



## **A STUDY ON ORGANIZATIONAL PERFORMANCE OF MULTI-PURPOSE CO-OPERATIVE SOCIETIES IN JAFFNA DISTRICT; IN VIEW OF BALANCED SCORE CARD**

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### *Abstract*

*Cooperative conditions in Sri Lanka are generally still weak, both internal and external conditions. Cooperatives face similar challenges as business organization. To strengthen cooperative institutions, cooperative performance measurement systems may adopt the performance measurements of business organization in the same industry. One of the measurement systems is balanced scorecard. Cooperatives can implement it as a tool to monitor, measure, and track the alignment of financial and nonfinancial performance. Balanced scorecard makes cooperative business strategy more concrete and measurable. In this view, this paper aims to analyze the organizational performance of Multi- Purpose Co-operative societies (MPCS) in Jaffna District based on four perspective approaches of balanced scorecard. The study is conducted through questionnaire survey and interview on cooperative management & customers. The results of the study showed that the MPCS' performance based on four perspectives of balanced scorecard is below the moderate level and results from the operational hypotheses indicated that total perspectives have a significant relationship and impact with organizational performance of MPCS. Finally. The study emphasizes that the MPCSs have to improve their activities in connection with financial performance, customer relations, internal process and learning and growth.*

**Keywords:** Performance Measurement, Organizational Performance, Balanced Scorecard, Multipurpose Cooperative Societies (MPCS).



## **1. Introduction**

### **1.1. Back ground**

Co-operative society is established for the common needs of the people in the world. Co-operative society is a form of organization where members join together as human beings to satisfy their common economic, social and cultural needs. They are also expected to supply essential goods on one hand and credit facilities and marketing their products on the other hand. Multi - Purpose Co-operative Societies (MPCS) is a main body in the co-operative sector in Sri Lanka. The history of MPCSs started in 1963 in Sri Lanka in the form of Consumer societies.

Specifically, in Jaffna district they functioned well in 1970s and 1980s and had records in their organizational performance and contribution to economic development of the country. But after the period they are not functioning well to full fil the interest of their stakeholders.

The balanced score card (BSC) is a management system that maps an organization's strategic objectives into performance with four perspectives such as financial, internal business perspectives, customers, and learning and growth. BSC has gained increasing popularity as an effective management tool that aligns employee actions and goals with corporate strategy. The score card itself is essentially a performance measurement frame work with two key objectives; converting strategy into specific goals for different sections of the organization, and communicating that strategy to all parts of the organization (Milgiorato et.al, 1996).

Various studies have been done on the above theme, but no enough studies have been conducted in Sri Lankan context, especially in Co-operative sector. Most of the stake holders of co-operative sector are keen to verify the existing performance of MPCSs and identify the areas to improve the performance. In view of this situation this research explored the whole performance areas applicable to MPCSs business operations. As the Assistant Commissioner of Co-operative development (ACCD) office Jaffna has a major role to give its contribution to improve the performance of MPCSs, the researcher decided to do the research with the collaboration of ACCD office, Jaffna.

### **1.2. Research Problem**

After the implementation of Liberal economic policy in Sri Lanka, the co-operative sector business has been starting to face many challenges and threats to survive in their business operations. Furthermore the massive revolution of information and communication system is playing a critical factor in organizational performance (Performance of MPCS). In this nature, the MPCSs have taken some steps (Business diversification, Co-op city etc.) in order to survive its businesses. Even though most of the MPCS in Jaffna district are lack of performance of their businesses. (As per the monthly and annual reports published by Co-operative development department office-



Jaffna). Therefore the researches have decided to make an attempt to do the research to verify the reasons for lack of organizational performance of MPCSs in Jaffna district.

### ***Problem Statement of the research***

Why there is lack of Business performance in Multi- Purpose Co-operative societies in Jaffna District.

### **1.3. Objectives of the Research**

This research mainly focused on the following objectives related to organizational performance of MPCS via Balanced score card. The main objective of the study was

To analyze the organizational performance of Multi- Purpose Co-operative societies in Jaffna District through balanced score card technique.

In addition to the main objective this research concentrates the following as sub objectives.

1. To identify the extent of relationship between organizational performance of MPCS and financial perspective
2. To find out how much the learning and growth and customer perspective can have impact on organizational performance of MPCS
3. To analyze what extent the internal process of MPCS's operation affect its performance

## **2. Review of Literature**

Literature review consists of the following outlooks in connection with the research.

