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Universidad del Zulia
Facultad Experimental de Ciencias
Departamento de Ciencias Humanas
Maracaibo - Venezuela

Balanced scorecard: Of utility or futility in the financial and production sector

Jasim Idan Barrak¹

¹Department of Accounting, college of Administration & Economic,
University of Kerbala, Iraq
jasim.i@uokerbala.edu.iq

Mushtaq Talib Abdulameer²

²Department of Accounting, college of Administration & Economic,
University of Kerbala, Iraq
mushtaq.t@uokerbala.edu.iq

Azher Subhi Abdulhussein³

³Department of Accounting, college of Administration & Economic,
University of Kerbala, Iraq
azher.s.aljeboori@uokerbala.edu.iq

Abstract

This study aims to understand the applicability of balanced scorecard systems in two UAE-based firms, Al Masraf Bank and Alba Gold Manufacturing LLC, relating to its relevance on their performance management. The research follows a positivist philosophy with a focus on quantitative data. As such, the method utilizes a mono-method of quantitative nature for its primary data collection. As a result, the complexity, time consuming and expensive nature of the approach makes it inefficient for Alba Gold Manufacturing. The study concludes that it is pertinent to incorporate balanced scorecard for the Islamic financing firm.

Keywords: Balanced, Scorecard, Utility, Futility, Financial.

Cuadro de mando integral: de utilidad o futilidad en el sector financiero y productivo

Resumen

El objetivo de este estudio es comprender la aplicabilidad de los sistemas de cuadro de mando integral en dos firmas de los EAU, Al Masraf Bank y Alba Gold Manufacturing LLC, en relación con su

relevancia en la gestión del rendimiento. La investigación sigue una filosofía positivista con un enfoque en datos cuantitativos. Como tal, el método utiliza un mono-método de naturaleza cuantitativa para su recopilación de datos primarios. Como resultado, la complejidad, el tiempo y la naturaleza costosa del enfoque hacen que sea ineficiente para Alba Gold Manufacturing. El estudio concluye que es pertinente incorporar un cuadro de mando integral para la firma de financiación islámica.

Palabras clave: Balanced, Scorecard, Utility, Futility, Financial.

1. INTRODUCTION

The development of the business environment has led to a more progressive form of doing business wherein the traditional means of assessing the performance of an entity is no longer limited to its financial health. Since most managerial accountancy is still focused on the quantitative aspect of financial ratios in this regard the balanced scorecard perspective as proposed by Kaplan and Norton (1996) has become one of the crucial methods of determining the non-financial aspects as the underlying implicates of accountancy for managers in the current environment.

The balanced scorecard method identifies three distinct factors other than the financial ones; namely the customers, internal business process and the learning and growth aspects, to determine the health and future financial implication to the company's performance. There has been a surge of literature regarding the usefulness of this tool pertaining to the need for an in-depth understanding of the financial

health in the current business environment. This study incorporates this understanding perspective and compares it with two institutions which will look into two distinct markets with varying labor skills; namely the Islamic banking sector and the manufacturing sector, and determine if it is equally applicable across the board or is useful only under specific circumstances.

2. RESEARCH METHODOLOGICAL FRAMEWORK

2.1. Research Problem

The problem identified by the research comes on the heels of the acceptance of the usefulness of the balanced scorecard method in the current market scenario. With the markets evolving from the primitive labor-intensive ones to a knowledge-based one, higher skilled labor is being employed in most industries. However, there are still entities employing the traditional form of low skill labor-intensive manufacturing operations being conducted with the mechanistic approach to their operations. The study aims to identify the utility of this progressive form of performance assessment in both knowledge-based and traditional marketplaces.

2.2. Research Significance

The research has a high degree of implication in the current business world. Like many types of research show, the theoretical and

practical applicability of a certain theology can differ greatly under varying circumstances. The understanding that situational differentiation constricts applicability of a concept, even one as highly regarded as the balanced scorecard, can prove highly significant for both the practical and academic arenas.

2.3. Research Methodology

The research follows a positivist philosophy with a focus on quantitative data. As such, the method utilizes a mono-method of quantitative nature for its primary data collection. The study will further utilize the SPSS software to ascertain a correlation function between the respondents of one sector from the other. The study is also based on mostly pre-established theoretical models and assumptions making it a deductive study in nature. With a cross-sectional time scale, the study will only look at the specific data at the time it was collected. The method has its limitation due to the time and resource constraint and the small sample size. However, the study can present opportunities and basic academic applicability for a more in-depth and larger sample-based study on the subject matter. This study will act as the preliminary research base to incite interest in a different perspective into the practical applicability of a widely accepted model without the inference of *ceteris paribus* and conditional similarity in all sectors.

3. RESEARCH THEORETICAL FRAMEWORK

3.1. Critical Review of Balanced Scorecard System

The measure for organizational performance was limited to financial indicators in the industrial era as they represented the operations explicitly. As with the change in the business environment, the realization of insufficiency of these ratios led to needing broader evaluation criteria for performance management (Kaplan and Norton, 1996). To address the complexities of changing nature of the business, the non-financial performance indicators have been introduced. The relevance of these ratios evolved to address the causation analysis required to understand the reasons for deviation in the financial models as compared to forecasted ones.

