to become a full integrated strategic management system in the future. The abandon of the BSC followed by the introduction of an internal control tool, such as Sarbanes-Oxley, reveals the importance of the correct allocation of resources to the maintenance of the usage of the BSC, after its implementation. The lack of resources and the arrival of an endless and time consuming task led to the abandon of the BSC.

REFERENCES

- Andy N. (1999). The Performance Measurement Revolution: Why Now and What's Next. *International Journal of Operations & Production Management*, 19:18-24
- Brewer, P.C., Garrison, R.H., & Noreen, E.W. (2015). *Introduction to managerial accounting*. McGraw-Hill Education.
- Cheng, M.M., & Humphreys, K.A. (2012). The differential improvement effects of the strategy map and scorecard perspectives on managers' strategic judgments. *The Accounting Review*, 87(3), 899-924.
- Garrison, R.H., Noreen, E.W., Brewer, P.C., & Mardini, R.U. (2003). *Managerial accounting*. New York: McGraw-Hill/Irwin.
- Goswami P., D.K Banwet, K.K, (2015). Goswami. Sustainable Operations Management Using the Balanced Score Card as a Strategic Tool - Research Summary. *Process. Social and Behavioral Sciences*, 189: 133-143.
- Gusnardi (2019). Educational Institution Performance Measurement based on Miles and Huberman Models using Balanced Scorecard Approach. *Quality Access to Success*. Calitatea, 20(170), 32-41. <https://publons.com/publon/28288775/>
- Hansen, D.R., Mowen, M.M., & Heitger, D.L. (2021). *Cost management*. Cengage Learning.
- Kaplan, R.S. (2009). Conceptual foundations of the balanced scorecard. *Handbooks of management accounting research*, 3, 1253-1269.
- Lubis, A., Torong, Z.B., (2016). The urgency of implementing balanced scorecard system on local government in North Sumatra – Indonesia. *International Journal of Applied Business and Economic Research*. 14(11). 7575-7590.
- Martusa, Riki, and Lim Ade Nasa. (2012). Implementation of Standard Costs for Controlling Production Costs (Case Study on C.V Sejahtera Bandung). *Scientific Journal of Accounting*. No. 07 3rd Year January-April 2012. ISSN: 2086-4159.
- Muda, I, Erlina, I. Yahya and A.A. Nasution, (2018b). Performance Audit and Balanced Scorecard Perspective, *International Journal of Civil Engineering and Technology*, 9(5), 2018, pp. 1321–1333. <http://www.iaeme.com/IJCIET/issues.asp?JType=IJCIET&VType=9&IType=5>
- Muda, I, F. Roosmawati, H.S Siregar, Ramli, H. Manurung & T. Banuas. (2018a). Performance Measurement Analysis of Palm Cooperative Cooperation with Using Balanced Scorecard. *IOP Conference Series: Materials Science and Engineering* 2017. 288.
- Niven, P.R. (2002). *Balanced scorecard step-by-step: Maximizing performance and maintaining results*. John Wiley & Sons.