

IDENTIFYING THE INTER-RELATIONSHIPS BETWEEN THE COMPANY'S STRATEGIC SECTORS

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Abstract

To reveal the inter-relationships between the strategic axes of the analyzed company, we used the Balanced Scorecard Analysis (BSC) and the Partial Least Squares (PLS) technique. The PLS technique identifies strategic areas (or axes) by grouping performance indicators that have the highest percentage of explaining the variance within the indicator group. We linked the strategic axes with the company's performance sectors, while the PLS model illustrated the interaction between the company's strategic lines as well as the interaction between the company's performance indicators and their respective groups.

We started with principal component analysis (PCA) to identify the most important activity sectors for the company (for example, axis 1 = Profitability), to which we associated between 4 and 9 relevant performance indicators and selected those that were most correlated with their respective strategic sectors. We used the PLS technique for principal component analysis to show the correlations between the company's strategic sectors. The intensity of the relationships within the company allowed us to predict potential strategic lines for improving managerial performance.

The BSC enabled us to explain the relationship between corporate governance variables and company performance. Within the causal relationships, we provided a logical explanation of how the analyzed business sectors are interconnected.

Keywords

Strategic lines, Balanced Scorecard (BSC), Partial Least Squares (PLS), Principal Component Analysis (PCA), Corporate Governance.

JEL classification

C38, D22, E37, L25

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