Balanced Scorecard: Is it a Spontaneous Performance Measurement Tool?

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Abstract

The balanced scorecard has been scholarly and practically recognized as an effective toll of performance measurement. It is a comprehensive measure for multidimensional organizational excellence. The current study seeks to find out the awareness level of the banking professionals with the balanced scorecard and its usability within their daily professional practices. The population includes officers working on managerial positions within different commercial banks. A questionnaire survey was conducted to find out awareness level of the respondents and the extent of use of different dimensions of balanced scorecard. The results are discussed along with implications and suggestions for policy makers.

Keywords: Balanced Scorecard, Spontaneous Performance, Measurement Tool

1. Introduction

The economy of a country is composed of its public and private institutions. The success or failure of these institutions is considered to be the success or failure of the economy. How to measure the performance of an institution to judge the success or failure? Prior to 1980, the organizations used to measure their performance using financial measures such as, return on capital, net profit rate etc. Financial measures are considered to be short term measures. An organization may enhance its profit by reducing its research and development expenses but it will face difficulties in the days to come especially in a competitive environment. At the same time an organization may be financially good because of its monopoly where people have no other choice except to use the products or services of that organization. Such an organization enjoys monopoly and normally takes no care of the customer expectations. Generally the existence of these organizations comes to an end as soon as they lose their monopoly.

During 1980s, it was felt that customer satisfaction lead to financial strength and emphasis was laid on non financial measures such as, customer satisfaction. Again it does not mean that the customer measures along with financial measures form a comprehensive performance measurement system. A satisfied customer today may be lost in the days to come if his changing requirements are not met. Thus in order to be competitive, an organization should ensure that it is innovative enough to satisfy the changing requirements of the customers. It simply means that innovation leads to customer satisfaction which finally results in financial strength.

In 1992, Kaplan and Norton developed Balanced Scorecard to measure the performance of the organizations. As Balanced Scorecard is a blend of financial and non financial measures, it is considered to be a comprehensive performance measurement system. It measures the performance of an organization from four different perspectives. These perspectives are explained hereunder;

i. Financial perspective
ii. Customer Perspective
iii. Internal Business Process Perspective
iv. Learning and growth Perspective

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

2. Literature Review

Colin Drury (2000) said that prior to 1980s, management accountant used to focus on the financial measure such as return on capital employed, profit margin, earning per share etc.

Niven (2005) stated three problems with the traditional performance measurement system.

i. Traditional measures relied upon financial measures and the financial measures were short term measures. It was evident from the fact that 2/3 of the fortune 500 companies in 1954 were either found nowhere or if some were found there, they were not in that prosperous form.

ii. Financial measures were lagging measures.

iii. Slow response to change. In 1999, it was found that 75% failures of the CEOs came not because of poor strategy but because of poor strategy implementation.

Thus, managers needed to manage the determinants of performance at all levels. For that purpose, emphasis was laid on non financial measures such as customer satisfaction, number of complaints, number of intime deliveries etc.

The problems with non financial measures stated by Niven (2005) were as follows.

i. A large number of non financial measures were there and it was difficult to select some of them.

ii. Non financial measures might be misleading.

iii. Difficulty of translation of non financial measures into financial outcomes.

Kaplan and Norton (1992) introduced Balanced Scorecard and their studies revealed the followings.

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. Balanced Scorecard was a comprehensive measure that observed the performance of an organization from different dimensions. A business manager today is like a pilot who has to keep a watch on many things simultaneously. Balanced Scorecard was divided into four perspectives.

i. Customer perspective: it dealt with time, quality, performance and services and cost. Some companies hired the services of third party to conduct a survey from the customers of that organization to know the level of satisfaction.

ii. Internal business perspective: it dealt with the resources required to meet the customer's demand. Managers should have put focus on these critical operational measures. Here the company should have identified their main competencies to be the market leader.

iii. Innovation and Learning and Growth: This perspective deals with the human resources required to satisfy the customers. As the target for success keep changing, innovation and learning is a continuous process.

iv. Financial perspective: This perspective dealt with profitability and shareholders' wealth. It could be measured by income to sales percentage, earning per share, Return on Capital Employed (ROCE), Residual Income (RI) etc. Some managers were of the view that financial measures, being the lagging indicators, were unnecessary. These managers stated that emphasis should have been laid on operational measures and the desired financial results will follow.

