Leveraging on a Balanced Scorecard to Enhance Financial Perspective of an Organization

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Abstract—The main objective of this paper is to discuss how organizations may leverage on the balanced scorecard to improve its financial perspective. The study provides a framework that assessed six factors influencing the use of the balanced scorecard to enhance the financial perspective of an organization. The factors were arranged in themes and were then empirically tested to determine their influence in improving an organization’s business value. Results demonstrated that value creation strategies are paramount in improving organization’s financial perspective. This study contributes to the literature of balanced scorecard and financial management of an organization. The developed framework is expected to be used by organizations in their day to day execution of activities for the wellness of their business.

Index Terms—Balanced scorecard, financial management, business strategies

I. INTRODUCTION

The increasing global changes in business and the need for identification and differentiation have propelled many organizations to change their business strategies. Worldwide organizations are devising means and standards to keep them abreast of their competitors. Organizations are currently operating in a challenging environment that was never before. The advent of the internet and the ubiquitous of technology have stirred a dramatic increase in the capabilities of organization’s current operational environment. Each organization is employing better means for survival by making its services distinct to its competitors. Each organization is employing better means for survival by making its services distinct to excel in its domain industry by attracting and retaining its customers. This competitive trend has seen many organizations, institutions of higher learning inclusive merging with others to increase their market share.

On the institutions of higher learning side, these dramatic changes have presented numerous unanticipated challenges. Such challenges like; complexities in managing students’ data, duplication, inconsistencies, change in strategic plans and increased staff workload that has caused poor service delivery. As a result, institutions are struggling to retain their stakeholders and attract new ones. This on the other hand, has impacted negatively on their financial collections as many students doubt the future of such institutions and fail to pay their tuition. Similarly, lecturers who would have been involved in commercialized research to attract subsidy generated funding to boost the institution’s financial position also migrate in search for stable employment.

Hence, this calls for systematic control, evaluation and measure of financial aspects in respect of the vision and objectives of these institutions. This will help in achieving complacency to respond to current pressure from stakeholders and the business environment.

This paper therefore proposes the use of balanced scorecard (BSC) strategy to develop a framework to be used to enhance the financial perspective of an organization. The study is informed by a case study of Tshwane University of Technology (TUT) South Africa. The paper contributes to the literature of mitigation of financial perspective of organizations. Also the developed financial framework is expected to be used not only by TUT but also by other institutions to improve their service delivery. Such effective usage will lead to business excellence so as to attract and retain stakeholders.

II. RELATED WORK

Universities worldwide have been traditionally known for teaching and research. Their successes have been entirely dependent on the lecturers’ ability perform efficiently. However, in today’s global competition universities are expected to contribute to the development of their nations and at the same time produce high caliber students that are compatible with business needs [1]. This implies that, quality services provision is no longer tagged to students only, but to the whole market spectrum. It is through the provision of quality that universities will achieve excellence. As also noted by [2], service delivery is paramount for customers’ retention. Customers’ perception of an organization as incompetent or providing less admirable services is tantamount to drive the away and switch to other organization. Researchers [2], [3] indicated that, stakeholders are essential for organization’s success and a lax in one stakeholder’s role may negatively impact on the other. Hence, the need to to observe and maintain a good relationship with an organization’s stakeholders has been considered as a major source of financial success. In their study researchers [4] established that, even in organizations like universities where annual subsidies are provided the ratio of the finances obtained from the customers outweigh the subsidies. Therefore, better planning and strategies need to be employed to achieve the financial goal. This implies that if organizations leverage on BSC they could achieve this objective with minimum effort.

The balanced scorecard (BSC) is an analytical framework used for strategic planning and management within an organization. It ensures congruency between business activities and the organization’s objectives, vision and strategic goals [5], [4]. It serves as a lens through which...
organization’s administrators get a balanced view of their organization’s performance by evaluating the strategic non-financial performance with the traditional financial metrics. Researchers [3] noted that, BSC helps in realizing organization’s internal business process, learning and growth. By so doing organizations will be putting in place instruments for that could work for checks and balances so as to improve its performance. Using BSCs, organization’s managers could easily identify what is needed to be done, how? And what measures to use in quantifying the output. These were identified by [5] as; customers, suppliers, employees, processes, technology, and innovation. They further asserted that, BSC could serve as a holistic view for ensuring that all business dimensions are catered for and that financial success is guaranteed.

