

## **CHAPTER II**

### **THEORITICAL BACKGROUND**

#### **A. Literature review**

There are some researches been done before dealt with performance measurement in higher education institutions using balanced scorecard. Liston (1999) has done his research by measuring performance of Curtin University of Technology using balanced scorecard metrics then he developed a strategic framework for Curtin University. Nayeri and friends (2008) done their research by using analytical hierarchy process methods (AHP) and balanced scorecard in evaluating strategies of six Iranian business schools. Karathanos and friends (2005) in their research used the Baldrige National Quality Program to compare the best practices of three schools recipient of Baldrige Education Award in 2001. They have tried to use balanced scorecard as framework to provide criteria of performance excellence in education.

In Indonesia, some academic activists had proposed balanced scorecard as an alternative tool of strategic management and performance measurement system in higher education institution. For examples: Dekawati (2009), has given academic contribution trough her writing which proposed the implementation of balanced scorecard in management strategic of private higher education institution in Indonesia. Suartika (2007), had used balanced scorecard in collaboration with integrated performance measurement system to develop a performance measurement system in faculty of Technics of Machine in Mataram University. Hidayat (2009), has

tried to use balanced scorecard as perspective in the management of higher education institution.

Tjahjono (2006) in his book, entitled “*Budaya organisasional & Balanced Scorecard; Dimensi Teori dan Praktik*”, has provided the framework in using balanced scorecard as a tool of implementation of strategic management in higher education institution. Mahsun (2009), in his book entitled “*Pengukuran Kinerja Sektor Publik*”, has included balanced scorecard as an alternative of performance measurement system used in the context of higher education institution. Indradjit and Djokopranoto (2006), in their book entitled “*Manajemen Perguruan Tinggi Modern*”, also had included the implementation of balanced scorecard as strategic management in higher education institution.

## **B. Theoretical Background**

### **1. Higher Education Institution as Public Organization**

There are some significant differentiation between private (business) and public organization. Business organization is a profit oriented organization while public organization is a nonprofit organization. Other things that differentiate business and public organization are on its goals, financial, stakeholder and outcome objectives. This can be seen in the table bellows:

**Table 2.1**  
**The Comparison of Private and Public Sector Organization**

<i>Feature</i>	<i>Private Sector</i>	<i>Public Sector</i>
<i>General Strategic Goals</i>	<i>Competitiveness; uniqueness</i>	<i>Mission success; best practices</i>
<i>Financial Goals</i>	<i>Profit; growth; market share</i>	<i>Productivity; efficiency; value</i>
<i>Stakeholders</i>	<i>Stackholders; buyers; managers</i>	<i>Taxpayers; recipients; legislator</i>
<i>Desired Outcome</i>	<i>Customer satisfaction</i>	<i>Customer satisfaction</i>

Source: Averson 1999 in Imelda 2004

The very significant different of private sector and public sector are its general goals and its financial goals. Financially, private sector focuses on profit, growth and its market share, while public sector focuses on productivity, efficiency and value. Private sector goals are gain competitiveness and uniqueness while public sector goals are mission success and best practices.

The management of higher education institution is nonprofit organization according to Government Stature (PP) No 61 year 1999 about state higher education and according to Indonesian constitution No 16 year 2001 about foundation, it is stated that a foundation is a law institution which serves to religion, social and humanity goals. This is the reason to view higher education institutions in Indonesia as a nonprofit organization.

Viewing the management of higher education institution through corporate dimension is to view higher education institution as an organization which serves society as its customer, by giving the process of teaching and learning and research.

The product of this kind of institution is knowledge. The customers of higher education institution are students and society that used its alumnus. Due to these differences the implementing of balanced scorecard in higher education institution has to be modified to fit the needs of organization.

## **2). Performance evaluation as reference for strategic management**

Every organization whether profit or non-profit organization done strategic planning as part of its strategic management. There are several approaches used in strategic planning. Some strategic planning models start with focus on the organization mission and vision and values (goals based). Some strategic planning models start by examining issues facing by organization whether internally or externally (issues based) (McNamara 1997).

Some universities and colleges set the strategic planning phases in more detail in a timetable of their annual planning cycle. Such a continuous process helps embed awareness of what planning is about to strengthen the communication, consultation, and expectations.

