Balanced Scorecard Practices of Medium and Large Enterprises in the Province of Pampanga

Ma. Cristina G. Naguit, DBA

GS Alumna, Polytechnic University of the Philippines
Assistant Professor, Holy Angel University
mcnaguit@hau.edu.ph

Abstract: An important tool that links the performance measures to a company's strategy is called Balanced scorecard (BSC). Prior researches had provided theoretical insights and practical examples on the adoption of BSC, mostly in the US and very limited empirical studies were made outside of it and none in the Philippines as of to date. This study described the BSC practices of medium and large enterprises in Pampanga using the four BSC perspectives of Kaplan and Norton – customer, internal business, innovation and learning and financial perspectives. It further determined similarities and differences among the profile categories: form of business organization, category of enterprise, number of years of operation, number of employees and industry or nature of business. BSC practices were determined using a five-point Likert scale survey form, which was distributed to 529 managers, owners or key officers of the 178 medium and large enterprises in Pampanga. The micro and small enterprises were excluded in the study for the absence of structure needed to carry out the BSC. Key findings of the study indicated high adoption of BSC mostly in large enterprises with more than 20 years of existence and with more than 200 employees or the *Full adopters* of BSC. And that medium-sized enterprises, with less than 5 years of existence and with less than 100 employees had much to improve in their BSC practices, since these were the categories with the lowest adoption and they were termed *Early adopters* of BSC. Recommendations how to effectively carry out and improve the practices were formulated for early and full adopters of BSC.

Key Words: Balanced scorecard; performance measurement; TQM technique; Medium and large enterprises

1. INTRODUCTION

Performance measurement links the planning and control functions in an enterprise's strategic planning process, from the formulation of a vision to the development of strategies and measures to guide performance. One of the widely used performance evaluation tool is Balanced Scorecard (BSC) developed by Kaplan and Norton in the early 1990s. Previous researches of its use were evident in large companies in developed countries such as in the United States (Shojaei, Seyed, & Mottaghi, 2013; Anand, Sahay & Saha, 2005; Giannopoulos, Holt, Khansalar & Cleanthous, 2013; Papalexandris, Loannou & Prastacos, 2004; Ibrahim, 2015; Soderberg, 2011; Chavan, 2007). But there were a handful of researches that presented BSC practices in small companies (Giannopoulos, Holt, Khansalar & Cleanthous, 2013; Andersen, Cobbold & Lawrie, 2009; Phillips and Louvieris, 2005). Results in these studies showed low to a non-adoption of BSC among small companies due to lack of awareness, resources and structure to implement the BSC.

The balanced scorecard, popularly known as BSC, is a "set of performance measures that are aligned to the organization's strategy" (Evans & Lindsay, 2014, p.599). The goal is to translate the strategies into measures to communicate the company vision to the entire organization. It has four perspectives: financial, internal, customer and innovation and learning (Nair, 2004). Customer perspective refers to the formulation of specific measures that are of importance to customers, and are aligned to the company's mission statement on customer service. Internal business perspective refers to the internal decisions and processes that are aimed to provide customer value. Innovation and learning perspective refers to the strategies and measures how companies innovate products and processes in order to catch up with the intense global competition. Lastly, financial perspective refers to the measures how strategy, implementation and execution would contribute to profitability, growth and shareholders' value.

Nadurata (2002) stated that these performance criteria were applicable to various industries including small companies. In the Philippines, there were no published researches yet as to how many use the balanced scorecard. She further noted the need to do practical research of its application in the Philippines. Typically, performance measurement is based on financial outcomes only and non-financial outcomes were not considered but with the changing demands of time, there is a need to consider both the internal and external environment where the firm operates. As what Kaplan and Norton (1992) stressed out that the use of financial measures to gauge how the other three non-financial measures should drive the expected financial measures. This elicited interest to the researcher to describe the performance measurement practices in the Philippines to two enterprise categories – large enterprises (known wide users based on literature) and medium enterprises (small enterprises that are anticipated to scale into large enterprises).

2. METHODOLOGY

To describe the BSC practices in the Philippines, specifically in Pampanga, the researcher determined the profile of the medium and large enterprises in terms of form of business organization, category of enterprise, number of years of operation, number of employees and industry. The BSC practices were illustrated by the weighted mean rating scores on the four perspectives of BSC using a five-point Likert scale. In order to fully analyze or categorize the enterprises, a test of difference on the BSC practices according to the enterprise's profile was done. The analysis was used to recommend strategies how to improve the BSC practices among medium and large enterprises.

