



Human Resource Management

Elixir Human Resource Mgmt. 57A (2013) 14364-14367

Elixir
ISSN: 2229-712X

Balanced scorecard as a spontaneous performance measurement tool: a case of insurance companies in Pakistan

Nadia Hanif, Bilal, Sadia Farooq and Hassaan Farid

Hailey College of Commerce University of the Punjab Lahore, Pakistan.

ARTICLE INFO

Article history:

Received: 5 November 2012;

Received in revised form:

10 April 2013;

Accepted: 18 April 2013;

Keywords

Balance Scorecard,

Pakistan,

Insurance,

Performance Management.

ABSTRACT

The purpose of this research was to identify about the implementation of Balanced Scorecard in the insurance companies of Pakistan. Additionally, this study was conducted to answer various queries such as relative importance of the four perspectives of the Balanced Scorecard, relationship between experience of the employees and knowledge about the Balanced Scorecard, relationship between the age of the employees and knowledge about the Balanced Scorecard, measures used by the insurance companies for each perspective of the Balanced Scorecard etc. This study was conducted at the managers and non-managers' level. To achieve these purposes, a sample of 23 out of total 36 insurance companies was taken. Total number of respondents was 120.

© 2013 Elixir All rights reserved.

Introduction

In an economy subjugated by physical assets financial measures were sufficient to record investment in plant, inventory, equipment and property. The expenses related with the usage of physical assets could also be captured on the income statement to generate the profit and revenue. But today's economy calls for the devices that define the value creating strategy and knowledge-based assets, which are the intangible assets and have become the major sources of competitive advantage. Companies have come across difficulties in managing what they could not measure or describe due to lacking such intangible devices. In recent years many associated management frameworks have been developed for organizations to manage effectively a wide range of organizational activities. In management the balanced scorecard is one of the latest innovations. Some measures from these originated from the movement of TQM such as ISO9000, Six Sigma, Baldrige and European Quality models. Walter Shewhart advanced the notion of the P.D.C.A Cycle. W. Edwards Deming with the help of well-known Quality Management authority taken up and stimulated the PDCA cycle very successfully from the 1950s and consequently the PDCA cycle is recognized as the 'Deming Wheel'. Keegan, Eiler and Jones in 1989 developed "Performance Measurement Matrix". Performance Measurement Questionnaire was developed by Dixon, Nanni and Vollman in 1990. In 1991 Fitzgerald, Johnston, Brignall, Silvestro and Voss developed "the Results and Determinants" Framework. Performance Pyramid was recognized by Lynch and Cross in 1991 and the pyramid relates an organization's day-to-day operations with its strategy. In 1993 the "Government Performance and Results Act" passed by the US Govt. Malcolm Baldrige established the Baldrige National Quality Program and the associated award in 1987 by the National Quality Improvement Act. The performance was assessed on the basis of number of rejects in traditional performance measures such as customer satisfaction

The most widespread and current Performance Management and Measurement Strategy is the BSC. The traditional performance measures are also retained by the balanced scorecard but the traditional measures state the story of past dealings whereas BSC provides drivers for long term competitive and financial performance. It facilitates the organizations to interpret strategy into action. The balanced scorecard is a comprehensive measurement framework in a short document that summarizes concisely and comprehensively a set of lagging and leading performance indicators which are assembled into four dissimilar Perspectives. It provides a positive linkage of long-term strategic goals with short-term functioning actions of an organization and for new strategic management system considered as a cornerstone (R. S. Kaplan & Norton, 1996b).

BSC as a device of strategic control is created by Kaplan and Norton in their book *The Balanced Scorecard* published in 1996. According to the R.S. Kaplan and Norton (1996). "Managers have availability of different instrumentation with the use of balanced scorecard which is prerequisite to navigate to prospect competitive success."

The Balanced Scorecard expresses the organizational performance from the following four perspectives:

1. Financial Perspective
2. Customer Perspective
3. Internal Business Process Perspective
4. Learning and Growth Perspective

These perspectives denote three of the major stakeholders of the business that are shareholders, customers and employees. For each perspective of the balanced scorecard, the measurers are defined and goals are set.

Literature Review

Management accountant used to give attention on the financial measures such as residual income, (net and/or gross) profitability, economic value added, sales growth, return on capital employed, market share and position, cash flow etc. and these measures puts emphasis only on shareholder satisfaction

and does not emphasize on stakeholders satisfaction like customers and employees etc.

As R. S. Kaplan (1983) stated problems with the traditional performance measurement that: These measures may be too dimensional, too late and too aggregated, may be incomplete, narrow in focus and historical in nature and are of short term.