According to Kaplan and Norton (1996), suggested that the financial indicators take the shape of an iceberg demonstrating only the visible surficial aspect of the organizational issues. The broader and crucial phenomenon that impacts financial health is generally overlooked with the specific dependency on financial indicators. It means that the underlying drivers of business were not taken into account to assess company performance. Nevertheless, the models like balance scorecard allow inculcating value driver analysis along with cost driver assessments to provide more accurate relations of issues depicted by financial statements.

This study addresses the emerging requirement of inclusion of non-financial aspects for measuring performance such as the use of balanced scorecard as the business environment evolved from Taylorism and Fordism to the Human Relations aspects for organizational operations (Dubin, 2017). The existing the financial systems have been deeply rooted in the traditional performance measurement and therefore is lagging behind to incorporate the emerging issues of the business. This gives us a space to compare, the benefits and drawbacks of, balanced scorecard with differentiated systematic functions in the present market. The balanced scorecard possesses particular benefits which have high relevance to the increasing knowledge-based markets of the present date. The method does not totally discard the financial performance, rather points out the loopholes of this traditional system for measuring performance that does not give a holistic picture.

Having said so, the balanced scorecard approach embraces the non-financial evaluation as performance indicators. The inclusion of internal business processes and customer roles along with the development of financial analysis shows the inclusiveness to represent the overall build of performance. The various departments are interconnected and assessed for overall performance using this approach creating a collaborative environment to understand the reasons for financial issues that run in each department (Davis and Albright, 2004). This leads to an understanding of issues faced by each area and potential rectification tactics to overcome the financial impact. Further, the firm is able to keep more accurate records of

performance in each department assisting in enhanced forecasting because of the assessment of both quantitative and qualitative risks involved.

The evaluation of risk factors is one of the advantageous features of a balanced scorecard approach to understanding operational efficiency. By including the external and internal risk factors, it is easier to comprise the inconsistencies and uncertainties. This enables to devise contingent measure, and estimate possible costs of alteration and covering expected a loss as a result of forecasted risks. The company is able to formulate strategies that incorporate plausible risks within operations making the current assessment of performance more accurate and defined forecasting of future performance. Moreover, the balanced scorecard shows the potential positive opportunities that the company can take advantage of and play to their strengths. The balanced scorecard also accommodates the latest human relations practices that are most relatable to the organizational performance and brand management for any firm operating in their respective industry.

The present market scenario has evolved from traditional industrial structure to giving higher leverage to managerial fields like human resources, corporate social responsibility and business ethics (Kaplan and Norton, 1996). Inculcating the factors of motivation, job satisfaction, customer satisfaction, customer relations, brand image and cultural alliances leads to an influence on the performance regarding the impacts of internal and external factors. This exhaustive view of performance management makes possible for the company to

address different determinants that influence the performance of all departments in the company.

Nevertheless, this approach has its own share of disadvantages posed because of the indigenous roots of financial systems of the industrial area which are still deeply inhabitant in the financial systems of present-day organizations. The ratios representing wealth and profitability aspects are being utilized to assess the financial performance of the companies that do not consider other departments of the business (Kaplan and Norton, 1996). Thus, drastic acceptance and change are necessary with tremendous effort to successfully implement systems like balance scorecard. The traditional organizations that still hold on to Fordism or Taylor's (2004) scientific management principles, such as manufacturers and low skilled labour markets, do not instill the diversity of practices even if they are quintessential to changing times (Dubin, 2017); and thus are aloof from balanced scorecard practices.

The limitations associated with this are that the new approach holds relevant to only large corporations operating in the highly skilled marketplace. These institutions are capable of containing labour protection policies and have financial ability to introduce and apply the structures in their culture. Hence the traditional organizations will not be able to utilize the balanced scorecard approach. Moreover, any company willing to introduce this approach for performance management has to either base their existing system into advanced

analytics or have to make distinct alternations into functional structures (Maltz et al., 2003).

Another drawback of this new approach to firms is the time and resources required for a detailed analysis of all departments within the firm. There would be additional expenses for market research to comprehend customer behaviour and industrial-scape where it operates together. Other cost avenues include research and development cost along with an internal assessment of employee satisfaction which becomes the sunk costs. This projects opportunity cost for the firm to for employee time and resources which could be diverted for profitable activities. The complexity of this approach is also a limiting factor for its wide acceptance (Pietrzak, 2017).

The practical implementation of the approach includes diversified results obtained from industry, company operations, human resources and other interior and exterior determinants of the business environment. This approach by Kaplan and Norton (1996) is a system which has multiple implications regarding the unpredictability of the marketplace. For this reason, the format requires the involvement of individuals from various disciplines beyond finance and accounting (Davis and Albright, 2004). Hence, the complexity of the approach is culminating coordinated participation and contribution from different departments which makes this process time consuming and tough to conduct in comparison to the previous system.

