30

Roles of Balance Score Card in Improving the Performance of Microfinance Banks in Nigerian Economy

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Abstract

Recently emphasis on accountability requires that a new model of managing resources be found as reliance on the traditional financial measures have not yielded the desired results; neither have they been able to insulate companies from the vagaries of the economic world. The Balance Score Card (BSC) approach has been acclaimed to incorporate both financial and non financial measures of performance in making value judgments on performance of organizations. The application of this approach to organizational management has resulted in dramatic improvement in the fortunes of companies where it is faithfully implemented. In Nigeria today, one of the problems of development has been identified to be inability of small and medium scale enterprises in assessing funds in the capital market; a gap that the microfinance bank is established to fill. Implementing the BSC in microfinance banks provides a comprehensive and consistent approach to organizational performance. Thus, this paper explored the concept of BSC with its perspectives; and also examined the roles of BSC approach in improving the performance of microfinance banks. Furthermore, some practical steps were suggested that banks should

follow in the bid to implement the BSC approach in their organizations.

Today's heightened emphasis on accountability requires a new model of managing organizations, especially publicly funded organizations. Implementing Balance Score Card (BSC) provides a comprehensive and consistent approach to enhancing the performance of microfinance banks in the Nigerian economy. This means the organization's mission; vision and goal must be driven towards concrete decisions (McGillicuddy, 2009).

Traditional measures of performance focus a great deal on quantitative measures in terms of the profitability of the company, while financial accounting according to McKenzie & Shilling (1998) in McNamara (2005), is suited to the tracking of physical assets such as manufacturing equipment and inventory; it is less capable of providing useful reports in environments with a large intangible asset base. But, balance score card is more than a collection of measures used to identify problems – it is a system that integrates a firm's strategy with a purposely limited number of key measures which are deemed to be critical in the achieving of breakthrough competitive performance.

Overemphasis on financial measures by American and European organizations made them to be caught unawares by the technological improvements which demanded new managerial emphasis and techniques for success. The Japanese managers who were quick to embrace the new concept of BSC soon became world players of note in the market place; an achievement that was driven by a focus on measures which are far more embracing than just financial prowess (Drury, 2008; Gatiss, 1996). More recent contributions to strategic management accounting such as the Balance Score Card approach emphasize the roles of management accounting in formulating and supporting the overall competitive strategy. The balance score card seeks to encourage behaviour that is consistent with an organization's strategy. It comprises of an integrated framework of performance that aim to clarify, communicate and manage strategy implementation.

According to Kaplan & Norton (1992), previous performance measurement systems that incorporated non-financial measurements used ad-hoc collections of such measures, more likely like a checklist of measures for managers to keep track of and improve on, than as a comprehensive system of linked measurement. The need to integrate financial and non-financial measures of performance and identify key performance measures that link measurements to strategy led to the emergence of the Balance Score Card approach to performance.

Consequently, the supervisory authorities of such institutions have taken active measures to address the issue of micro finance by developing an appropriate regulatory and supervisory framework based on the particular features and risks of this activity

(CBN, 2005). However, no matter the level of regulations existing in the system, if microfinance banks are not run based on performance measures that would truly grow the sector, they would remain vulnerable to failure, and therefore unable to play their roles in the development of the economy.

This paper therefore aimed at exploring the roles Balance Score Card plays in improving the performance of microfinance banks in the Nigerian economy.

Balance Score Card: An Overview

According to McNarama (2005) Parker (1979) was the first to mute the idea of a balanced view between financial and non financial measures in judging performance of organizations. However, he did not do much to explain how his view could be translated into concrete useable tools for management. It was thus left to Kaplan and Norton to set in motion the Balance Score Card (BSC) approach which successfully enunciated Parker's point. The BSC was devised by Kaplan and Norton in 1992. Between 1993 and 2001 the BSC underwent several changes in strategies linked to performance measures. According to them, an effective strategic learning process requires a shared strategic framework that communicates the strategy and allows all participants to see how their individual activities contribute to achieving the overall strategy.