A strategic planning process is needed before developing an organization strategy. This is aim to provide the analysis of the internal and external environment that helps organization to define what kind of strategy that best suit for organization to achieve its objectives. Strategic planning is the part of the strategic management process which is concerned with identifying the institution's long term direction. It is a continuous, cyclical activity with three main phases (McNamara 1997):

1. Planning : researching and analyzing strategy and plans, generating ideas and choices
2. Documentation : documenting the plans
3. Implementation and monitoring: taking action to achieve the agreed goals, and monitoring progress or non-achievement in order to adapt the future strategy.
4. Evaluation

Environmental examination or some mentioned it as environmental scanning is in the early phase of strategic analysis, that explains organization current strategic position. Strategic position is the base of effective strategic planning because it captures the picture of environment and shows organization current position in the environment. The definition of environmental scanning according to Aguilar (1967) is as stated bellow (in Chun Wei Choo's 2001):

*Environmental scanning is the acquisition and use of information about events, trends, and relationships in an organization's external environment, the knowledge of which would assist management in planning the organization;s future course of action.*

Higher education institution does performance evaluation in aim to gain knowledge about its strategic position and its current performance. So that it may develop effective responses which secure or improve its position in the future. Positioning can be included in kind of strategic planning models. This approach started by doing environmental scanning both externally and internally and defining organization's strategic position in comparison with the other rivals accompanying.

This process is an analytic approach as the prerequisite of developing strategies (Nayeri et al 2008).

Some variant models of strategic analysis have been developed in organization to define organization strategic position. Balanced scorecard is one approach that has been developed as performance measurement tool in profit and nonprofit organization. This approach will be explained more in the next section.

### **3. Concept of Balanced Scorecard**

#### **a. Balanced Scorecard Perspective**

Balanced Scorecard is one of ways to measure the performance or it is a measurement system. This was first introduced by Norton and Kaplan through their writing, entitled "*The Balanced Scorecard-Measures That Drive Performance*" in Harvard Business Review, in 1992. This approach was a better development of the conventional tools in measuring the organization's performance. Where in the conventional methods only include the company's financial information, that is very limited to give a broad picture of the company's performance. Due to the non financial information were ignored in the analysis.

Norton and Kaplan's Balanced Scorecard, translates the organization mission and strategy into a set of framework of measurement and strategic management system (1996). According to them, balanced scorecard's approach provides information of an organization performance through four different perspectives, there are: financial, customer, internal business process and growth and learning.

The major premise of the balanced scorecard is that financial results alone cannot capture value-creating activities. In other words, financial measures are lagging indicators and as such, are not effective in identifying the drivers or activities that affect financial results. Kaplan and Norton (2006), suggested that organizations needed to develop a comprehensive set of additional measures to use as leading indicators, or predictors of financial performance. Balanced scorecard addresses these four perspectives:

#### **1) The financial perspective**

Measures in this perspective should answer the question, “How should we appear to our shareholders?”. In this perspective organization formulate it financial target and objective in the future. Then this perspective will be the foundation of the other three perspectives in determining measurement and targets. Financial perspective used to deal with profitability of organization that can be measured by profit, return on asset (ROA), return on equity (ROE) and other financial measurement. This perspective give benefit to measure whether the implementation of strategy give contribution to organization financially.

#### **2) The customer perspective**

These measures should answer the question, “How should we appear to our customers?”. Customer perspective identifies the customer and the market segment targeted by organization. One target of this perspective is the customer satisfactory.

The measurement uses are customer retention, satisfactory, customer, profitability, new customer acquisition, market share, etc.

### **3) Internal business process perspective**

Measures in this perspective should answer the question, “What processes must we excel at?”. Internal business process perspective is identifying organization process or activity in serving the customer and shareholders. Major components of this perspective are 1) Innovation process, that measured by the amount of new product, time of releasing new product to market, etc, 2) operational process, measured by the increasing the quality of the product and delivery time, etc, 3) service process, which is measured by the service after sale, time needed to serve customers, etc.

