

IMPACT OF BALANCED SCORECARD USAGE ON THE ORGANIZATIONAL PERFORMANCE: A CASE STUDY OF JORDAN INTERNATIONAL INSURANCE

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ABSTRACT:

The balanced scorecard is a management system that enables organizations to clarify their vision and strategy, translate them into action and provides feedback to improve strategic performance and results. It helps management to think over the areas of strategic importance by addressing customer, business process, financial, and internal learning-growth. It provides feedback regarding internal business processes and external outcomes in order to continuously improve strategic performance and results. A Balanced

Scorecard should result in improved processes, motivated/educated employees, enhanced information systems, monitored progress, and greater customer satisfaction. Taking this into cognizance, the present research examined the impact of balanced scorecard (BSC) on the organizational performance of Jordan International Insurance with the application of simple linear regression. The analysis of data revealed that there is a significant impact of balanced scorecard on the organizational performance of Jordan International Insurance.

KEYWORDS:

Balanced Scorecard (BSC), Regression, Organization, Performance.

Section-A

INTRODUCTION AND REVIEW OF LITERATURE

INTRODUCTION

The concept of balanced scorecard (BSC) was originated by Dr. Robert Kaplan and Dr. David Norton in early 1990s. It is a management system that enables organizations to clarify their vision and strategy, translate them into action and provides feedback to improve strategic performance and results. It adds strategic non-financial performance measures with traditional financial measures to give executives a more balanced view of organizational performance. It helps business to evaluate how well they meet their objectives (Bose and Thomas, 2007). It reflects the balanced between short and long term objectives, between financial and non-financial measures, between lagging and leading indicators and between external and internal performance perspectives. BSC is a combination of financial and non-financial

measures developed to meet the shortcomings of traditional management control and performance measurement systems (Banker, Chang, and Pizzini, 2005). It helps management to think over the areas of strategic importance by addressing customer, business process, financial, and internal learning-growth. It provides feedback regarding internal business processes and external outcomes in order to continuously improve strategic performance and results (Mooraj, Oyon, and Hostettler, 1999).

The BSC is a performance measurement system using a multi-dimensional scorecard to translate strategy into financial and non-financial performance measures. BSC is a valuation methodology that converts an organization's value drive such as customers, services, financial performance, operational efficiency and innovation to a series of defined metrics, and records. BSC is a new management concept which helps managers at all levels to monitor results in their key areas (Johanson, Skoog, Backlund, and Almqvist, 2006). It monitors current performance and tries to gather information about how well the organization is positioned to perform better in future. It is considered as a device to guide formulation, implementation and communication. Companies can easily identify factors hindering company performance and outline strategic changes tracked by future scorecards.

A company utilizes the balanced scorecard to develop strategic initiatives and strategy objectives. Implementing the Balanced Scorecard system in a company is a key to the successful realization of the strategic plan/vision. A Balanced Scorecard should result in improved processes, motivated/educated employees, enhanced information systems, monitored progress, greater customer satisfaction, and increased financial usage (Thomas, Gable, and Dickinson, 1999). It also helps in tracking the performance and evaluation. The balanced scorecard is used to reinforce good behaviors in an organization by isolating four separate areas namely learning and growth, business processes, customers, and finance. The balanced scorecard is used to attain objectives, measurements, initiatives and goals that result from these four primary functions of a business (Olson and Slater, 2002). It is a strategic planning and management system that is used in business and industry, government, and non-profit organizations in the world to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. The present research highlighted the impact of balanced scorecard (BSC) on the organizational performance of Jordan International Insurance. The study measures the impact of all four perspectives of BSC namely customer perspective, internal business perspective, learning-growth perspective, and financial perspective, on organizational performance separately.

REVIEW OF LITERATURE

Robert Kaplan & David Norton (1992) in their article entitled, *"The Balanced Scorecard Measures That Drive Performance"* found that traditional financial performance measurement tools worked well for the industrial era but insufficient in measuring the abilities and competencies essential for survival in changing economic environment. The Balanced scorecard identifies the influence of non-financial factors upon strategic success and present advantages over historical performance measures. It is a set of measures that offers top managers a fast but comprehensive view of the business. Farooq, A. & Hussain, Z. (2011) in their research paper entitled, *"Balanced Scorecard Perspective On Change And Performance: A Study Of Selected Indian Companies"* investigated the relationship between balance scorecard, change and organizational performance. The results of the study showed that Indian organizations have incorporated the dimensions of BSC as a performance measurement tools and use it to create change and improve performance. There is not much difference in the use of BSC between public and private sector as well as service and manufacturing organizations. Results suggested that private and public sector organizations differ on the dimension of technological change while service and manufacturing organizations differ on financial perspective. BSC, change and performance are highly correlated to each other thus substantiating