### **2.1. Balanced scorecard - Introduction**

A growing number of organizations are using performance measurement with a "Balance Score Card". Proponents of the balance score card concept contend that this approach provides a powerful means for translating a firm's vision and strategy into a tool that effectively communicates strategic intent and motivates performance against established strategic goals (Kaplan and Norton, 1996).The balance score card is a management system that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. The balance score card which saw its initial development during the years of 1987-1992(Art Schneider man, 2002), links performance measures by looking at a business's strategic vision from four different perspectives: financial, customer, innovation and learning, and internal business process .These four perspectives do not eliminate , but instead support the goals of various management techniques such as strategic planning , Total quality management , and core competence, employed during the several



decades surrounding the balance score card's appearance. Each of four perspectives is considered by four parameters, which are

**Goals** : What do we need to achieve to become successful?

**Measures** : What parameters will we use to know if we are successful?

**Targets** : What quantities value will we use to determine successful of the Measure

**Initiatives**: What will we do to meet our goals?

The balance score card consists of a set of performance measures that give a comprehensive view of the company based on the following four perspectives

- **Financial perspective**, including traditional financial measures such as revenue growth, return on investment or return on assets, market share, and earnings per share,
- **Customer perspective**, with measures of importance to customers such as timeliness, quality, performance, cost, and service,
- **Internal business process perspective**, with measures of the critical internal activities and processes that the organization uses to meet its customers' expectations, and
- **Learning and growth perspective**, which measures the organization's ability to adapt and innovate for the future; this could include time to market for new product development, workforce training and development, and process improvement.

## **2.2. Balanced Score card and Organizational performance**

To utilize the Balanced Scorecard as a strategic management tool, the following has to be done:

1. The major objectives are to be set for each of the perspectives.
2. Measures of performance are required to be identified under each of the objectives which would help the organization to realize the goals set under each of the perspectives. These would act as parameters to measure the progress towards the objectives.
3. The next important step is the setting of specific targets around each of the identified key areas which would act as a benchmark for performance appraisal.
4. The appropriate strategies and the action plans that are to be taken in the various activities should be decided so that it is clear as to how the organization has decided to pursue the pre-decided goals.

Because of this reason, the Balanced Scorecard is often referred to as a blueprint of the company strategies.

### ***The Learning and Growth Perspective***

This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people -- the only repository of knowledge -- are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode.



### ***The Business Process Perspective***

This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately; with our unique missions these are not something that can be developed by outside consultants.

### ***The Customer Perspective***

Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline.

### ***The Financial Perspective***

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated.

## **2.3. Balanced Scorecard as a strategic tool**

### ***Translating the Vision***

It is to be remembered that the vision of any organization should be understood by each and every employee of the organization. If it is understood by the top management only, then it is definite that the organization will fail to realize its goals. Hence, before starting with the strategic implementation process, the organizations needs to be clear about the reason for its existence, where it wants to see itself after a certain number of years and properly decide its business definition.

The lofty statements must be translated into an integrated set of objectives and measures. Thus, by using this tool, the overall strategic objectives for the company gets clarified which helps to achieve consensus across different business units on the overall strategic objectives for the company.

### ***Communicating and Linking***

Just communicating the vision and the strategies is not an end in itself. The strategic goals and the measures to be set in the different areas have to be decided upon. The long-term strategic goals have to be translated into both departmental and individual goals which should be aligned to each other in order to realize the long-term goals. In fact, each and every one at different levels in the organizational hierarchy needs to be educated about the action plans and reasons for accepting the same.

The tool contains three levels of information:

- (i) It describes the corporate objectives, measures and the targets
- (ii) It helps in deciding the business unit targets and



- (iii) It helps in framing the departmental and the individual objectives which will help in attaining the objectives of the business unit directly which would lead to the attainment of the corporate goals.

### **Business Planning**

This step helps in the resource allocation process. One has to keep in mind that objectives form an important criteria in deciding the quantum of resources that are required to be allocated to the various departments, activities and the processes. No strategy can bring successful results to an organization if the allocation is not in line with what is required to meet the results. This allocation is dependent on the budgeted estimates which are decided on the basis of the said objectives. Hence, through this step the Balanced Scorecard tries to bring about integration between strategic planning and the budgeting exercise..