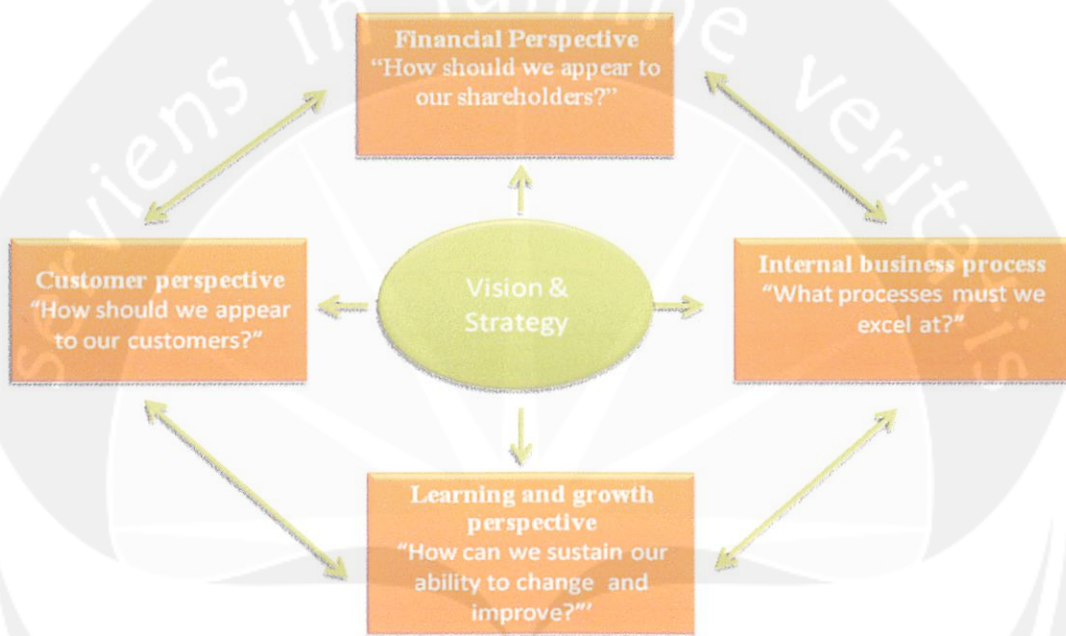
### **4) Learning and growth perspective**

These measures should answer the question, “How can we sustain our ability to change and improve?”. This perspective draws capability of organization in long term. Goals of this perspective are to provide infrastructure that the other three perspectives can achieve its targets. The goals in this perspective are to view the ability in increasing the competency of the employer, the information system and the collectivity and motivation. Measurements that used in this perspective are employer satisfaction, retention, the amount of suggestion and complaint from employer, etc.



Each perspective in balanced scorecard has an interrelationship with each other. It means that each perspective may give contribution to the increasing of performance of other perspectives.

**Picture 2.2**  
**Balanced Scorecard Perspectives**



Source: Adapted from Norton & Kaplan (1996)

### **b. Balanced Scorecard in Higher education**

Since the first time, balanced scorecard was introduced as a performance measurement tool in profit organization. Nowadays, balanced scorecard also been applied in non profit or public organization. Public organization is a public service oriented organization. Beside the different in orientation, profit and non-profit organization are different in its goals, strategies, financial, stakeholders and outcome.

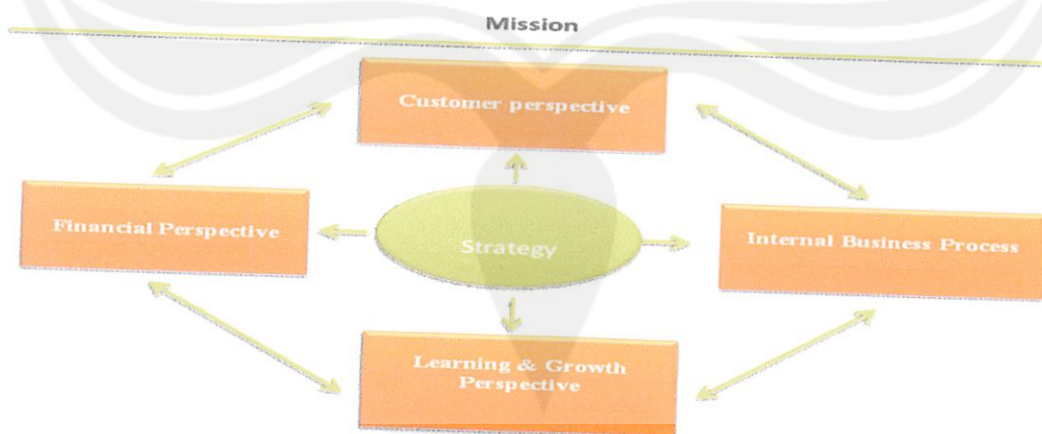
In public organization the effective and efficiency of the organization was measured by how well the organization serves the public or society.

Implementation of balanced scorecard in public organization has to be modified to fulfill the needs of organization (Imelda 2004). The changes of balanced scorecard in higher education institution are:

- 1) The orientation of public sector or nonprofit organization is to serve society by giving education service
- 2) The changes of position between the customer and financial perspectives. In profit organization the financial perspective is the first measurement while in nonprofit organization customer perspective is the first measurement.
- 3) Customers perspective are students and stakeholders

The picture of balanced scorecard in public sector is as shown in picture 3 below:

**Picture 2.3**  
**Balanced Scorecard Perspective in Public Sector**



Source: Adapted from Rohm 1999 in Imelda 2004

The implementation of balanced scorecard in various sectors has implied the modification of its balanced scorecard to fit the characteristics of each organization. The design of balanced scorecard in public organization has to be modified to fulfill the needs of higher education organization (Imelda 2004) due to it has different characteristics with others profit organization.

