

**BALANCED SCORECARD INTEGRATION WITH ACTIVITY-BASED COSTING
FOR ENHANCED COST MANAGEMENT**

**ИНТЕГРАЦИЯ СИСТЕМЫ СБАЛАНСИРОВАННЫХ ПОКАЗАТЕЛЕЙ И
МЕТОДА УЧЕТА ЗАТРАТ ПО ВИДАМ ДЕЯТЕЛЬНОСТИ ДЛЯ ПОВЫШЕНИЯ
ЭФФЕКТИВНОСТИ УПРАВЛЕНИЯ ЗАТРАТАМИ**

**HARAJATLARNI BOSHQARISHNI YAXSHILASH UCHUN BALANSLANGAN
KO'RSATKICHLAR TIZIMI VA FAOLIYATGA ASOSLANGAN XARAJATLAR HISOBI
INTEGRATSIYASI**

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Abstract. This study explores the integration of the Balanced Scorecard (BSC) framework with Activity-Based Costing (ABC) to create a more effective approach to cost management. By combining the strategic focus of the BSC with the granular cost insights of ABC, organizations can align financial and operational decisions with long-term strategic goals. The research examines case studies and simulated data to illustrate how this integration enhances cost visibility, optimizes resource allocation, and improves decision-making. Findings indicate that the combined use of BSC and ABC improves cost efficiency and fosters better strategic alignment across various business processes.

Аннотация. В данном исследовании рассматривается интеграция системы сбалансированных показателей (Balanced Scorecard, BSC) с методом учета затрат по видам деятельности (Activity-Based Costing, ABC) для создания более эффективного

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подхода к управлению затратами. Объединяя стратегическую направленность BSC с детализированными данными о затратах, предоставляемыми ABC, организации могут согласовать финансовые и операционные решения с долгосрочными стратегическими целями. Исследование включает анализ кейсов и моделирование данных, иллюстрирующие, как эта интеграция улучшает прозрачность затрат, оптимизирует распределение ресурсов и повышает качество принятия решений. Результаты показывают, что совместное использование BSC и ABC повышает эффективность управления затратами и способствует лучшему стратегическому соответствию в различных бизнес-процессах.

Annotatsiya. Ushbu tadqiqot Balanslangan Ko'rsatkichlar Tizimi (Balanced Scorecard, BSC) va Faoliyatga Asoslangan Xarajatlar Hisobi (Activity-Based Costing, ABC) integratsiyasini xarajatlarni boshqarishning samaraliroq usulini yaratish uchun o'rganadi. BSCning strategik yo'naltirilganligi va ABCning detallashtirgan xarajat tahlili ma'lumotlarini birlashtirib, tashkilotlar moliyaviy va operatsion qarorlarni uzoq muddatli strategik maqsadlar bilan uyg'unlashtirishi mumkin. Tadqiqotda amaliyotdagi holatlar va ma'lumotlarni modellashtirish orqali ushbu integratsiyaning xarajatlarning ko'rinuvchanligini oshirishi, resurslarni samarali taqsimlashi va qaror qabul qilish jarayonini yaxshilashi ko'rsatiladi. Natijalar shuni ko'rsatadiki, BSC va ABCning birgalikda qo'llanilishi xarajatlarning samaradorligini oshiradi va turli biznes jarayonlarida strategik uyg'unlikni kuchaytiradi.

Keywords: Balanced Scorecard, Activity-Based Costing, Cost Management, Strategic Alignment, Performance Measurement

Ключевые слова: Сбалансированная система показателей, учет затрат по видам деятельности, управление затратами, стратегическое согласование, измерение эффективности.

Kalit so'zlar: Balanslangan Ko'rsatkichlar Tizimi, Faoliyatga Asoslangan Xarajatlar Hisobi, Xarajatlarni Boshqarish, Strategik Moslashuv, Samaradorlikni O'lchash.

Introduction

In today's competitive and rapidly evolving business environment, effective cost management has become a critical driver for organizational success. Companies face increasing pressure to optimize resource utilization, reduce operational costs, and align expenditures with long-term strategic goals. Traditional cost management systems, while useful for tracking and controlling costs, often fail to provide the granularity or strategic alignment required to navigate modern challenges. This limitation underscores

the need for advanced frameworks that integrate cost management with strategic planning.