4. ANALYZING AND TESTING HYPOTHESES

The analysis using descriptive statistics and the subsequent Pearson correlation function for the acquired data allows the study to state that the data is a replication of the theoretical understanding. In essence, the findings of the study have a normal distribution with negligible outliers (Cohen et al., 2013). This allows the conducted correlation function to be accurate in its depictions. The study has thus found that there is a significant correlation between the two companies; with high and low skilled labour, and the inclusion of financial as well as non-financial methods of performance measurements. The study depicts the following results for the respective industries:

4.1. General Descriptive Statistics

The general descriptive statistics function in SPSS allows the data collected to assess various accounts regarding its statistical figures. This study has applied this in order to test the normality to determine whether the data is normally distributed and can qualify to be assessed through the Pearson correlation test (Cooper et al., 2006). With the test of normality table of each variable with varying degree of p-values, none with a below 0.5 significance level, the study can test the correlation between each variable.

| | | | | | | | | | | | | |
|--------|---------------------|---------|---------|--------|---------|---------|--------|--------|--------|---------|----------|---------|
| BSPM 3 | Pearson Correlation | .989* | -.761** | 1 | .982** | .982** | .797** | .989** | .970** | .989** | -.989** | .989** |
| | Sig. (2-tailed) | 0.000 | 0.000 | | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| | N | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| BSPM 4 | Pearson Correlation | .992* | -.750** | .982** | 1 | 1.000** | .848** | .992** | .977** | .992** | -.992** | .992** |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| | N | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| BSPM 5 | Pearson Correlation | .992* | -.750** | .982** | 1.000** | 1 | .848** | .992** | .977** | .992** | -.992** | .992** |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | 0.000 | | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| | N | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| BSPM 6 | Pearson Correlation | .802* | -.831** | .797** | .848** | .848** | 1 | .802** | .806** | .802** | -.802** | .802** |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| | N | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| BSPM 7 | Pearson Correlation | 1.000** | -.764** | .989** | .992** | .992** | .802** | 1 | .985** | 1.000** | -1.000** | 1.000** |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | | 0.000 | 0.000 | 0.000 | 0.000 |
| | N | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| BSPM 8 | Pearson Correlation | .985* | -.779** | .970** | .977** | .977** | .806** | .985** | 1 | .985** | -.985** | .985** |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | | 0.000 | 0.000 | 0.000 |

| | | | | | | | | | | | | |
|--------|---------------------|----------|---------|---------|---------|---------|---------|----------|---------|----------|----------|----------|
| | N | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| BSPM 9 | Pearson Correlation | 1.000** | -.764** | .989** | .992** | .992** | .802** | 1.000** | .985** | 1 | -.1000** | 1.000** |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | | 0.000 | 0.000 |
| | N | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| CQ1 | Pearson Correlation | -.1000** | .764** | -.989** | -.992** | -.992** | -.802** | -.1000** | -.985** | -.1000** | 1 | -.1000** |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | | 0.000 |
| | N | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| CQ2 | Pearson Correlation | 1.000** | -.764** | .989** | .992** | .992** | .802** | 1.000** | .985** | 1.000** | -.1000** | 1 |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | |
| | N | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |

6. CONCLUSION

The chapter can, therefore, conclude by inferring that since one of the two industries did not utilize the balanced scorecard method to evaluate its performance, stating that the cost and resource deviation would not be feasible, the third null hypothesis can also be rejected. The study compares two companies which have a distinction between the skills of employees involved. The Al Masraf Bank employs a

workforce with high skills while Alba Golf Manufacturing LLC employs low skilled workers.

The idiosyncratic nature of these organizations poses distinct results on the implementation of a balanced scorecard approach. It is concluded that the approach is compatible with higher skilled labour market of Islamic financing sector. This sector requires addressing the human relations for their efficient coordination which is the core concept of the balanced scorecard method. The human relations progressive analysis is necessary for maintaining motivation among employees and retains them for sustainable growth (Dubin, 2017). Meanwhile, for Alba Gold Manufacturing LLC, the approach is not suitable since the laborers are low skilled while they require very less involvement in managerial decisions.

7. RECOMMENDATION

The study has limited its results on two specific organizations with 30 participants in the survey. The sample size is not significant to support the generalized acceptability of its results. For more comprehensive results and implications, further research needs to be carried out with a higher number of organizations in different fields with a greater number of participants. Nevertheless, the use of balanced scorecard approach, relating to the literature review and this report, is justifiable for addressing the needs of high skilled labor industries as they require coordination of their diverse departments for

accurate financial performance evaluation and forecasts. In the case of traditional and labour intensive firms, this approach is not applicable because of its complexity and expensive nature (Pietrzak, 2017). Applying balance scorecard to these firms will rather reduce their efficiency and profitability with no significant advantage in improving performance (Norreklit, 2000; Hasibuan et al., 2019).

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