### **1) Customer Perspective**

Differs with profit organization which placed financial perspective as the most important measurement tool, higher education institution puts customer perspective as the first perspective. Who is the customer in this organization?. In higher education students can be viewed as the customers. In the operational process the customer or student are involved intensely in the operational process of the business process while in business activity the customers are apart from the production process of product and service. Using the input-transformation-output approach the input of university are the lecturer, staff, and student. The production process is the teaching process and the products of university are knowledge, teaching, and scholars or graduated students (Indrajit & Djokopranoto 2009).

The measurements in this perspective are customer (students) satisfaction toward the academic and administrative services, the teaching process and the facilities of the faculty (campus) such as library and computer laboratory.

## **2) Financial Perspective**

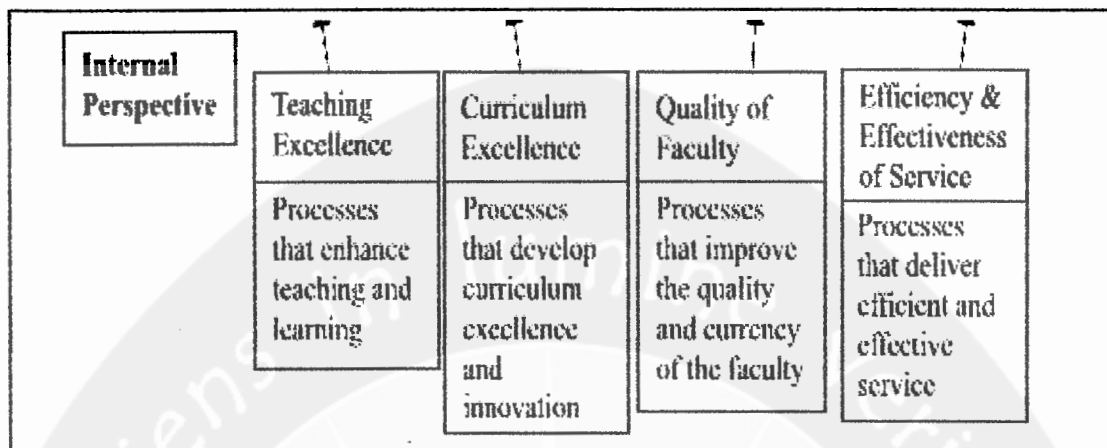
The financial perspective contains the tangible outcomes in traditional financial terms. This perspective views the growth and allocation of financial resources and income. It can be seen through organization profitability measured by profit, return on asset (ROA), return on equity (ROE) and others ratio. This perspective may show whether organization strategy implemented gives benefit financially or not toward organization.

Some resources to measure this perspective are: balance sheet and financial report.

## **3) Internal Business Process Perspective**

Papenhousen and Einstein (2006: 19) in their writing suggest this perspective as showing how the organization creates desired outcomes. The internal process perspective describes the critical internal processes that drive the stakeholder satisfaction and the college's financial outcomes. Internal business processes deliver the value proposition to stakeholders and drive the financial effectiveness. Indicators included in internal process perspective as suggest by Papenhousen (2006) is as shown in next page:

**Picture 2.4**  
**Internal Perspective in Higher Education Institution**



Source: Papenhausen and Einstein (2006)

This perspective is measured by how excel the internal business process of the faculty in these areas: its academic excellence services (teaching, consultation and research, curriculum excellence (book references and hand out), quality of faculty services (journal, electronic library) and efficiency and effectiveness of services such as internal efficiency rate and number of graduated students per year.

#### 4) Learning and growth perspective

The learning and growth perspective identifies the sets of skills and processes that drive the college to continuously improve its critical internal processes. This perspective is measured by three main groups of measurements there are employee's satisfaction, employee's productivity and employee's competency (Indradjit & Djokopranoto 2009). In this perspective the measurement will be taken from employee staff and lecturers in each economics faculty.

**(a) Employee's Satisfaction**

Level of employee's satisfaction is the accumulation expected by the employees (lecturer and staffs) such as salary, work environment, work relationship, etc. Employee's motivation can be viewed as main category of this measurement, reward been given to highly achievement employees.

**(b) Employee's productivity**

Employee's productivity is the total amount and quality of employee performance. Indicators in this measurement are: the presence of employee, suggestion from employee, the amount of academic writing and journal by lecturer, the amount of book produced by lecturer, the amount of research, the intensity in following academic seminar and be speaker of academic seminar.

**(c) Employee's competency**

Indicators of measurement in this perspective are the training and development of staffs and lecturers, organization willingness to send its employee to continue study (S2 & S3), employee's level of academic. All this variable are indicators that support the human resource capacity to perform excellence in their task.