The problematic factors which prevent the effective valuation of non-financial assets were:

First of all

The intangible assets produce indirect value, some other assets have direct impact on profit and revenue such as knowledge and technology, improvements of intangible assets create cause and effect relationships in order to affect financial outcomes, the value of intangible assets rest on organization's strategy and structure. Organizational processes would not be detached from this value because these processes translate intangibles into financial and customer outcomes and usually intangibles must be rushed themselves with other tangible and intangible assets but seldom intangible assets themselves would have value.

Whereas, the problems with non-financial measures be present as follows:

It was problematic to choose selected important tools from a large number of non-financial measures, non-financial measures might be ambiguous and problems in interpreting the non-financial measures into financial production.

Kaplan and Norton established Balanced Scorecard (BSC) in 1992 and reformed it in 1993 and 1996 in order to provide performance measurement framework. The traditional financial measures were effective in industrial era but these were least effective in today's competitive world. No single measure could be considered sufficient to measure the performance of an organization. Kaplan and Norton were of the view that by concentrating on the operational measures, we could have obtained the required financial results. The Balanced Scorecard is a combination of the non-financial and financial measures which are the drivers of the future performance. BSC stresses on leading measures instead of lagging measures. The strategy and vision of the organization are used to derive the measures and objectives of the scorecard. Kaplan and Norton stated that the organization's long term profitability depend on the non-financial measures such as investment on customers, clients, workers training, suppliers, technology, research and development, processes and innovations.

Financial Perspective: In order to bring larger returns on the basis of capital financed in the long-term goals, financial perspective represents the financial measures which include elements such as sales growth, revenue per sales and profitability as traditional methods of analyzing the organizational success. Financial measures contain strategy for enhancement of profitability, growth and risk management from the customer's perspective. In order to determine success, although the BSC emphasized on the requirement to integrate additional measures but still the requirement of financial measures are quiet strong component to determine success.

Customer Perspective: Companies want to enhance and focus at competitive product selection, product pricing, product quality, in time delivery and lead time. For understanding of customers, organizations must concentrate on the superiority of its customer's relationship, by providing suitable and complete solutions to its customers and in providing exceptional services. For leadership strategy of product, organizations require to stress

on the features, functionality, presentation and performance of their services and products.

After the identification of the financial and customers perspectives the organization can determine the ways and processes through which it will attain the productivity improvements for financial objectives and differentiated value proposition for customers. The internal business perspective can be divided into four upper level processes. Construct the franchise: penetrate customer segments and new markets and through innovations, developing new products and services. Increase customer value: to expand and deepen relationships and dealings with current customers. Attain operational excellence: through internal processes, resource capacity management, asset utilization and supply chain management etc. Grow into a good corporate citizen: through maintaining and creating active relationship with internal and external stakeholders.

Learning and Growth Perspective: In this perspective organization define corporate climate required to support a strategy, employee skills and capabilities and technology. It can contain such issues as number of employee suggestions implemented, employee satisfaction, hours of employee training and alignment of employee skills with jobs.

The BSC has been applied in hundreds of organizations and companies with usually effective results, while formerly designed for profit seeking concerns, but the technique is enough flexible for each type of organization, comprising colleges and universities.

In the early years of this era, practical implementation rates of balanced scorecard, which were stated for large size companies in the throughout Europe and USA, varied amid 40 to 60 percent (Speckbacher, Bischof, & Pfeiffer, 2003)

41 companies involved in BSC implementation according to the study conducted by Braam and Nijssen (2004) on Dutch companies. 14 branches of a USA bank involved in the study of BSC by Davis and Albright (2004). On the topic of BSC 17 Finland companies involved in the study of Malmi (2001). Data from 42 companies in Switzerland and 43 companies in Austria has been taken by Speckbacher et al. (2003) .

The following six elements has been given by Richardson (2004) for the success of Balanced Scorecard,

1) Make a strategy for your company. 2) Encompass the high-ranking management in the developing course of the balanced scorecard. 3) Develop your balanced scorecard which agreeing to your organizational vision and also define your BSC's vision. 4) Apply the balanced scorecard all over and everywhere in your company. 5) Communicate everyone about the aims of the balanced scorecard and teach your entire workforce about it. 6) Practice scorecard in a way that it could be adjusted mechanically in harmony with daily variations.

For successful implementation of BSC the following list of enablers is provided by (Chan, 2004):

1) Upper managers commitment; 2) Existence of a performance excellence culture; 3) Keeping and making the BSC easy to understand and use; 4) Clarity of vision and unambiguous strategy and outcome; 5) Middle managers and employees participation; 6) Education and training in the organization; and Links with resources, incentives to implement the BSC.

