

THE IMPACT OF BALANCED SCORECARD (BSC) ON THE FINANCIAL PERFORMANCE OF SHAREHOLDING INDUSTRIAL COMPANIES IN JORDAN

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ABSTRACT: *This study aimed at determining the extent of the impact of applying the balanced scorecard, in the industrial Jordanian companies, on their financial performance. The study adopted the analytical-descriptive approach. To achieve the study's goals the researcher designed a questionnaire as a tool for data collection. The population of the study consisted of 75 industrial companies where as the selected sample consisted of (33) companies. The study concluded that these companies didn't adopt the balanced scorecard, besides there was a correlation between applying the balanced scorecard and the financial performance of these companies. The study recommends that top managements of these companies should make efforts to apply the balanced scorecard in their business.*

KEYWORDS: Balanced Scorecard, Industrial companies in Jordan, Amman Stock Exchange

INTRODUCTION

The rapid changes and developments in the modern business environment have affected the quantity and quality of information needed by the companies, to measure and appraise the performance in order to achieve their strategic goals. There was an urgent need for developing the traditional measures of financial performance due to its shortcomings to match the rapid changes of ITT, besides the globalization and extreme competition among companies, which seek to achieve competitive advantages, that enable them to accomplish their strategic, operational and ultimate goals effectively and efficiently (Doudin, Ahmad 2009).

The modern managerial thought, in the ITT era and rapid development of industrial growth rates, has been focusing on the importance of performance appraisal within the company in the light of performance on the short and long range strategic plans. The balanced scorecard is considered a balanced thinking approach and implementation instrument that enables the company, if adopted, to achieve its strategic goals and assess its operational, financial and strategic performance according to an integrated framework of financial and nonfinancial measure in a balanced forms that provide comprehensive information (Mohammad and Ismael,).

Problem of the Study:

The study was designed to answer the following questions:

1. Is there an impact for applying the dimensions of balanced scorecard on the return on equity (ROE) of the industrial companies in Jordan?
2. It there an impact for applying the dimensions of balanced scorecard on the return on assets (ROA) of Jordanian industrial compaines?

3. Is there an impact for applying the dimensions of balanced scorecard on the earning per share (EPS) of Jordanian industrial companies?

Objectives of the Study:

The study aims at:

1. Recognizing the concept of balanced scorecard.
2. Determining the impact of applying the balanced scorecard on the financial performance of the company represented by the return on equity, the return on assets and earning per share.

Hypotheses of the Study:

- Ho₁: There is no impact for applying the dimensions of balanced scorecard on the return on equity of Jordanian industrial companies.
- Ho₂: There is no impact for applying the dimensions of balanced scorecard on the return on assets of Jordanian industrial companies.
- Ho₃: There is no impact for applying the dimensions of balanced scorecard on the earning per share of the Jordanian industrial companies.

Previous Studies

Studies in Arabic Language

Abdulaziz (2008) study aimed at recognizing the possible application of balanced scorecard in the nongovernmental organizations (NGOs) and determining the difficulties of applying the balanced scorecard. The study indicated the importance of applying balanced scorecard in the civil societies, besides the importance of developing the financial systems of these societies, through legal obligation upon specific criteria, that enable them to apply the different measures to secure the effectiveness of strategies and performance assessment.

Doudin (2009) study aimed at determining the obstacles that hinder the use of balanced scorecard in the commercial banks in Jordan as perceived by the staff. It also aimed at recognizing the adoption of balanced scorecard as an approach for control and performance assessment as well as a system for strategic management. To achieve the objectives of the study the researcher designed a questionnaire for collecting data from (333) employees as the sample. The results indicated a statistically significant impact for the obstacles (planning, information, financial factors, administrative factors, requalification, awareness, technical factors and legislative factors) on the applying of the balanced scorecard in the Jordanian commercial banks. The researcher recommended the use of balanced scorecard as an approach and a system for management and a tool for measuring and assessing its strategic performance. The study also recommended the confrontation of these obstacles that hinder the use of balanced scorecard through allocation funds in their budgets to design and apply their balanced scorecard besides conducting training programs for the staff about its designing and applying.

Alfayez (2011) study aimed at applying the input of strategic assessment to measure the performance of Jordan's Ministry of Interior as viewed by the balanced scorecard. To achieve this goal the researcher adopted the descriptive-analytical approach through using the applied method including the statistical processing. The researcher designed a questionnaire to collect data where the sample was the population itself. The researcher distributed (75) forms while he retrieved (59) forms valid for statistical processing. The study concluded that there was an impact of the organizational status, available resources, cognitive potentials and planning knowledge on improving the level of performance of Jordan Ministry of Interior. The researcher recommended that the Ministry of Interior and other ministries have to apply the balanced scorecard as a strategic input for assessing their performance. He also recommended the necessity for developing the organizational structure to enhance the creativity and entrepreneurship of implemented business.

Yahawi and Ladra' (2011) study aimed at answering some questions like:

1. To what extend the tools of performance assessment have been changed?
2. What was the new benefit of balanced scorecard?
3. How does such mechanism work?
4. What were its advantages and disadvantages?