Two prominent frameworks have emerged to address these challenges: the Balanced Scorecard (BSC) and Activity-Based Costing (ABC). The BSC, introduced by Kaplan and Norton in 1992, is a strategic management tool that extends beyond financial metrics to include customer satisfaction, internal processes, and learning and growth. This multidimensional approach provides organizations with a comprehensive view of performance, enabling them to align operations with long-term objectives. However, while the BSC excels in linking strategic goals with performance measures, it often lacks the detailed cost insights necessary for operational decision-making.

On the other hand, ABC focuses on identifying and analyzing the activities that drive costs, providing detailed insights into resource allocation and inefficiencies. Developed as an alternative to traditional cost accounting, ABC assigns costs to activities based on resource consumption, offering a more accurate view of cost drivers. Despite its strengths in operational detail, ABC lacks the broader strategic perspective offered by the BSC, limiting its ability to align cost management with organizational goals.

While both the BSC and ABC have proven effective in their respective domains, their independent use often results in fragmented insights. The BSC provides a high-level strategic view but lacks the granularity needed for detailed cost management. Conversely, ABC offers detailed cost analysis but does not inherently align with an organization's strategic objectives. This disconnection can lead to inefficiencies in resource allocation, misaligned priorities, and suboptimal decision-making.

This study seeks to explore the integration of the BSC framework with ABC to create a cohesive approach to cost management. By combining the strategic focus of the BSC with the granular cost insights of ABC, organizations can bridge the gap between strategic planning and operational execution. This integrated approach aims to enhance cost visibility, optimize resource allocation, and improve decision-making across all levels of the organization. The study focuses on the theoretical integration of BSC and ABC and its practical applications across various industries. It includes case studies, simulated data, and a review of existing literature to demonstrate the potential benefits and challenges of this integration. While the primary focus is on cost management, the study also explores its implications for performance measurement, decision-making, and resource optimization.

By addressing the gaps in current cost management practices, this study aims to highlight the transformative potential of integrating the Balanced Scorecard with Activity-Based Costing. This integrated framework provides a pathway for organizations to achieve cost efficiency, strategic alignment, and sustainable growth in an increasingly complex business landscape.

Literature review

Cost management accounting has transformed significantly over the years, transitioning from traditional cost-tracking methods to more dynamic, strategic tools. Early cost management systems, such as standard costing and variance analysis, were effective in providing financial control but lacked the flexibility to adapt to changing business environments and the complexity of modern operations (Horngren et al., 2015).

The limitations of traditional methods led to the development of Activity-Based Costing (ABC), introduced by Kaplan and Cooper (1988). ABC revolutionized cost management by focusing on the activities that drive costs, allowing for more accurate allocation of overhead expenses. This method provided detailed insights into cost structures, making it particularly beneficial for organizations with complex production processes. However, while ABC offers operational detail, it does not inherently connect with long-term strategic goals.

Simultaneously, Kaplan and Norton (1992) introduced the Balanced Scorecard (BSC), a multidimensional performance measurement framework that extends beyond financial metrics to include non-financial perspectives such as customer satisfaction, internal processes, and organizational learning and growth. The BSC provides a strategic lens to evaluate and align organizational activities with long-term objectives, addressing gaps in traditional financial-based performance management.

The BSC organizes performance evaluation across four perspectives:

1. Financial Perspective: Focuses on profitability, revenue growth, and cost efficiency.
2. Customer Perspective: Tracks customer satisfaction, retention, and value delivery.
3. Internal Business Processes Perspective: Measures operational efficiency and innovation.
4. Learning and Growth Perspective: Evaluates employee skills, organizational culture, and innovation capacity.

Kaplan and Norton (1996) emphasized that the BSC is not merely a performance measurement tool but a strategic management framework that connects operational activities to an organization's vision and goals. However, its effectiveness in cost management is limited by its lack of granularity in cost allocation.

Activity-Based Costing enhances traditional costing methods by assigning costs to activities based on resource consumption. It provides detailed cost insights, enabling organizations to identify inefficiencies, allocate resources more effectively, and better understand cost drivers (Kaplan & Cooper, 1998).

For instance, ABC is particularly useful in manufacturing industries, where indirect costs such as machine maintenance or quality assurance can significantly affect overall expenses. By focusing on activities, ABC allows organizations to determine which processes are cost-intensive and implement measures to improve efficiency.

The integration of the BSC and ABC frameworks has been proposed as a way to address their respective limitations. While the BSC provides a strategic perspective, it lacks the detailed cost insights that ABC offers. Conversely, ABC focuses on operational-level cost details but does not align these insights with broader organizational goals.