The balance score card provides a representation of the organization's shared vision. The use of measurements as a language helps translate complex and frequently nebulous concepts into a more "precise" form that promotes consensus among senior executives. The balance score card communicates a holistic model that links individual efforts and accomplishments to business unit objectives. Drury (2008) is of the view that the balance score card philosophy creates a strategic focus by translating an organization's visions and strategies into operational objectives and performance measures for the discernable perspectives.

BSC tends to reflect the necessity of a balance between the traditional financial perspective and other non-financial elements such as customers, internal business processes and innovations/improvement. It translates the organization's mission and strategy into a comprehensive set of performance measures to provide the necessary framework for a strategic measurement and management system that enables companies to track short term financial results while simultaneously monitoring their progress in developing the capabilities and acquiring the intangible assets that generate growth for future financial performance.

In addition to measuring current performance in financial terms, the balanced scorecard evaluates the firm's efforts for future improvement using some "perspectives" thus:

1. Financial Perspective (how do we look to shareholders)
2. Customer Perspective (how do customers see us)

3. Internal Business Perspective (what must we excel at)
4. Learning and Growth Perspective (can we continue to improve and create value)

Horgren, Sundem & Stratton (2007) stated that the balance score card perspective addresses the questions of how the firm is viewed by the critical stakeholders in its success and survival. The financial perspective addresses the question of how shareholders view the firm and which financial goals are most desired by them. Customers' perspective is concerned with how well the firm is serving its targeted customers in order to meet the financial objectives. Customers view the firm in terms of time, quality, performance, and cost. Most customers' objectives fall into one of those four categories. The internal business process perspective is focused on which processes are most critical for satisfying customers and shareholders. These are the processes in which the firm must concentrate its efforts to excel. The learning and growth metrics address the question of how the firm must learn, improve and innovate in order to meet its objectives.

According to Drury (2008) the perspectives are broken into strategies that give a step by step guide of how the perspectives can be realized. The figure below shows the four perspectives of the balance score card and how they are decomposed into the objectives, targets and initiatives required to arrive at targeted performance.