### **Feedback and Learning**

The first three steps as mentioned above help in the strategic implementation process. But, for knowing whether the organization is in a position to achieve the strategic goals and whether it is in the right track, the process of feedback and learning is essential. The strategic learning consists of acquiring knowledge about which way the organization is moving to, testing whether the premises considered before hold true even now and finally making adjustments wherever required. The corrective measures are required so that the necessary rectifications are made which will help an organization pursue the correct path.

## **2.4. Previous Researches in Balanced Score card**

Recent literature includes three attempts to associate BCS usage and improved organizational performance. Hoque and James (2000) surveyed Australian manufacturing firms on their usage of non-financial measures typically found in discussions of BSC development .Organizational performance was a self- reported measures relative to peers within the same industry. Their results indicate a significantly positive relationship between the usage of typical BSC measures and superiors performance.

Banker et.al (2000) examined the association between improved financial performance and Non-Financial Measurements (NFM) in a Hotel chain where a new incentive programme included an emphasis on customer satisfaction, performance measures.

In an extensive field study of a large manufacturing organization , Malina and Selto (2001) investigates the effectiveness of the BSC in communicating strategies , objectives and serving as a management control device. They find evidence of an indirect relationship between BSC's management control function and improved performance on BSC measures. Further, managers in their study perceived improved performance on the BSC would lead to improved efficiency and profitability.

Ittner et al. (2003) provide contradictory evidence to the two previously mentioned studies by finding a negative association between BSC usage and financial performance (ROA) in an expensive study of the financial services industry. They also find that while 20% of the



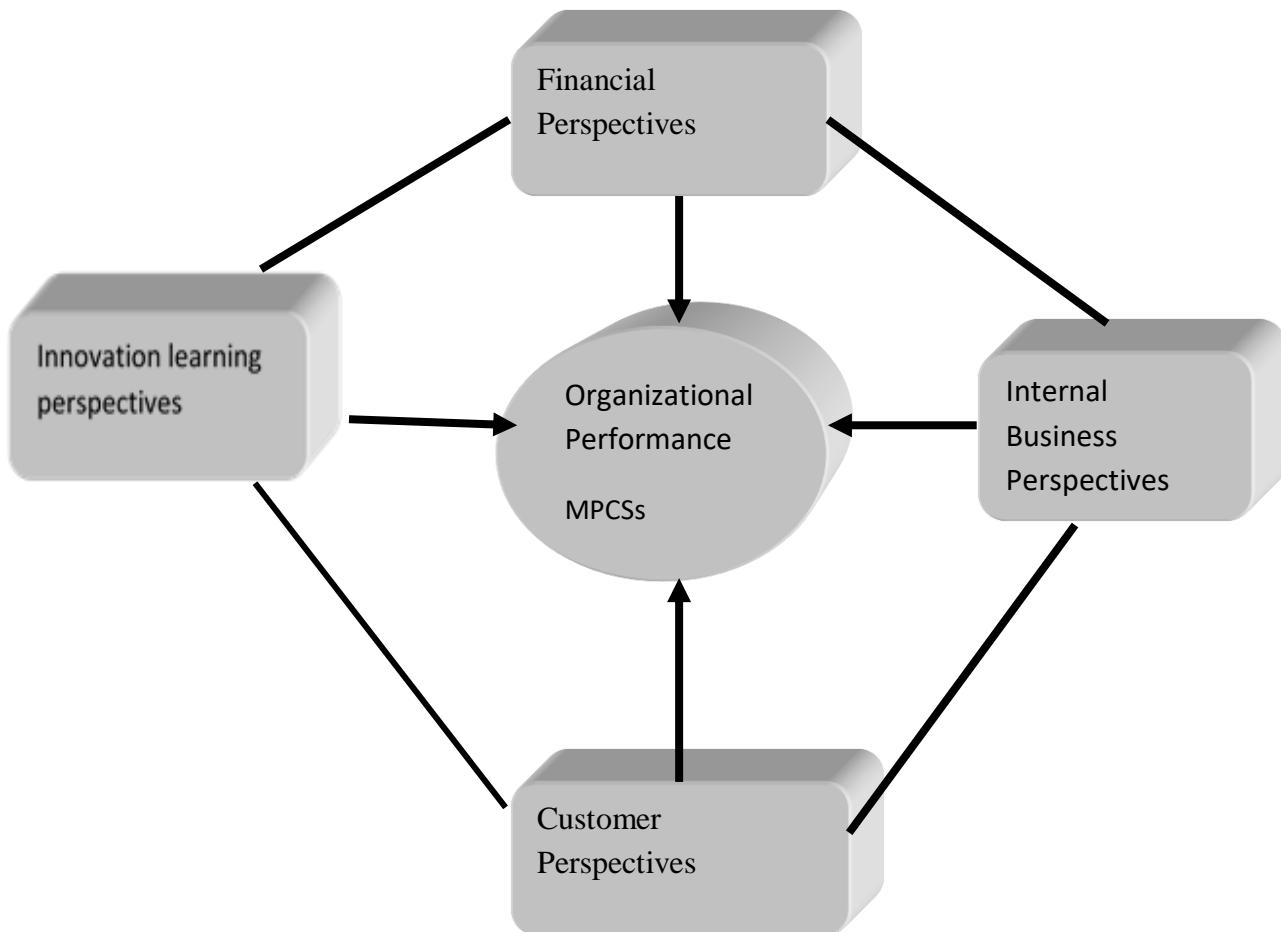
respondents reporting using the BSC, over 75% of these firms reported not relying on business models that causally link performance drivers to performance outcomes.