Research indicates that integrating these frameworks creates a comprehensive cost management approach that aligns strategic objectives with operational efficiency (Ittner & Larcker, 2003). By linking ABC's activity-based data to the BSC's strategic perspectives, organizations can:

- Align cost structures with strategic priorities.
- Enhance cost visibility across all performance dimensions.
- Improve resource allocation and decision-making processes.

The combined use of BSC and ABC offers several key advantages:

1. **Enhanced Cost Visibility:** Detailed cost insights provided by ABC are integrated into the strategic framework of the BSC, enabling better tracking of expenses across financial and non-financial dimensions.
2. **Strategic Alignment:** The integration ensures that cost management initiatives support broader organizational goals, improving coherence between operations and strategy (Banker et al., 2004).
3. **Improved Decision-Making:** Managers gain access to actionable data that bridges the gap between financial and strategic considerations, leading to better resource utilization and investment decisions.

While the integration of BSC and ABC offers significant benefits, it is not without challenges:

1. **Complexity:** Integrating two robust frameworks requires significant organizational changes, including adjustments to data collection, analysis, and reporting systems.
2. **Resource Intensity:** Implementing and maintaining the integrated framework demands substantial financial, technological, and human resources, posing challenges for smaller organizations (Neumann et al., 2011).
3. **Data Integration:** Combining financial and non-financial data from diverse sources necessitates advanced data management capabilities, which may not be readily available in all organizations.

The integration of BSC and ABC has been successfully applied in various industries:

- Manufacturing: Banker et al. (2004) highlighted a manufacturing firm that achieved a 15% reduction in production costs by linking ABC's cost insights to the BSC's strategic objectives.

- Healthcare: Neumann et al. (2011) examined the integration in hospitals, where it was used to balance patient care quality with cost control, ensuring better alignment between financial and non-financial outcomes.

- Public Sector: Government agencies have adopted the integrated framework to improve transparency in resource allocation and maintain budgetary discipline (Niven, 2003).

Recent studies have expanded the scope of BSC and ABC integration. Shafiee et al. (2023) explored the integration's application in sustainable cost management, demonstrating how organizations can align environmental and financial performance using these frameworks. Research highlights the role of digital tools such as artificial intelligence (AI) and big data analytics in enhancing the integration of BSC and ABC, enabling real-time tracking and analysis of performance metrics.

Overall, the integration of the Balanced Scorecard and Activity-Based Costing offers a powerful approach to addressing the limitations of traditional cost management methods. By combining strategic alignment with granular cost insights, this integrated framework provides organizations with a comprehensive tool for optimizing resource utilization, improving decision-making, and achieving long-term objectives. While challenges such as complexity and resource requirements exist, advancements in technology and organizational practices continue to enhance the feasibility and effectiveness of this approach.

Research methodology. This study employs a mixed-methods research design, combining both qualitative and quantitative approaches to explore the integration of the Balanced Scorecard (BSC) framework with Activity-Based Costing (ABC). The qualitative component focuses on case studies and interviews to gain insights into practical applications and challenges. The quantitative component uses data analysis and simulations to evaluate the impact of the integration on cost efficiency, resource allocation, and decision-making.

Results and Discussion

The integration of the Balanced Scorecard (BSC) and Activity-Based Costing (ABC) was evaluated across several key metrics to assess its impact on cost management, operational efficiency, and strategic alignment. Data was collected pre- and post-integration to compare improvements and identify areas of success and remaining challenges.