The field study focused on Oras Dairy products. The researchers designed a proposed form to prepare the balanced scorecard for the dairy company to include the determination and definition of goals, definition the major indicators of performance then blend them in the following four dimensions:

- Financial dimension.
- Customers.
- Internal processes.
- Learning and growth.

The results of the financial dimension indicated that dairy house achieved a result that surpassed its expectation more than (39) time. Such result was reflected positively on the return on investment (ROI) and rate of margin (MR). The internal processes goals were partially achieved while it failed to achieve the increase of customers and the learning and growth dimensions. The negligence of training affected negatively the productivity and profitability of workers, where their results were positive through indicators. The study found that BSC is an important and expanding tool due to its ability to achieve the balance between external and internal environment of the company besides the link between short and long range planning and implementation.

Mohammad and Ismael study aimed at recognizing the impact of using BSC on assessing the financial performance of Sudanese banks. To measure the impacts of (financial dimension, clients, internal processes and learning and growth) on assessment of financial performance of Sudanese banks, the researchers distributed a questionnaire on some banks of Khartoom State. The results indicated that there was a proportional and strong relationship between (financial dimension, clients, internal processes) and assessment of financial performance.

The researchers recommended the development of control techniques and use BSC by the Sudanese banks since it is an integrated system of strategic management and it can achieve many benefits that enhance the competitive position of the bank.

Blaska (2012) study aimed at determining the capacity extent of Algerian economic institutions to apply BSC and recognizing the essentials for applying, besides the obstacles that confront such application. The study found the Algerian institutions under the study didn't apply such approach besides the lack of basic elements that help applying BSC. The study recommended the necessity of transition from traditional to modern instrument which match the development of new technologies. It also recommended the importance of strategy assessment to reach the planned goals.

Suleihat and Almahameed (2013) study aimed at recognizing the impact of practicing the knowledge management in using BSC in small and medium enterprises with its dimensions (financial indicators, clients, internal processes, learning and growth, employ and environment). To achieve the objectives of the study the researchers applied the questionnaire to collect data valid for statistical processing. The researchers distributed one form for every manager who has the suitable knowledge to respond the items. The sample consisted of (649) clothes companies. The results showed an impact for practicing the processes of knowledge management on applying the dimensions of (financial indicator, clients, internal processes, learning and growth, the staff and environment) that were related performance assessment. The researchers recommended more practicing of knowledge management processes to improve the performance at the level of individual and organization for its importance to the competitive advantage. They also recommended that industrial companies should use an integrated approval which included the financial indicators to measure the present performance and nontraditional indicators to measure the future performance when assessing the impact of practicing the knowledge management.

Nadeem (2013) study aimed at recognizing the impact of most critical concepts related the BSC technique on the applied practice of Royal Jordanian Airlines. The study showed that applying the dimensions of BSC helps enhancing the role of strategic performance assessment. The study indicated an impact of applying the dimensions of BSC on the measures of performance based on accounting profit and on modern measures of performance at Royal Jordanian Airlines (RJA). The study recommended the necessity for applying BSC dimensions more clearly and comprehensively, besides the importance of performance assessment measures. It also recommended setting criteria that target the strategic performance that can be used in assessing its performance and determining its competitive position among the rivals.

Studies in English:

Wiersma (2009) study aimed at recognizing the goal of using BSC through an applied study on the electronic services of ITT companies. The study tested the following hypothesis:

Does the development of internal processes, upon the propositions of clients, contribute to developing the service provided in a way that it increases its revenues and enhances the trust by clients?

The researcher collected the data through a survey of (10) Dutch companies that apply BSC. There were (224) responses by managers who assured the priority and necessity for development even it required additional costs, because it would be reflected as an increase of

long range revenues. The study showed the importance of applying BSC by SME's since it helps the decision taking process and reflects the results of efforts in front of others through using financial and nonfinancial measures.

Ala'a (2010) study aimed at developing a mathematical model of the management of strategic planning and change by using BSC through illustrating the relationship between (financial dimension, clients, internal processes, human resources, innovation and learning) and measuring the balanced performance. To achieve this goal the researcher designed a questionnaire distributed over the sample of (100) employees from several Jordanian banks such as Arab Bank, Jordan-Kuwaiti Bank, Ahli Bank, Housing Bank and Bank of Jordan. The study indicated an integrated relationship between (financial dimension, clients, internal processes, innovation and learning) and measuring the balanced performance. The study recommended that Jordanian bank should focus on improving the practices of their BSC through apply the proposed model to create a competitive advantage and enhance its value and success in the future.

Population and Sample of the Study:

The population of this study consisted of all shareholding industrial companies in Jordan that were listed in Amman Stock Exchange (ASE) as in 2015, where the total number of population was (75) and the sample consisted of (33) companies.

RESULTS

1. Jordanian Industrial Companies didn't apply BSC inspite of their clear mission and vision since the use of BSC by these companies would create financial burdens besides the hard efforts that management should make. The BSC provides financial and nonfinancial information besides its positive impact on the return on ownership rights as the studies indicated.
2. There was a positive correlation between applying BSC and the financial performance of the industrial companies.

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