### **3. Research Methods**

#### **3.1. Conceptual Frame work**

Conceptual Frame of the study was derived from literatures and previous researches in balanced scorecard and modified according the research study.

Figure -01 : Conceptualization Model.



Source: Develop by Researchers



### **3.2. Operationalization**

#### **3.1. Operationalization of the Research**

<b>Concept</b>	<b>Dimension</b>	<b>Measure</b>
Financial Perspective	Return On Investment and or Capital Employed Liquidity position Financial Results (Quarterly/Yearly)	Percentage changes in ROI /ROCE Liquidity Ratios Revenue growth (percentage)
Customer perspective	Customer satisfaction Market share Customer retention	Customer satisfaction rate Customer percentage of market Customer retention rate
Internal Business Process	Activities per function Duplicate activities across functions Process alignment	Number of activities per function Number of such activities Preceding relationship
Learning and Growth	proficiency for the job Employee turnover  Job satisfaction  Training/Learning opportunities	level of expertise for the job Employee turnover rate  Job satisfaction rate  Number of Employees trained/ Developed

### **3.3. Population and sample of the study**

Population of the study covered active members, employees and Board of directors of MPCSSs in entire Jaffna District. It consisted of 24 MPCSS, 720 employees and 3612 active members. Stratified random sampling method was implemented to collect the data in order to justify the respondents' views. Thus the sample size was 108 employees (15% of Population ) and 361 members (10% of Population).

### **3.4. Data collection instrument**

The researchers collected the data as primary and secondary by using the following techniques.

- Questionnaires
- Interview



- Reports (Financial Statement, etc.)

The questionnaire was composed of questions related to all four perspectives and divided into two parts, Part A was allocated for employees and Board of Directors and Part B for Members as customers. The respondents were asked their agreement or evaluation of several statements through the application of a traditional five-point Likert scale ranging from a high of 5 to low of 1. The questionnaire was distributed to a selected sample of respondents involved

### **3.5. Data Presentation and Analysis Tools**

There are several useful presenting and analyzing methods available to researchers. In this research purpose, Researchers used Tables for the data presentation. For the Statistical Analysis, Descriptive Statistics (Mean & Standard Deviation), Correlation and Regression Analysis were made through SPSS statistical software. Correlation and regression analysis were used to test the research Hypothesis.

### **3.6. Hypothesis**

Hypothesis is a proposition which the research wants to verify. Hypotheses are generally concerned with the causes of a certain phenomenon or a relationship between two or more variables under investigation. In this range, the following hypotheses were developed to fulfill the specific objectives of this study.

H1: There is a strong relationship between the financial perspective and organizational performance.

H2: Learning and customer perspectives have more impact on Organizational performance

H3: Internal process has significant impact on the organizational performance of MPCSs

## **4.0. Results and Discussion**

### **4.1. Reliability and Validity Analysis**

In order to confirm the reliability of the data. The well-known measure of Cronbach's alpha was computed for variables; Perspectives in balance score card and organizational performance. The reliability value was 0.753, and 0.792 for perspectives and organizational performance respectively. The measures confirmed that the data was highly reliable to use ( $>0.70$ ) and then it was decided to continue the analysis.