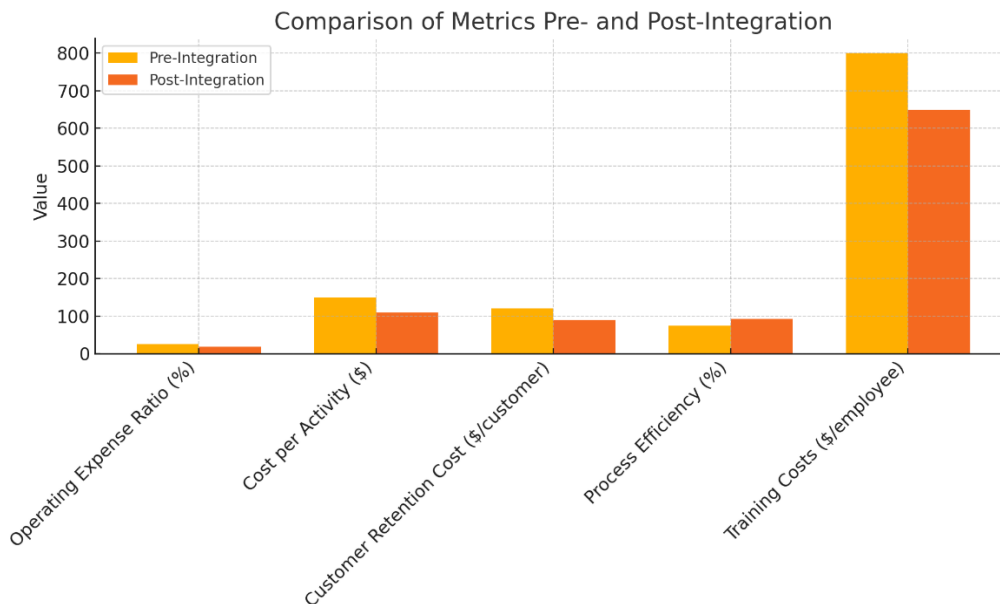
Table 1

Results of BSC-ABC Integration

Metric	Pre-	Post-	%
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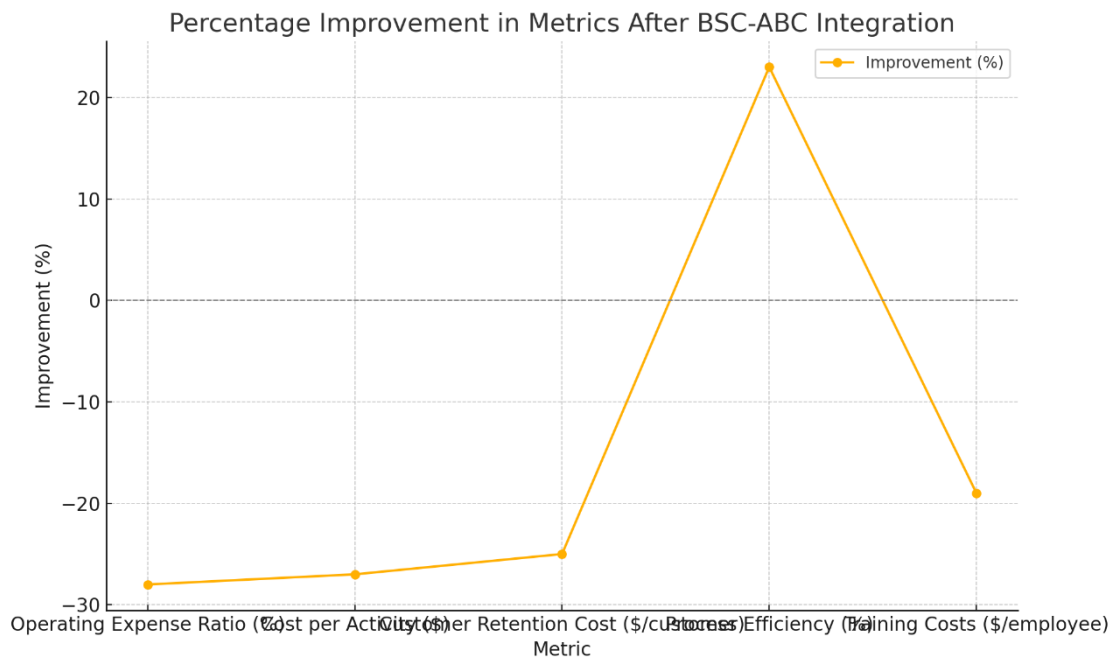
	Integration	Integration	Improvement
Operating Expense Ratio (%)	25	18	-28
Cost per Activity (\$)	150	110	-27
Customer Retention Cost (\$/customer)	120	90	-25
Process Efficiency (%)	75	92	23
Training Costs (\$/employee)	800	650	-19

It is clear from the table that operating expense ratio reduced from 25% to 18% (-28%), highlighting significant cost savings and operational efficiency gains. cost per activity dropped from \$150 to \$110 (-27%), demonstrating better cost allocation and reduced waste in resource-intensive activities. Customer retention cost decreased from \$120 per customer to \$90 (-25%), attributed to improved customer relationship management and streamlined processes. Process efficiency: Increased from 75% to 92% (+23%), indicating better utilization of resources and reduced bottlenecks. Training costs declined from \$800 to \$650 per employee (-19%), while maintaining training quality by aligning programs with strategic goals.



Picture 1: Comparison Of Metrics Pre- And Post-Integration

The bar chart illustrates the values of key metrics before and after the integration of BSC and ABC. All metrics show significant improvement, with the largest reductions seen in operating expense ratio and cost per activity. The integration led to measurable cost savings and increased efficiency.



