

## A review of Non-Financial Perspectives of Balanced scorecard and Financial Performance

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### Abstract

Despite the celebrated performance benefits attributable to BSC in many firms, there exists the dearth of adequate research direction on the effectiveness and improvement of organizational financial performance towards achieving better results, especially with respect to the multiple perspectives of the Balanced Scorecard (BSC). The BSC model has four perspectives: Learning and Growth, Internal Process Perspective, Customer and Financial. This paper therefore reviews the influence of Non-financial BSC perspectives on Financial Performance. Based on existing literature, Non-financial factors have some influence on the BSC on the Financial Performance. This study provides a theoretical basis for future researchers to conduct imperial studies examining the relative importance of Non-financial Performance, and how it supports the Financial Performance and improves their investments

**Keywords:** Balanced Scorecard; Financial Performance; Non-financial BSC perspectives

### 1 Introduction

The Balanced Scorecard (BSC) is an integrated and comprehensive framework (Kaplan and Norton, 1992; Bento et al., 2013), it is considered, according to Maltz et al. (2003) as one of the most popular frameworks and relevant model that links financial with non-financial perspectives. It helps organisations, according to (Kaplan and Norton, 1992) in aligning the initiatives with the planned strategies. In this way, the organization's strategic objectives can be translated into a comprehensive performance measures, so that the management processes can be better managed effectively through these measures. These potentials, according to Inamdar et al. (2002) are directed towards aligning organizations to better market-oriented ideas that are centered on customer-focused strategy; facilitating the evaluation and implementation of the strategy. It is considered as a decision support tool at the strategic management level (Martinsons et al., 1999). It is considered as an assessment tool that enables top management to monitor the improvements in one area of the organization or the other, and usually, at the expense of other performance measurements (Ali, 2007; Kaplan and Norton, 1993).

Kaplan and Norton (1996a) opined that the use of BSC for financial measures offers a cause and effect relationship that determines the performance of organisations. Thus, it happens at the expense of other important indicators, such as: customer relationships, core competencies, and organizational capabilities. In addition, the BSC connects different interdependent processes, from the non-financial aspects (customer, internal process, the entire workforce, and system performance) to financial success based on long-term strategies.

To achieve these trends, the Kaplan and Norton (1992) BSC based on a set of four parameters: Financial, Customer, Internal Process, and Learning and Growth to define the BSN. These form the basis of developing measures to be used in assessment of the organisations' performance. Furthermore, the management teams will need to prioritize the critical indicators for every aspect of the four perspectives, the scorecard helps to focus this strategic vision (Ali, 2007; Kaplan and Norton, 1993).

Measuring performance also implies the monitoring of the effects and influence of the scores of each perspective on others. This is achieved by tracking the overall financial results while monitoring the progression. Each of the organisations' performance objectives should be tied to at least one measure that reveals the performance of the organization against its objective. The BSC can as well be adapted as a 'Strategic Management System', as submitted in Kaplan and Norton (1996c). It can as well be an internal control or a more externally oriented system, created to facilitate disclosure for owners and relevant parties (Svartling and Andréasson, 2000).

The BSC allows the firm to match its management processes and concentrates on the long-term implementation strategy. It also provides a framework for strategy implementation and management while enabling strategy to change in reaction to the changes in the dynamic market and technological environments (Kaplan and Norton, 1996b). Researchers have discussed the deficiencies in the tools and frameworks used in strategy implementation and monitoring and have suggested many metrics and frameworks to address issues related to Strategy Implementation, monitoring overall performance in firms. The transformation of a strategy into implementation begins by understanding the barriers or problems in the process of strategy implementation and monitoring. It can provide a communication and collaboration mechanism for the firms and HEIs that is geared towards providing better accountability and performance; with provisions of continual feedback on the strategy that can promote adjustments to fair regulation and changes, that are applicable to the firms (Al-Ashaab et al., 2011; Rahman and Hassan, 2011).

In this study therefore, the dimensions of the BSC are reviewed and remaining parts of this paper are arranged as follows: the Relationship between Non-Financial BSC and Financial Perspectives, followed discussion and conclusion.