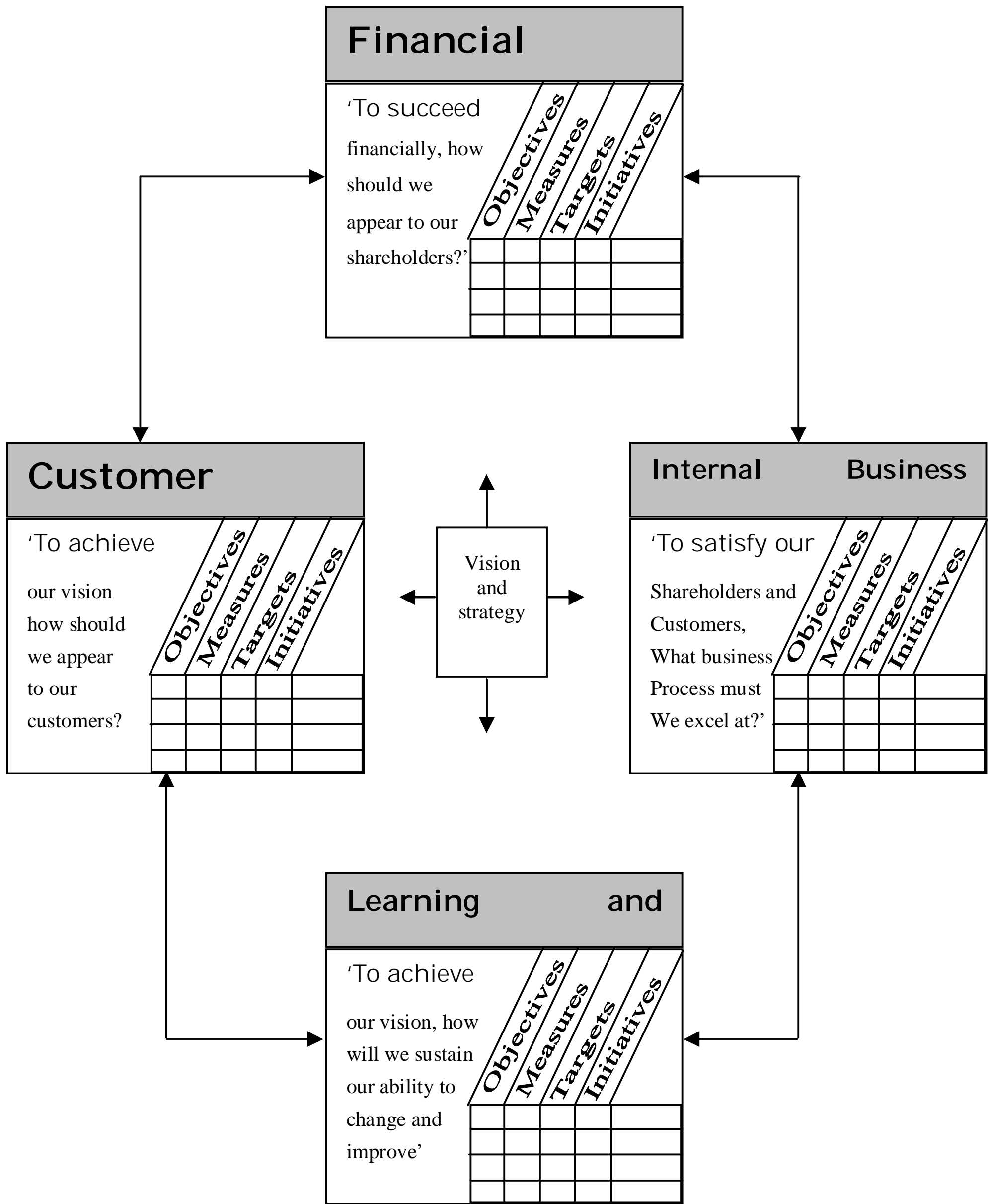

Fig. 1:1 Balance Score Card Model

Source: Drury, C. (2008) *Cost and Management Accounting*. South- Western: BookPower

The following discussion present the generic core objectives and measures applicable to each of the four perspectives as indicated in the figure above.

1. Financial Perspective

This perspective specifies the financial performance objective anticipated from pursuing the organizational strategy. It also deals with the economic consequences of the outcomes expected from achieving the objectives specified from the other three perspectives. According to Kaplan and Norton (1992) the three core financial themes that can drive the business strategy are;

- **R*evenue Growth****:* A revenue growth deals with every action/activity that can increase the revenue base of an organization (Koutsoyaiannis, 1979). This theme focuses on how to increase the number of new products, develop new customer and how to change to a more profitable product (or service) mix.
- ***Cost Reduction***: this theme focuses on how to reduce product/service cost per unit and how to reduce selling/general administration cost.
- ***Asset Utilization:*** this theme measures financial performance such as:

- return on investment
- economic value added

A critical appraisal of the financial perspective would reveal, therefore, that the focus is on minimizing cost and maximizing revenue inflow. All steps/ activities geared in this direction are therefore arrived at holding cost constant or reducing it while improving inflow of income.

2. The Customer Perspective

This perspective is focused primarily on the customer and market segment in which the business will compete. It further underpins the revenue element for the financial perspective objective as this will be realized from patronage of customers. Therefore, the achievement of the customer objective should ensure that the target revenue will be generated. The core objectives of this perspective are:

- ***Increasing the Market Share***: the theme is focused on all activities that the organization can employ to improve its share of the market. This may be through advertisement, sales, promotions, low-prize of products and services
- ***Increasing Customer Retention*****:** the focus of this theme is to ensure that old customers continue to patronize the organization. Strategic measures that can be taken include; improving customer-organizational relationship, responding to customer complaints/suggestions, offering after-sale services to customers, etc
- ***Increasing Customer Acquisition*****:** the focus here, is to increase total sales to new customers. Strategic measures to be taken include giving out free samples to new market segments, penetration of new market segments, introduction of new products and/or improving on existing old products.
- ***Increasing Customer Satisfaction*****:** The focus here is on customer-survey satisfaction ratings. Strategic measures that can be taken include administering of questionnaires to customers, monitoring number of repeated patronage by old

customers and identifying percentage of patronage arising from customer recommendations.