the argument that performance is affected by BSC and change. *Ombuna, D. S., et.al (2013)* in the study titled, “*Impact of Balanced Scorecard Usage on the Performance of Commercial Banks*” examined the impact of balance scorecard usage on the performance of commercial banks in Nakuru District, Kenya. Convenient sampling was applied to select 72 respondents from 18 operations managers, 18 human resource managers, 18 branch managers and 18 customer service managers. Pearson’s correlation was utilized to test the relationship between variables. The study highlighted that the effectiveness of BSC usage lies on the organizations dynamics, execution, monitoring and evaluation procedures. It has been revealed that BSC usage has a positive impact on the performance of commercial banks. It enables organizations to clarify their vision and strategy and translate them into action. BSC provides feedback on the internal processes and external outcomes in order to continuously improve strategic performance and results. The effectiveness of BSC usage lies on organizations dynamics, the manner of execution and monitoring and evaluation procedures adopted. The research recommended that for banks to become more competitive and satisfy the needs of customers they need to develop products and services that have competitive advantage.

Section-B

RESEARCH METHODOLOGY

OBJECTIVES OF THE STUDY

1. To explicate the concept of balanced scorecard in brief.
2. To examine the impact of balanced scorecard (BSC) on the organizational performance of Jordan International Insurance.

HYPOTHESES OF THE STUDY

Ho1: Customer perspective has no significant impact on organizational performance.

Ha1: Customer perspective has a significant impact on organizational performance.

Ho2: Internal business process perspective has no significant impact on organizational performance.

Ha2: Internal business process perspective has a significant impact on organizational performance.

Ho3: Learning & growth perspective has no significant impact on organizational performance.

Ha3: Learning & growth perspective has a significant impact on organizational performance.

Ho4: Financial perspective has no significant impact on organizational performance.

Ha4: Financial perspective has a significant impact on organizational performance.

RESEARCH METHODOLOGY

Sources of Data

The research is based on both primary and secondary data. However, major emphasis is laid on primary data which is collected with the help of questionnaire from 175 respondents of Jordan International Insurance. Secondary data is collected from websites, journals, periodicals, magazines, and reports.

Method of Data Collection

A well structured questionnaire designed on a five point Likert Scale was prepared by the researcher and used for collecting data. The period of data collection is six months i.e. from July, 2016 to October, 2016.

Sampling Method and Sample Size

Simple random sampling is followed in the study. A total of 300 questionnaires were distributed to the executive cadre employees of Jordan International Insurance wherein 125 questionnaires were rejected

due to error and 175 have been finally selected for analysis. Hence, 175 is the sample size of the study.

Statistical tool

Simple linear regression has been applied as the statistical tool to test the hypotheses.

**Section-C
HYPOTHESIS TESTING**

Hypothesis 1

Ho1: Customer perspective has no significant impact on organizational performance.

Ha1: Customer perspective has a significant impact on organizational performance.

Simple linear regression has been applied as the statistical tool to measure the impact of customer perspective on organizational performance. The null hypothesis is that there is no significant impact of customer perspective on organizational performance and the alternative hypothesis states that there is a significant impact of customer perspective on organizational performance.

Table 1: Regression Analysis of Customer perspective and Organizational performance

Model	R	R Square	Adjusted R Square	Standard Error
1	0.935	0.928	0.911	2.4518

Predictors: (Constant), Customer perspective

Table 1 shows the linear regression analysis of customer perspective and organizational performance. The adjusted R square shows the amount of variation in one variable (organizational performance) that is accounted by another variable (customer perspective). The above table shows the value of adjusted R square is 0.911. It means 91.1 percent variation in organizational performance is explained by the customer perspective and the rest of the variation (1-R²) is an unexplained variation in organizational performance due to variables that has not been considered in this model.

Table 2: ANOVA of Customer Perspective and Organizational performance

Model-1	Sum of Squares	df	Mean Square	F	Sig.
Regression	817.876	3	272.666	36.570	0.004 ^a
Residual	1274.192	171	7.456		
Total	2092.068	174			

a. Predictors: (Constant), Customer perspective

b. Dependent Variable: Organizational performance

Table 2 shows the model significance. The overall model is significant because the significant value is 0.004 (P<0.05). Hence, the model construct is validated.