Niven (2005) stated the experience of Horizon Fitness. The CEO there was worried about the strategy implementation. The author and the CEO developed Balanced Scorecard for the Horizon Fitness. It was so effective that the sales revenue reached $85 million in the third year of Balanced Scorecard implementation from $6.6 million in the first year of its operation.

Barkley (2000) said that a recent survey showed that 88% of the organizations felt that the Balanced Scorecard had improved the performance of the employees. Balanced Scorecard was considered motivating, measuring and rewarding the people and then innovating the strategies.

Will Kaydos (2004) explained that each old system was to be replaced with a new system. The same was the case with performance measurement where Balanced Scorecard is very popular those days. Finally the author stated that the Balanced Scorecard was the best performance measurement system but its success is dependent upon its proper implementation.

Lincoln (2008) has quoted Bailey, CEO of Nemours, stating that the success that they had at Nemours was proof of the usefulness of the Balanced Scorecard.

Martin (2004) explained that the Balanced Scorecard created a balance between short term and long term measures, internal and external business processes, leading and lagging indicators, objective and subjective measures etc.

Elefalk (1998) stated that the Swedish police adopted the Balanced Scorecard in 1998. The perspectives of the Balanced Scorecard were different from the ones given in the original Balanced Scorecard. The perspectives included in this Balanced Scorecard were operational, staff, citizen and resources.

Stawar T (2002) studied Kaplan's famous book "Balanced Scorecard: Measures that drive Performance" and concluded that Balanced Scorecard was much more than the traditional performance measures.

Richardson (2004) has given the following six elements of Balanced Scorecard success,

i. Develop your business strategy

ii. Involve the senior leadership in the process of development of the Balanced Scorecard.

iii. Develop your Balanced Scorecard according to the vision of your organization and describe the vision of your Balanced Scorecard.

iv. Implement the Balanced Scorecard everywhere in your organization.

v. Communicate the objectives of the Balanced Scorecard to everyone and educate all of your employees about it.

vi. Implement your Balanced Scorecard in such a way that it can be adjusted automatically in accordance with day to day changes.

Rhom (2004) said that Balanced Scorecards was equally applicable to public sector organizations only after having certain modifications. This change may be in the form of an additional perspective.

Stella Mooraj et al (1999) stated that the Balanced Scorecard was necessary good because it covered all the features of the management control system.

Lapointe (1999) stated that Balanced Scorecard helped marketers and executives. It provided measures for input and outcomes. He suggested that the Balanced Scorecard might be adopted or adapted. Whatever the case was, it must have observed the organization from various angles. Some organizations might be using some other names for the Balanced Scorecard and many companies used it without even knowing it.

3. Research Methodology

This study was conducted to know whether the development of the Balanced Scorecard was formal or it was a spontaneous measure. The study was conducted at the managers' level in the commercial banks in Pakistan. To accomplish the objective, a sample of 27 out of total 34 commercial banks was taken. These banks included public banks, private banks, foreign banks and Islamic banks. The number of the respondents varied from bank to bank. Total number of respondents in this study was 161. Out of total 161 respondents, 141 were post graduate, 19 were graduate and one respondent was CA finalist.141 respondents were male and the remaining 20 were female. The experience of the responding managers was ranging from one year to 35 years.

Table 1: Demographic Characteristics of Respondents

	No.	Percentage
Gender		
Male	141	87.6
Female	20	12.4
Age (Years)		
21-25	24	14.91
26-30	50	31.06
31-35	28	17.39
36-40	27	16.67
41-45	12	7.45
46-50	4	2.48
51-55	13	8.08
56-60	3	1.86

Qualification		
Post Graduate	141	87.58
Graduate	19	11.80
Other	1	0.62
Experience		
1-5	67	41.62
6-10	31	19.25
11-15	29	18.01
16-20	15	9.32
21-25	6	3.73
26-30	9	5.59
31-35	4	2.48