- ***Increase Customer Profitability***: The main focus here is to decide on percentage revenue generation from each customer class. Strategic measures that can be taken towards achieving this goal include giving the customer sufficient and adequate advise on how products should be used; demonstration of how products are used, explanation of purchase pattern that can lead to price reduction, discount, and other special sales benefits.

3. Internal Business Perspective

This perspective requires that managers identify the critical internal processes in which the organization must excel in implementing its strategies. Critical processes should be identified that are required to achieve the organization's customer and financial objectives. Kaplan and Norton (1992) identified three process value-chains on who to apply the internal process perspectives. These are:

- ***Innovation Process****:* here, the managers research the needs of customers and then create the product or service that best meet those needs.
- ***Operations Process****:* This process represents the short wave of value creation. It is concerned with producing and delivering existing products and services to customers.
- ***Post-Sales Service Process****:* It represents the final item in the process value chain for the operations process perspective. It focuses on how responsive the organization is to the customer after the product or service has been delivered. After sales services include warrantee and repair activities, treatment of defect and returns, administration of customer payments and resolution of customer problems/complaints.

4. Learning and Growth Perspective

This perspective ensures that an organization will continue to have loyal and satisfied customers in the future and to continue to make excellent use of its resources. The organization and its employees must therefore keep learning and developing. Hence, capabilities that an organization need to create long term growth and improvement should be encouraged. Kaplan and Norton (1992) identified three major enabling factors for this perspective to be actualized which are:

- ***Increasing Employee's Capabilities***: The focus is to ensure that every employee is able to deliver a service that would put the company in the best advantageous position. Strategic measure that can be taken to achieve this include: constant training of staff to master existing ways of doing the job as well as adopting new ways and making staff attend internal and external workshops and seminars on new trends relating to the job and industry.
- ***Increase Motivation, Empowerment and Alignment****:* The focus here, is to take individual goals into consideration when formulating organizational goals to bring these in alignment. Strategic measures that can be taken include: training existing staff to acquire new knowledge of the job rather than replace them with new staff

and welcoming individual suggestions on ways to improve existing products/processes or developing newer and better ones.

There is a cost/effect relationship between the non-financial perspective (customer, internal business processes, learning & growth) and the financial perspective in that the measurement relating to the non-financial perspectives can be used to predict the financial performance of the organization. Therefore, the four balance score card perspectives are interwoven and equally important, (MacNarama, 2005).

Examples of Firms that Have Applied BSC Successfully

Rohn & Halback (2006) asserted that Renaissance Solutions Inc was one of the early companies to actively promote the concept of balance score card. McNarama (2005) cited the examples of Skandia and Dow Chemical Company. McGillicuddy, (2009) published the efforts of Mecklenburg County, California in the United States of America in transforming the management of the Country's affairs into an efficient, service-driven one. According to McNarama (2005), research work done by Cates (1997) indicated that most companies that first joined the bandwagon of the score card approach tended to have non-financial backgrounds and were mostly to be found in such fields as marketing, line management, strategic planning and human resources. The very term "balanced scorecard" is deemed to be a rebellion against too much traditional reliance on Generally Accepted Accounting Principles (GAAP) reports as the sole basis for performance measurement.

Balance Score Card and Performance Improvement of Micro Finance Banks in Nigerian Economy

Finance is generally recognized to be the life wire of any nation, organization or human activity. For this reason, banks are subject to serious regulations – more than is usual for non-financial institutions. According to Ibru (2006) there are different types of financial institutions operating in the Nigerian economy and the microfinance bank is one of them. Government regulatory activities have increased even further in recent times in view of the global economic meltdown and the ripple effect the collapse of any financial house has on the economy. Justifying the increased regulations of the Central bank, Ibru (2006) listed some of the symptoms of ill-health in the financial sector to include:

- Weak institutional capacity
- Weak capital base
- Existence of huge un-served market
- Inadequate economic empowerment of the poor
- Insufficient economic generation and poverty reduction
- Need for increased savings opportunity
- Protection of interest of local and international communities