Table 3: Coefficients of Customer Perspective and Organizational Performance

Model-1	Unstandardized Coefficients	Standard Error	t value	Significant Value
Constant	3.417	2.964	34.621	0.745
Customer Perspective	0.722	2.336	18.735	0.000

a. Dependent Variable: Organizational performance

Table 3 shows the values of unstandardized beta coefficients, standard error, significant value, and t value. An unstandardized beta coefficient gives a measure of contribution of each variable to the model. A larger value indicates that a unit change in the predictor variable has a larger impact on the criterion variable. The value of unstandardized beta coefficient is 0.722 which is an indication of positive impact of customer perspective on organizational performance. This impact is strong and statistically significant as the significant value is 0.000 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis is rejected and it can be said that there is a significant impact of customer perspective on organizational performance.

Hypothesis 2

Ho2: Internal business process perspective has no significant impact on organizational performance.

Ha2: Internal business process perspective has a significant impact on organizational performance.

Simple linear regression has been applied as the statistical tool to measure the impact of internal business process perspective on organizational performance. The null hypothesis is that there is no significant impact of internal business process perspective on organizational performance and the alternative hypothesis states that there is a significant impact of internal business process perspective on organizational performance.

Table 4: Regression Analysis of Internal Business Process Perspective and Organizational Performance

Model	R	R Square	Adjusted R Square	Standard Error
2	0.869 ^a	0.803	0.797	2.72775

Predictors: (Constant), Internal business Process Perspective

Table 4 shows the linear regression analysis of internal business process perspective and organizational performance. The adjusted R square shows the amount of variation in one variable (organizational performance) that is accounted by another variable (internal business process perspective). The above table shows the value of adjusted R square is 0.797. It means 79.7 percent variation in organizational performance is explained by the internal business process perspective and the rest of the variation (1-R²) is an unexplained variation in organizational performance due to variables that has not been considered in this model.

Table 5: ANOVA

Model-2	Sum of Squares	df	Mean Square	F	Sig.
Regression	323.949	3	107.983	15.432	0.006
Residual	1196.573	171	6.997		
Total	1520.522	174			

a. Predictors: (Constant), Internal Business Process Perspective

b. Dependent Variable: Organizational Performance

Table 5 shows the model significance. The overall model is significant because the significant value is 0.006 (P<0.05). Hence, the model construct is validated.

Table 6: Coefficients of Internal Business Process Perspective and Organizational Performance

Model-2	Unstandardized Coefficients	Standard Error	t value	Significant Value
Constant	4.654	2.118	51.844	0.668
Internal Business Process Perspective	0.551	2.027	-5.632	0.001

a. Dependent Variable: Organizational Performance

Table 6 shows the values of unstandardized beta coefficients, standard error, significant value, and t value. An unstandardized beta coefficient gives a measure of contribution of each variable to the model. A larger value indicates that a unit change in the predictor variable has a larger impact on the criterion variable. The results show that the value of unstandardized beta coefficients is 0.551 which is an indication of positive impact of internal business process perspective on organizational performance. Nevertheless, this impact is strong and statistically significant as the value significant value is 0.001 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis is rejected and it can be said that there is a significant impact of internal business process perspective on organizational performance.

Hypothesis 3

Ho3: Learning & growth perspective has no significant impact on organizational performance.

Ha3: Learning & growth perspective has a significant impact on organizational performance.

Simple linear regression has been applied as the statistical tool to measure the impact of learning & growth perspective on organizational performance. The null hypothesis is that there is no significant impact of learning & growth perspective on organizational performance and the alternative hypothesis states that there is a significant impact of learning & growth perspective on organizational performance.

Table 7: Regression Analysis of Learning & Growth Perspective and Organizational Performance

Model	R	R Square	Adjusted R Square	Standard Error
3	0.854 ^a	0.794	0.775	2.05431

Predictors: (Constant), Learning & Growth Perspective

Table 7 shows the linear regression analysis of learning & growth perspective and organizational performance. The adjusted R square shows the amount of variation in one variable (organizational performance) that is accounted by another variable (learning & growth perspective). The above table shows the value of adjusted R square is 0.775. It means 77.5 percent variation in organizational performance is explained by the learning & growth perspective and the rest of the variation (1-R²) is an unexplained variation in organizational performance due to variables that has not been considered in this model.

Table 8: ANOVA

Model-3	Sum of Squares	df	Mean Square	F	Sig.
Regression	477.160	3	159.053	23.956	0.005
Residual	1135.088	171	6.637		
Total	1612.248	174			

a. Predictors: (Constant), Learning & Growth Perspective

b. Dependent Variable: Organizational Performance

Table 8 shows the model significance. The overall model is significant because the significant value is

0.005 (P<0.05). Hence, the model construct is validated.