The research employed a descriptive research design. Participants were 529 owners and managers of the 178 medium and large enterprises in Pampanga. Data were collected with the use of a survey form using purposive and snowball sampling. It was developed from various literatures but most statements were adopted from the instrument used by Soderberg, Kalagnanam, Sheehan and Vaidyanathan (2011). It was modified to fit the Filipino respondents since this was originally customized for Canadian businesses. The questionnaire was tested with reliability (pretest Cronbach alpha = 0.878) and content validity (content validation by 5 experts). Data were processed using statistical techniques (frequency

for the profile, weighted mean to describe the BSC practices of the enterprises, and T-test and Analysis of variance for the test of difference).

3. RESULTS AND DISCUSSION

Based on the survey results, there was a high adoption of the BSC as seen from the high weighted mean rating across all categories, highest on financial perspective followed by customer perspective and least on both internal business perspective and innovation and learning perspective. The results of the study also indicated that across all profile categories of the enterprises, the BSC perspectives were practiced on varying levels. This affirmed prior researches that the widely used measures of performance were the financial measures. Often the strategy of enterprises was to increase effort to deliver customer expectations in order to make a sale. This explained the negligible difference of customer perspective with the financial perspective. While the other two remaining perspectives, the internal business and innovation and learning perspectives were rated low because most companies had yet to establish operations standards and innovation programs for lack of resources, especially the medium-sized enterprises. For large enterprises with established standards, implementing and monitoring them remained a challenge.

Furthermore, the study revealed that large enterprises with more than 20 years of existence and with more than 200 employees were most likely the full adopters of the BSC. And that medium-sized enterprises, with less than 5 years of existence and with less than 100 employees have much to improve in their BSC practices, since these were the categories with the lowest overall weighted mean. It was also important to note that the top users of BSC were all in the service industry (Electric, gas etc, Transportation and storage and Information and technology and Financial and insurance services) and unpopular to Real Estate companies. These industries had for the longest time been able to establish their performance measurement system focusing efforts towards their customers and establishing standards or measures that will ultimately provide what is needed by these customers.

Key findings of the research led to the realization of similarities and differences of each profile categories as these had also been supported by the test of difference. This enabled the researcher to group BSC users (enterprises) into two: early adopters and full adopters of BSC. The early adopters of BSC were usually the medium sized-enterprises, with less than 5 years of existence and with less than 100 employees from various industries. The full adopters of BSC were large enterprises, with an existence of more than 20 years, with at least 200 employees in varying industries. It was found out that the longer and larger the enterprise was, the more they were inclined to use BSC.

Findings of the research had also supported the prior claims of the previous studies, that enterprises that utilize the BSC were still the FULL ADOPTERS. The EARLY ADOPTERS need to improve on their BSC practices. Prior researches had classified the medium-sized enterprises as small companies with a very simple performance measurement system that will later on metamorphosed into BSC.

Lastly, recommendations were formulated to improve how BSC adoption. For the early adopters: Revisit the organizational structure, preparation of a growth plan, competency building of managers and investment in people and productivity assessment; and for the full adopters: Consistency on plans versus the measures, appreciation of the BSC and cascading the BSC targets and actual performance to the team up to the rank in file level.

Table 1. Weighted Mean of each BSC Perspective

BSC Perspectives	PROFILE OF ENTERPRISES									
	Form of business org		Category of enterprise		Years of operations		# of employees		Industry	
	WM	VI	WM	VI	WM	VI	WM	VI	WM	VI
Customer	4.49	P	4.50	P	4.49	P	4.49	P	4.48	P
Internal Business	4.34	P	4.35	P	4.34	P	4.34	P	4.33	P
Innovation and Learning	4.35	P	4.35	P	4.34	P	4.35	P	4.34	P
Financial	4.55	FP	4.56	FP	4.55	FP	4.55	FP	4.54	FP
Grand Mean	4.43	P	4.36	P	4.45	P	4.43	P	4.42	P

4. CONCLUSIONS

The Balanced scorecard is a useful performance measurement tool to align the measures (indicators) to the company's strategy (vision). This study had provided an empirical finding on the adoption or use of Balanced scorecard (BSC) among the subject medium and large enterprises. One key finding was a high adoption of the BSC as seen from the high weighted mean rating across all categories, highest on financial perspective followed by customer perspective and least on both internal business perspective and innovation and learning perspective. It further revealed that large enterprises with more than 20 years of existence and with more than 200 employees were most likely the full adopters of the BSC. And that medium-sized enterprises, with less than 5 years of existence and with less than 100 employees have much to improve in their BSC practices, since these were the categories with the lowest overall weighted mean. Recommendations were proposed to improve their BSC practices.

Future research undertakings can be done on: analyzing the impact of the BSC indices to the company's business performance; a qualitative study on the best BSC practices of the enterprises and the various problems they had encountered in the process; the BSC level of how enterprises carry out BSC; and the BSC practices of large enterprises in the Philippines (nationwide).

5. ACKNOWLEDGEMENT

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