Regarding the validity, an instrument with small modification from the model developed by Kaplan and Norton, (1996) was used. The statements included in the questionnaire are most suitable for the variable, because many researchers used these variables to measure the perspectives and performance, (Kaplan, and Norton, 1996, Deming, 1986, Ittner, et al, (1997). Hence the researchers satisfied with the content validity



#### **4.2. Study on four perspectives in MPCS**

The prevailing nature of the four perspectives in co-operative sector especially in MPCS was discussed by analyzing descriptive statistical tools namely mean and standard deviation.

Table 4.1. The Descriptive statistics of the variables

Perspectives	Mean	SD
Financial Perspectives	2.455	1.211
Customer Perspectives	2.766	1.117
Internal Process	2.331	1.922
Learning & Growth	2.451	0.962
Aggregate Performance	2.523	1.041

Source: Analyzed data

As described in the table 4.1, it is indicated that customer perspective has highest mean having a value of 2.766 whereas internal process has lowest mean with a value of 2.331 and the standard deviation is reserve. Next to customer perspectives, financial perspective and learning and growth have comparatively high mean value (2.455 & 2.451). These results shows that customer relations in MPCS is almost at moderate level and other three are below the average according to the respondents views. Therefore it is awakened that the MPCSs have to improve their financial performance, internal process, learning strategies and have good customer relations as Aggregate performance has below the average performance.

#### **4.3. Major Hypothesis findings**

The conclusions regarding hypotheses have been made in the following sections.

Correlation analysis was performed to test the strength and direction of the liner relationship between the financial perspectives and Organizational performance of MPCS. The result shown in the table 4.2 indicates that there is a strong positive relationship (0.841) between the financial perspectives and Organizational performance (H1: There is a strong relationship between the financial perspectives and Organizational performance). Therefore the first hypothesis is accepted in favour of the research hypothesis



Table 4.2: The relationship between financial perspective and MPCS Performance

	Financial	Performance
Performance Pearson Correlation	.841(**)	1
Sig. (2-tailed)	.000	
$r^2$	.707	
N	459	459

Source: Analyzed data

In order to test the second and third hypothesis, liner multiple regression model was applied.

Table 4.3: Impact of variables (Perspectives) on Organizational performance of MPCS

Model	Standardized Coefficients		T	Sig.
	Beta	B		
1	(Constant)		2.685	.008
	Financial	.242	4.622	.000
	Customer	.278	4.400	.000
	Internal process	.213	6.641	.000
	Learning & Growth	.259	7.991	.000

Source: Analyzed data

In this model (see table 4.3), beta (Standardized Coefficient) for financial, customer, internal process and learning & growth are respectively 0.242, 0.278, 0.213and 0.259. Which indicate that the impact of such perspectives on organizational performance of MPCS are respectively affected by 24.2%, 27.8%, 21.3% and 25.9%. (H2: Learning and customer perspectives have more impact on Organizational performance, H3: Internal process has significant impact on the organizational performance of MPCSs. Hence the second and third hypothesis are also accepted as customer and learning perspective have more impact on organizational performance than the other perspectives and internal process has significant impact (21.3%).

## 5. Conclusions

The results of this research could be concluded that the organizational performance of Multi-Purpose Co-operative societies in Jaffna District.is below the average as the aggregate performance has the mean value of 2.523 (<3). Further it is noted that all four perspective of balanced score card has significant impact on organizational performance of MPCS even they have slight differences in Beta coefficient values. As a whole it is summarized that MPCS in Jaffna district has to improve the efforts in connection with financial performance, Customer relation, and Learning & Development and Internal process mechanism.



## **6. Recommendation**

As a result of the survey, findings and observation during the research period, the researchers proposes to deal with some vital issues arising out of the study, make some specific recommendations and put forward some suggestions for effective implementation of performance measurement system through balanced scorecard. Such recommendations are

1. MPCSs have to increase the revenue by diversifying the investment as the survey indicated that Revenue growth and Return on Investment has lower percentage.
2. They need Further improvement in customer relationship even they have implemented some strategies as per customer retention ratio
3. Top level management of MPCSs have to make necessary steps to improve the existing internal process in order to increase the added value of the products they offer.
4. Learning opportunities for human recourse need to be accelerated and implement the human resource development strategies.

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