McCunn (1998); Olve, Roy, and Wetter (1997) and Williams (2004) also provided the same lists for the BSC implementation requirements.

Whereas according to Forgione (1997) due to multidimensionality of the BSC in seizing the non-financial aspects of performance (Aidemark, 2001; Bilkhu-Thompson, 2003), and also it is useful in the public sector and BSC clearly pinpoint restricted number of KPIs that suggest a strong emphasis for attaining strategy of organization regardless of a multifaceted working environment (Chow, Ganulin, Haddad, & Williamson, 1998; Modell, 2004).

Armitage and Scholey (2004) effectively implemented the BSC to a certain master degree program in technology, private enterprise and business.

Research Methodology

A sample of 27 insurance companies was taken randomly out of 36 insurance companies. These insurance companies included public insurance companies, private companies Ltd and Islamic insurance companies. . The number of the respondents varies from one insurance company to the other. The number of respondents in this study was 120. Out of 120 respondents 112 were male and 8 were female whereas 51 respondents were masters, 29 were Graduate and the same number of respondents had qualification in other category and only one respondent was of matriculation. The experience of respondents was 1 to 52 years and 70 respondents were non-managers while 50 respondents were managers.

Table 1: Demographic Characteristic of Respondents

	No	Percentage
Gender		
Male	112	93.33
Female	08	6.67
Age		
19-29	39	32.50
30-39	38	31.67
40-49	23	19.17
50-59	11	9.17
60-71	09	7.50
Designation		
Manager	50	41.67
Non-Manager	70	58.33
Qualification		
Matriculation	01	1
Intermediate	10	8
Bachelor	29	24
Masters	51	43
Others	29	24

Table 2: Comparative Analyses of the Four Perspectives of the Balanced Scorecard

Four Perspectives Of the BSC	N	Most Important	Important	Less Important	Least Important	Mean
Financial Measures	120	1	2	3	4	1.74
Customer Satisfaction	120	1	2	3	4	1.28
Innovation of Products or Services	120	1	2	3	4	2.32
Training of employees	120	1	2	3	4	2.39

Table 2 above displays the mean value for each perspective. Here, it can be concluded that the customer satisfaction is rated by respondents as the most important perspective with mean value 1.28 which is closest to 1 and 1 in questionnaire stood for most important, financial perspective as an important with mean value 1.74, internal process as less important with mean value 2.32 and finally learning and growth as the least important perspective with 2.39 mean values of the Balanced Scorecard.

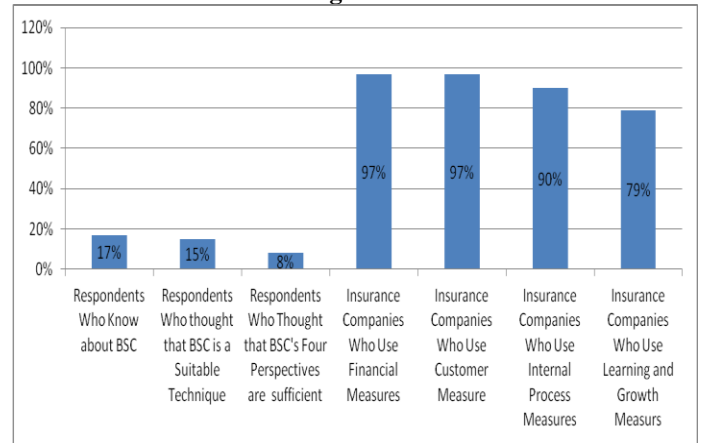
From this analysis we can concluded that customer perspective is the most important perspective of the Balance Scorecard which is a non-financial measure.

Empirical Results

97% of the respondents identified that their insurance companies used the financial measures to judge their performance, at the same time only 3% of the respondents were

of the opinion that financial measures alone were sufficient for the continued existence of the insurance companies and 85% of the respondents stated that financial measures were long term measures.97% of the respondents stated that their insurance companies used measures to identify customer’s satisfaction level. 90% of the respondents stated that their insurance companies used measures to know innovation of services and products. Among all of the four perspectives of balanced scorecard, customer satisfaction is the most important perspective with mean value 1.28 out of 4. Only 17% of the respondents said that they had knowledge about the Balanced Scorecard. Only 15% of the respondents thought that balance scorecard was a valuable and useful measurement technique. Out of 20 respondents who had knowledge about the balanced scorecard, 17 were either 40 or below and 16 respondents had experience of 17 years and below. There came weak positive correlation between the age and knowledge about the balanced scorecard and the same relationship found between experience and knowledge about balanced scorecard.