To this end, the microfinance bank was introduced specifically to serve the poor segment of the Nigerian society. Micro finance banks are companies licensed

under the CBN Act No. 24 of 1991 (as amended). Reasons for establishing the micro finance bank includes:

- Strengthen the capacity base of the existing microfinance institutions
- granting of loans, domestic funds transfer
- Other financial services that are needed by the economically active poor; micro, small and medium enterprises, to conduct or expand their business.
- mobilize domestic savings and promote the banking culture among low income groups
- strengthen the skills of regulators, operators, and beneficiaries of microfinance initiatives
- promote the establishment of NGO-based microfinance institutions
- promote the participation of government in the microfinance industry by encouraging states and local governments to devote at least one percent of their annual budgets to micro credit initiatives
- Promote sound microfinance practices by advocating professionalism, transparency and good governance in microfinance institutions.

A micro enterprise is a business that requires micro credits/loans to operate. The operation and management are often built around the sole owner or micro entrepreneur. The micro entrepreneur usually works alone or provides employment for a few people. The management and accounting requirements are usually very simple and flexible.

The vision of microfinance banks should have the following transformational characteristics which are:

- ***Understandable***: being transparent and clear in decision making and reporting result
- ***Responsible***: being responsive to the needs of the bank and being proactive in preventing the banking problems;
- ***Sustainable*****:** maintaining momentum in addressing long term needs;
- ***Affordable***: operating within the financial means of the microfinance banks;
- ***Choices and consequences***: identifying all viable options and making informed decisions based on objective evaluation of projected outcomes; and
- ***Accountable***: focusing on results and being accountable for decisions.

Using balance score card to improve microfinance banks should be concerned with the best way to implement it in this sector for enhanced results. According to Rohm & Halback (2006), implementation means turning the scorecard into a true management system and developing, managing and sustaining newly created systems. The balance score card approach is not one that can be embarked upon in an ad hoc way. It is a performance system that requires complete change in the way business is done, information is disseminated and relationships maintained, (Rohn & Halback, 2006).

The following steps can be used by micro finance banks to improve their performance. In the implementation of the balance score card, Rohn & Halback (2006) opined that it is better to develop a few good measures than to develop many bad ones. Therefore, microfinance banks should:

1. ***Access the Current Situation:*** This is an assessment of the bank's strengths and weaknesses, core beliefs, market opportunities, competition and financial position.
2. ***Develop the strategy:*** The banks should then create a statement of where it wants to be in the near and medium term future.
3. ***Identify The Objectives:*** The bank should define the objectives that would lead to attainment of the vision or goal identified above. These objectives, according to Kenny (2008) are the components or activities that make up the complete business strategy. It may be things like "improved customer satisfaction" or "greater customer retention". This would call for the consideration of a cause-effect linkages between the objectives so that actions that can be carried out to achieve them can be determined
4. ***Identify Performance Measures:*** This involves identifying measures, setting targets and avoiding over commitment. Measures selection should be influenced by the ability to obtain information quickly and inexpensively.
5. ***Create the Implementation Plans:*** There should be a determination of who is going to do what, when and where such would be done. Unless a specific plan of action is developed, it may all remain as beautiful plans that make no impact on the fortunes of the microfinance banks, (Horngren, Sundem and Stratton, 2007).
6. ***Evaluate:*** Performance should be evaluated on a regular basis; probably a monthly or quarterly basis will work for microfinance banks that are attuned to monthly reporting system. Review meetings should be held regularly and management must be involved and give positive indications that will aid the long run implementation process.

Conclusion

The microfinance bank is a potential developer of the Nigerian economy, especially the banking sector of the economy whose development would have palpable impact on the nation. Balance Score Card (BSC) provides a comprehensive and consistent approach to enhancing the performance of microfinance banks in the Nigerian economy. Therefore, there should be performance measures and targets (expected results) in forms of goals that should be set yearly (decomposed into monthly and weekly goals) in areas of finance, customer satisfaction in measurable terms, employee development and product improvement.

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