A. Organizational Financial Measurement Indicators

Many organizations worldwide are still using the traditional financial measurement systems. In South Africa for example, it is a requirement for organizations to register with the institute of directors in Southern Africa (IoDSA). Their membership with IoDSA obliges them to work according to the set rules and standards. Such rules like; preparing financial reports that put into consideration the interest of the external stakeholders; to have financial reporting system that integrates local communities and the environment; align their financial reporting with the triple bottom line reporting and to follow systematic accounting principles when preparing their financial statements [6]. Being a statutory requirement, organizations use these financial indicators as a measure for their performance. Mostly performance is said to be achieved if financial achievement has been made by a given entity. However, much as this is aimed to achieve higher financial gains it creates a negative perception on the employees whose work is ever tagged with financial performance. Such pressure also leads to window dressing of financial information as managers and their subordinates strive to portray a good financial standing of an organization. This unfaithfulness and pressure from business competitors leads many organizations in business financial disgrace and in the ends defeats the cause.

As researchers [7] noted, it is paramount for an organization to measure the overall economic value added (EVA) including the financial and non-financial indicators. When this is done organization will then achieve a respectable revenue growth and profitability. Further still these financial indicators may be constrained in some aspects that may include but not limited to; predicting the future performance of an organization, failing to explaining the long term approaches, transformation of economies, integrate contemporary business systems and distortion of product costing [5]. Basing on this background this study suggested six hypotheses to test the influence of six parameters to the financial perspective of an organization. These hypotheses are;

H1: Improving the cooperate relationship and culture between the organization and stakeholders will positively improve the financial perspective

H2: Strong emphasis on stakeholders has a positive influence on the financial perspective of an organization

H3: Improving the internal business processes and practices of an organization will positively improve the financial perspective

H4: Intellectual capital of an organization positively influences the financial perspective

H5: Maximizing value creation within an organization has a positive influence on financial perspective

H6: Appropriate allocation of organization value to different stakeholders basing on equitable and ethical aspects improves the financial perspective of an organization

Hypothesis (H1) assessed cooperate relationship and culture existing between the institution and its stakeholders. Organization culture in this instance related to the institutional values, norms and philosophies possessed by the people in the finance and accounting department. On the other hand, hypothesis (H2) reflected the stakeholders as perceived by the institution. In this regards stakeholders were treated as all of those individuals with vested interest within the institution’s day to day operation. Hypothesis (H3) assessed the internal operations and practices of the institution. These included all issues to do with the finances, effective and efficient service delivery, and organization ethics. Hypothesis (H4) examined the intellectual capital of the individuals working within the institution. This examined the collective intellect and how it influences service delivery which is a key to financial gains. Hypothesis (H5) assessed those factors that are considered essential for maximization of the institution’s revenue. Lastly hypothesis (H6) measured the distribution of the institutional resources based on the organizational value [8].

III. METHODOLOGY

The six hypotheses made the themes of the study, and basing on these themes a measuring instrument was constructed A close-ended questionnaire based on a five point Likert scale with 1 = strongly disagree, 5 = strongly agree, 3 = neutral, 2 and 4 represented intermediate values was used. The questionnaire was divided into two sections with the first section measuring general organizational information and section two the organizational scorecard. The themes formed the constructs and each theme’s indicators formed the items of the questionnaire. The questionnaire was administered to the finance and accounting department of TUT by using judgmental sampling. 50 questionnaires were distributed and out of these 38 were returned giving a response rate of 76%. Of the returned questionnaires, 34 were usable and those with incomplete data were discarded. The questionnaire constructs and items were coded in relation to the theme’s purpose. Theme 1 constructs were coded as RC and its items were coded as RC1 ---RC6, theme 2 was coded as SF and its items as SF1 ---SF5, theme 3 coded as IBP and its items as IBP1 ---IBP4, theme 4 as IC and its items as IC1 ---IC4, theme 5 as VC and its items VC1--VC3 and theme 5 coded as OV while its items were coded as OV1--OV5. The questionnaire was transcribed into SPSS v19.0 for analysis.