Table 9: Coefficients of Learning & Growth perspective & Organizational Performance

Model-3	Unstandardized Coefficients	Standard Error	t value	Significant Value
Constant	3.308	2.521	15.225	0.754
Learning & growth Perspective	0.601	1.995	-2.207	0.000

a. Dependent Variable: Organizational performance

Table 9 shows the values of unstandardized beta coefficients, standard error, significant value, and t value. An unstandardized beta coefficient gives a measure of contribution of each variable to the model. A larger value indicates that a unit change in the predictor variable has a larger impact on the criterion variable. The value of unstandardized beta coefficients is 0.601 which is an indication of positive impact of learning & growth perspective on organizational performance. Nevertheless, this impact is strong and statistically significant because significant value is 0.000 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis is rejected and it can be said that there is a significant impact of learning & growth perspective on organizational performance.

Hypothesis 4

Ho4: Financial perspective has no significant impact on organizational performance.

Ha4: Financial perspective has a significant impact on organizational performance.

Simple linear regression has been applied as the statistical tool to measure the impact of financial perspective on organizational performance. The null hypothesis is that there is no significant impact of financial perspective on organizational performance and the alternative hypothesis states that there is a significant impact of financial perspective on organizational performance.

Table 10: Regression Analysis of Financial Perspective and Organizational Performance

Model	R	R Square	Adjusted R Square	Standard Error
4	0.907	0.855	0.836	2.1574

Predictors: (Constant), Financial Perspective

Table 10 shows the linear regression analysis of financial perspective and organizational performance. The adjusted R square shows the amount of variation in one variable (organizational performance) that is accounted by another variable (financial perspective). The above table shows the value of adjusted R square is 0.836. It means 83.6 percent variation in organizational performance is explained by the financial perspective and the rest of the variation (1-R²) is an unexplained variation in organizational performance due to variables that has not been considered in this model.

Table 11: ANOVA of Financial Perspective and Organizational Performance

Model-4	Sum of Squares	df	Mean Square	F	Sig.
Regression	597.430	3	199.333	10.912	0.000
Residual	3123.637	171	18.266		
Total	3721.067	174			

a. Predictors: (Constant), Financial Perspective

b. Dependent Variable: Organizational Performance

Table 11 shows the model significance. The overall model is significant because the significant value is 0.000 ($P < 0.05$). Hence, the model construct is validated.

Table 12: Coefficients of Financial Perspective and Organizational Performance

Model-4	Unstandardized Coefficients	Standard Error	t value	Significant Value
Constant	3.609	3.258	39.887	0.447
Financial Perspective	0.445	3.246	11.664	0.009

a. Dependent Variable: Organizational Performance

Table 12 shows the values of unstandardized beta coefficients, standard error, significant value, and t value. An unstandardized beta coefficient gives a measure of contribution of each variable to the model. A larger value indicates that a unit change in the predictor variable has a larger impact on the criterion variable. The results show that the value of unstandardized beta coefficients is 0.445 which is an indication of positive impact of financial perspective on organizational performance. Besides, this impact is statistically significant and strong as the significant value is 0.009 which is less than 0.05 at 95 percent confidence interval. Therefore, the null hypothesis is rejected and it can be said that there is a significant impact of financial perspective on organizational performance.

Table 13: Summary of Hypothesis Tested

No	Hypotheses	Beta	P Value	Results
1	Customer perspective has no significant impact on organizational performance.	0.722	0.000	Rejected
2	Internal business process perspective has no significant impact on organizational performance.	0.551	0.000	Rejected
3	Learning and Growth perspective has no significant impact on organizational performance.	0.601	0.000	Rejected
4	Financial perspective has no significant impact on organizational performance.	0.445	0.009	Rejected

Source: Based on hypotheses tested

CONCLUSION

The balanced scorecard (BSC) is a management system that enables organizations to evaluate how well they meet their objectives. It reflects the balanced between short and long term objectives, between financial and non-financial measures, between lagging and leading indicators and between external and internal performance perspectives. It helps management to think over the areas of strategic importance by addressing customer, business process, financial, and internal learning-growth. It provides feedback regarding internal business processes and external outcomes in order to continuously improve strategic performance and results. The objective of the current study is to examine the impact of balanced scorecard (BSC) on the organizational performance of Jordan International Insurance. The research is based on both primary and secondary data. However, major emphasis is laid on primary data which is collected from 175 respondents of Jordan International Insurance with the help of a questionnaire designed on five point Likert

Scale. Simple linear regression has been applied as the statistical tool to test the hypotheses. The first null hypothesis is rejected which means that there is a significant impact of customer perspective on organizational performance. The second null hypothesis has also rejected which means that there is a significant impact of financial perspective on organizational performance. Besides, third and fourth null hypotheses have also rejected which means that there is a significant impact of learning and growth perspective, and financial perspective on organizational performance. To conclude, it can be said that balanced scorecard has a significant impact on the organizational performance of Jordan International Insurance.

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