#### **4 Relationship between Non-Financial BSC and Financial Perspectives**

Over two decades after the initial establishment of the BSC, subsequent studies have been carried out documenting the successful and unsuccessful implementation for both private and public organizations. Researchers have made successive calls for further understanding of the strategic impact of the BSC to organizations. Some of the organizations have simply used their financial results to measure progress, and subsequently, the Impact of the BSC on their performance (Bento et al., 2012).

Since the main goal of the BSC is to align the institution's strategy with all operations, those to be implemented currently or in the future, this tool is considered as a suitable strategic intervention. It is then used to establish a systematic realignment of organisational strategic orientation so as to achieve improved performance, efficiency and effectiveness.

Performance Indicators can then provide a basis for a uniform clear assessment; where financial measures give indication of where the Institution is coming from (lag indicators). The other indicators, such as Internal Process change, customer focus, learning and growth are said to be forward looking measures (lead indicators). Lead indicator can then help Institution to develop their strategy and measure the achievement and progress towards the strategic objectives.

Despite some critiques of the BSC's claim of a causality (Norreklit, 2000); Kaplan and Norton (1992); Kaplan and Norton (1996a); Kaplan and Norton (2006) have argued that once an institution carries out continuous human resource development by training its staff, the internal process that will lead to better performance and higher levels of Customer satisfaction. This will in turn lead to better financial performance.

In an effort to establish whether lower level items in the BSC affect the all higher level perspectives, or even the next perspective in the hierarchy, Bryant et al. (2004), conducted a study to establish the strength of this relationship. Using a sample of 125 organizations, they examined seven categories of measures for the four perspectives. Results from this study indicate a significant direct effect on revenues, which is a financial measure, a market share, a customer perspective measure. No significant direct effect was established between learning and growth and the financial perspective. Their study generated a similar result for the internal perspective. Cohen et

al. (2008) conducted a more recent survey for 90 companies in Greece. They found a direct influence of the learning and growth on the financial perspective. They also confirmed a series of relationships: a significant positive relationship between Learning and Growth Perspective and Internal Process Perspective; as well as how the Internal Process Perspective affects the Customer Perspective.

In another study by ChiungJu and LungChun (2006) that on hotel industry evidently revealed the link between customer perspective and financial perspective, but they documented that there is no link between Learning and Growth Perspective and Financial Perspective. Meanwhile, according to Glaveli & Karassavidou (2011), there are instances reported for the case of management literature wherein the learning and growth perspective sometimes affects the Financial Performance. In line with that, Chareonsuk and Chansa-ngavej (2010) also argued that learning and growth perspective affects the internal business perspective, which cumulatively improves the financial performance (skipping the customer perspective). Such arguments in the literature provide more evidence for the relationship between the non-financial perspectives and the financial perspective.

## 5 Discussion and Conclusion

In this paper we review the inter-relationship between the three Non-financial perspectives of BSC on Financial Performance based on existing literature. The findings enrich the BSC literature on the influence of Non-financial Perspective on the Financial Performance. Bento et al. (2013) earlier reported generally about the dearth of studies on the effects of lower level Non-financial perspectives on the higher level Financial Performance. Thus, this study has significantly contributed to the BSC literature systematically presenting the relationships between each of the three Non-financial perspectives with Financial Performance. As such, the direct relationship between Learning and Growth Perspective and Financial Performance; Internal Process Perspectives and Financial Performance, which later translated to the perceived influence of Customers Perspective with Financial Performance, with impacts on the Financial Performance.

This study provides a theoretical basis for future researchers to conduct imperial studies examining the relative importance of Non-financial Performance, and how it supports the Financial Performance and improves their investments. The strategies adopted by the management teams will therefore help in achieving better Financial Performance. This paper offers researchers and management teams in the organization handling strategic and long-term plans, for the entire workforce and the various departments that will later have impacts on the Financial Performance of the firm. This justifies the need for an empirical study to examine the validity and strength of these relationships.

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