Figure 1



Conclusion

Most of the respondents do not have knowledge about balanced scorecard. All the insurance companies were unknowingly using all the four perspectives of the balanced scorecard. The reason might be that it is natural for a company to apply all the four perspectives of balanced Scorecard. It strengthens the literature where LaPointe (1999) and Ahmad, Zulfqar, Ishfaq, and Nawaz (2010) stated that the organizations used Balanced Scorecard even without knowing it or they might use Balanced Scorecard with some other name. Those who had knowledge about balanced scorecard stated the four perspectives are sufficient but they also consider some other factors such as leadership and corporate social responsibility etc. This finding strengthens the view point of Rhom (2004) who stated that the organizations might use Balanced Scorecard with some change and this change might be in the form of an additional perspective. Financial measures should be mixed with some other non-financial measures such as employees’ satisfaction, customer satisfaction etc. Respondents said that only financial benefits are not enough for the retention of employees. It can be because individuals are very sensible regarding their self-respect, working conditions, growth and health etc. Respondents revealed that to achieve higher commitment from employees there should be training, growth opportunities, awards distributions, tours, self-respect and more important is promotions and incentives for employees.

Recommendations for Further Research

This study has been conducted on the insurance companies of Pakistan including private, public, general, life and Islamic parts of insurance. Further research can be conducted on other sectors of Pakistan such as Telecommunications, Textile, Electronics, Colleges, Small and Medium enterprises and non-profit organization.

References

- Ahmad, Z., Zulfqar, A., Ishfaq, A., & Nawaz, M. (2010). Balanced scorecard: Is it a spontaneous Performance measurement tool. *Interdisciplinary Journal Of Contemporary Research In Business* Vol, 2.
- Aidemark, L. G. (2001). The meaning of balanced scorecards in the health care organisation. *Financial Accountability & Management*, 17(1), 23-40.
- Armitage, H., & Scholey, C. (2004). Hands-on scorecarding. *CMA Management*, 78(6), 34-38.
- Bilkhu-Thompson, M. K. (2003). A process evaluation of a health care Balanced Scorecard. *Journal Health Care Finance*, 30(2), 37-64.
- Braam, G. J., & Nijssen, E. J. (2004). Performance effects of using the balanced scorecard: a note on the Dutch experience. *Long Range Planning*, 37(335-49).
- Chan, Y.-C. L. (2004). Performance measurement and adoption of balanced scorecards: a survey of municipal government in the USA and Canada. *International Journal of Public Sector Management* 17(3), 204-221.
- Chow, C. W., Ganulin, D., Haddad, K., & Williamson, J. (1998). The balanced scorecard: a potent tool for energizing and focusing healthcare organization management. *Journal of Healthcare Management*, 43(3), 263-280.
- Davis, S., & Albright, T. (2004). An investigation of the effect of balanced scorecard implementation on financial performance. *Management Accounting Research*, 15, 135-153.
- Forgione, D. A. (1997). Health care financial and quality measures: international call for a "balanced scorecard" approach. [Congresses]. *J Health Care Finance*, 24(1), 55-58.
- Kaplan, R. S. (1983). Measuring manufacturing performance: a new challenge for managerial accounting research. *The Accounting Review*, 686-705.
- Kaplan, R. S., & Norton, D. P. (1996). Using the balanced scorecard as a strategic management system. *Harvard business review*, 74(1), 75-85.
- Kaplan, R. S., & Norton, D. P. (1996b). Using the balanced scorecard as a strategic management system. *Harvard business review*, 74(1), 75-85.
- LaPointe, P. (1999). *The Balanced Scorecard: Prelude to a Marketing Dashboard*. White Papers-Balanced Scorecard Institute.
- Malmi, T. (2001). Balanced scorecards in Finnish companies: a research note. *Management Accounting Research*, 12, 207-220.
- McCunn, P. (1998). The balanced scorecard... the eleventh commandment. *Management Accounting* 76(11), 34-36.
- Modell, S. (2004). Performance measurement myths in the public sector: a research note. *Financial Accountability & Management*, 20(1), 39-55.
- Olive, N. G., Roy, J., & Wetter, M. (1997). *Balanced scorecard i svensk praktik* Liber Ekonomi, Malmö.
- Rhom, H. (2004). A Balancing Act. *PERFORM*, 2(2), 1-8.
- Richardson, S. (2004). The key elements of Balanced Scorecard success. *Ivey Business Journal*, 69(2), 7-9.
- Speckbacher, G., Bischof, J., & Pfeiffer, T. (2003). A descriptive analysis on the implementation of Balanced Scorecards in German-speaking countries. *Management accounting research*, 14(4), 361-388. doi: 10.1016/j.mar.2003.10.001
- Williams, K. (2004). What constitutes a successful balanced scorecard? *Strategic Finance*, 86(5), 19-22.