Being that the hypotheses were drawn from secondary data obtained from the literature the validity of the
questionnaire was presumed to be strong [9]. However, the reliability was measure using Cronbach’s Alpha (α). The overall reliability of the questionnaire was 0.821 which value was greater than the recommend threshold of 0.7 [10]. The reliability of the individual constructs was within the acceptable range apart from that of IC that measured 0.634. This construct was however used for further analysis with an assumption that its lower reliability might have been a result of using a small population.

IV. RESULTS

The first section of the questionnaire evaluated the general information of the organization in regard to the financial issues. Question one asked the respondents whether they are familiar with the term balance scorecard. 53% (18) of the respondents answered affirmatively though 73% (25) indicated that they were not aware whether there is any BSC model being used at the institution. A good number of respondents (91.2%) showed good knowledge of the institution’s stakeholders and an overwhelming majority 97.1% (33) agreed that these stakeholders play a crucial role in the institution’s financial perspectives. The second section of the questionnaire assessed the institution’s scorecard and results were analyzed using Pearson correlation together with multiple regression analysis. Pearson was opted for to determine the linear dependency between the constructs and their deliverables in the set hypotheses. Table I demonstrates the extract of the correlation results. Results indicate that H1 to H5 at p< 0.01 were supported with maximizing the value creation having the highest correlation whereas H6 was not supported.

On the other hand multiple regression analysis was used to explain the influence of the response and the explanatory variables while controlling others. However, much as the predicting variables are referred to as independent, they are not statistically independent from individual others. Therefore it is essential to carryout multicolinearity diagnostics by using the variance inflation factor (VIF) [11]. The extract of the results are as illustrated in Table II below.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Correlation</th>
<th>p-value</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Improving the cooperate relationship and culture between the organization and stakeholders will positively improve the financial perspective of the organization</td>
<td>0.798**</td>
<td>0.004</td>
<td>Supported</td>
</tr>
<tr>
<td>H2: Strong emphasis on stakeholders has a positive influence on the financial perspective of an organization</td>
<td>0.765**</td>
<td>0.007</td>
<td>Supported</td>
</tr>
<tr>
<td>H3: Improving the internal business processes and practices of an organization will positively improve the financial perspective</td>
<td>0.846**</td>
<td>0.001</td>
<td>Supported</td>
</tr>
<tr>
<td>H4: Intellectual capital of an organization positively influences the financial perspective</td>
<td>0.761**</td>
<td>0.003</td>
<td>Supported</td>
</tr>
<tr>
<td>H5: Maximizing value creation within an organization has a positive influence on financial perspective</td>
<td>0.871**</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H6: Appropriate allocation of organization value to different stakeholders basing on equitable and ethical aspects improves the financial perspective of an organization</td>
<td>0.601*</td>
<td>0.014</td>
<td>Not Supported</td>
</tr>
</tbody>
</table>

**p < 0.01  *p < 0.05

Results of table indicate that value creation within an organization has a strong influence on financial perspective. This implies that institutions need to pay attention on those issues that could influence internal operations in order to enhance financial gains. This factor explains 77.8% of the enhancement of the institution’s financial perspectives. Therefore it calls maximum attentions. On the other hand, results show that managing internal business process and practice is key strategic issue whereas allocation of organization value fared poorly all throughout.

V. CONCLUSION AND RECOMMENDATIONS

This research discussed leverage on a balanced scorecard strategy to address issues that are needed to enhance the financial perspective of an organization. The framework suggested in this study, examined six factors that were presumed essential for the improvement of a financial perspective of an organization. The study established that organizations put emphasis on strategies that might maximize their organizational value. By doing so, organizations will improve their financial gains and remain competitive in the current challenging business environment. This study is expected to contribute to the literature of formal approach needed to improve the financial image of an organization. Practically, the empirical guidelines suggested could be used by managers to improve their organizations revenues, retain and attract stakeholders and
maintain a higher market share. The study was limited by the small population that was used for data collection. Therefore the authors suggest that further study should involve wider population from different background and national contexts.

REFERENCES