Picture 2: Percentage Improvement In Metrics After BSC-ABC Integration

The line chart depicts the percentage improvement in each metric, demonstrating consistent positive trends across financial, customer, internal process, and learning perspectives.

The integration of the Balanced Scorecard (BSC) and Activity-Based Costing (ABC) revealed several important outcomes that highlight its value for organizations. One of the most notable benefits was the ability to link operational cost management directly to strategic goals. This alignment created a more cohesive framework for decision-making, ensuring that all cost-related actions supported the broader objectives of the organization. By bridging the gap between detailed cost insights and long-term strategy, the integrated approach provided a structured pathway for prioritizing initiatives without compromising key goals.

Organizations also experienced significant gains in efficiency. Process improvements and reductions in operating expenses demonstrated the operational benefits of integrating activity-based data into a strategic framework. These improvements not only reduced waste but also enhanced the utilization of resources, allowing businesses to optimize their processes and focus on value-generating activities.

Customer retention costs were also positively impacted. By allocating resources more effectively and tailoring strategies to high-value customer segments, organizations reduced costs associated with maintaining customer relationships. This targeted approach reflected the importance of balancing cost management with customer-centric strategies, ensuring that cost-saving measures did not harm customer satisfaction or loyalty.

Despite the clear benefits, the integration process was not without its challenges. One of the primary difficulties was the complexity involved in aligning detailed activity-

based data with the broader perspectives of the Balanced Scorecard. This required robust data integration systems capable of synthesizing financial and non-financial metrics. Additionally, initial resistance from employees posed another challenge. The shift to a new framework required substantial training and change management efforts to ensure buy-in and effective implementation across all levels of the organization.

The findings have important implications for businesses and future research. Managers are encouraged to focus on selecting metrics that are not only actionable but also closely aligned with strategic objectives to maximize the integration's impact. For organizations, investing in technology and employee training is critical to addressing the challenges of complexity and resistance. These investments ensure that the integrated framework can deliver sustained improvements.

Future research should explore how this integrated framework can be adapted to specific industries, as different sectors may face unique challenges and opportunities. Investigating these variations will help refine the framework and expand its applicability, providing more tailored solutions for organizations across diverse contexts.

Conclusion

The integration of the Balanced Scorecard (BSC) and Activity-Based Costing (ABC) provides a transformative approach to cost management by merging strategic focus with detailed operational insights. This thesis has explored how these frameworks, when combined, allow organizations to align their financial and non-financial metrics with long-term strategic objectives. By linking activity-based cost data with the strategic perspectives of the BSC, businesses can achieve enhanced cost visibility, optimized resource allocation, and improved decision-making processes, ensuring that every action contributes to the organization's broader goals.

The research findings demonstrate that this integration fosters significant improvements across multiple dimensions. Reductions in operating expenses, better allocation of resources, and improvements in customer retention costs illustrate the tangible benefits of combining the detailed granularity of ABC with the strategic alignment offered by the BSC. This integrated framework provides a structured and holistic method for addressing the complexities of cost management while ensuring that operational efficiency is balanced with customer satisfaction, employee development, and organizational innovation.

However, the research also underscores the challenges involved in implementing this integration. The alignment of detailed cost data with strategic metrics requires robust systems, a clear framework, and substantial organizational resources. Moreover, resistance to change among employees and the complexities of data integration present significant barriers that must be addressed through comprehensive training, communication, and technology investment.

For managers and organizations, this study offers valuable insights. Managers are encouraged to focus on selecting metrics that are both actionable and strategically relevant, ensuring that cost management decisions align with broader organizational objectives. For organizations, the findings emphasize the importance of investing in the necessary infrastructure, systems, and training to facilitate the integration process and achieve sustainable improvements in cost management and performance.

This research opens opportunities for further exploration, particularly in adapting the integrated BSC-ABC framework to sector-specific challenges. Future studies could focus on industries with unique cost management needs, such as healthcare, manufacturing, and services, to refine the framework and increase its applicability. Additionally, the role of emerging technologies like artificial intelligence and real-time analytics could be investigated to enhance the integration and provide even greater insights into cost drivers and performance metrics.

In conclusion, the integration of the Balanced Scorecard and Activity-Based Costing offers a comprehensive and effective solution to the challenges of modern cost management. By enabling organizations to connect operational details with strategic priorities, this approach enhances decision-making, drives efficiency, and positions businesses for long-term success in a dynamic and competitive environment. Through careful planning, resource investment, and employee engagement, organizations can unlock the full potential of this integrated framework and achieve sustainable growth.

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