4. Findings

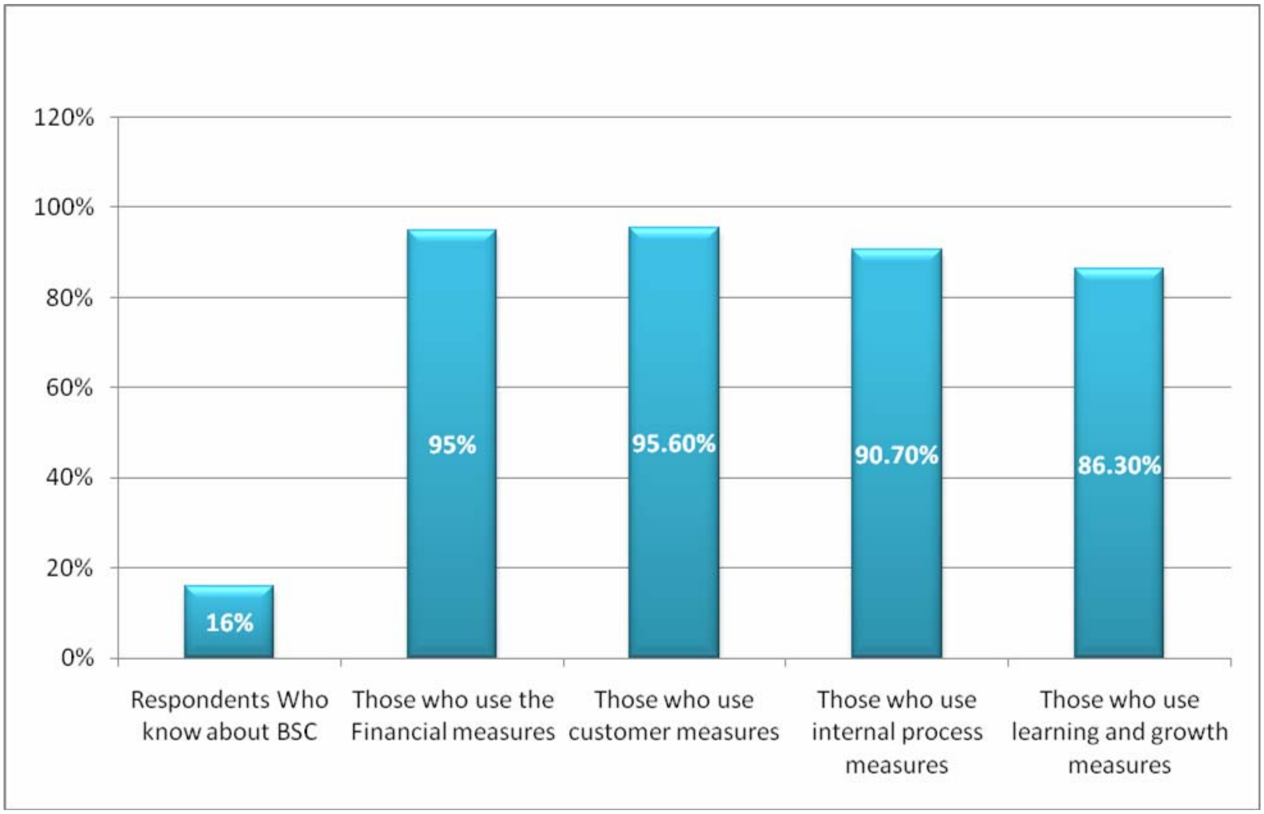
This study revealed the followings.

Only 16% of the respondents knew about the Balanced Scorecard and the remaining 84% knew nothing about it.

Over 95% of the respondents were of the view that their banks used financial measures to assess their performance. At the same time, 81% of the respondents stated that the financial measures were not sufficient to assess the performance of an organization. This finding supports the findings of Kaplan, Norton and the others who support the philosophy of Balanced Scorecard.

Over 95% of the respondents were of the view that their banks used measures to know the level of satisfaction of their customers. Over 90% of the respondents reported that their banks used measures to judge their internal process. Over 80% of the respondents stated that their banks were using measures to assess the learning and growth of their employees. Figure 1 shows the comparative analysis of those who know about Balanced Scorecard and those who are using its different perspectives.

Figure 1



5. Conclusion

If we go through the entire study of the above figures, we come to know that a big number of the respondents know nothing about the Balanced Scorecard but even then they follow all its four perspectives. It strengthens the literature where Lapointe (1999) stated that the organizations used Balanced Scorecard even without knowing it or they might use Balanced Scorecard with some other name. One of the respondents pointed out there should have been a perspective concerning to the corporate social responsibility to make the Balanced Scorecard a comprehensive performance measure. This finding strengthens the view point of Havard Rhom who stated that the organizations might use Balanced Scorecard with some change and this change might be in the form of an additional perspective. Finally it may be concluded here that Balanced Scorecard is a spontaneous performance measurement tool. Organizations use it without knowing that are using it.

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