BALANCED SCORECARD IN INSURANCE COMPANIES OF NEPAL

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ABSTRACT

Background - *The balanced scorecard is a management system that enables organizations to clarify their vision & strategy and translate these into action. It provides feedback on both the internal business processes and external outcomes in order to continuously improve strategic performance and results. The scorecard measures organizational performance across four balanced perspectives: a. Financial b. Customers c. Internal Business Processes and d. Learning and Growth*

Purpose *– The purpose of the study is to examine the application of BSC in Insurance Companies in Nepal*

Methodology *– Due to the specific nature of the research objectives, descriptive cum analytical research design has been used.*

Findings – *All the insurance companies have adequately developed and applied the approaches of BSC.*

Practical Implications *- This study has widely tested the four balanced perspective of BSC to measure the performance of insurance companies, which shall be a model for other Nepalese organizations in adopting these four perspectives for evaluating and enhancing organizational performance.*

Keywords – Balance Scorecard,

Paper Type – Research paper.

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Background

The Balanced Score-Card provides managers with the instrumentation they need to navigate to future competitive success. Today, organizations are competing in complex environments so an accurate understanding of their goals and the methods for attaining those goals is vital. The BSC translates an organization's mission and strategy into a comprehensive set of performance measures that provide the framework for a strategies measurement and management system. It captures the critical value creation activities created by skilled, motivated organizational participants, emphasizing that financial and nonfinancial measures must be part of the information system for employees at all levels of the organization. It is more than a tactical or an operational measurement system. Innovative companies are using the scorecard as a strategic management system, to manage their strategy over the long run. They are using the scorecard to:

a. Clarify and gain consensus about the strategy

b. Communicate strategy throughout the organization

c. Align department and personal goals to the strategy

d. Link strategic objectives to long term targets and annual budgets

e. Identify and align strategic initiatives

f. Perform periodic and systematic strategic reviews

g. Obtain feedback to learn about and improve strategy

The BSC retains an emphasis on achieving financial objectives, but also includes the performance drivers of these financial objectives. The scorecard measures organizational performance across four balanced perspectives:

* Financial

* Customers

* Internal business processes

* Learning and growth

The BSC enables companies to track financial results while simultaneously monitoring progress in building the capabilities and acquiring the intangible assets they need for future growth (Kaplan & Norton 1996)

Factors in BSC

The BSC is a set of performance targets and results relating to four dimensions of performance. The BSC is also a management method that focuses on achieving organizational objectives. It

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recognizes that organizations are responsible to different stakeholder groups, such as employees, suppliers, customers, community and shareholders. The BSC shows an organization's performance in meeting its objectives relating to stakeholders. Sometimes different stakeholders have different wants. For example, employees depend on an organization for their employment. Shareholders depend on an organization to maintain their investment. The organization must balance those competing wants. Hence, the concept of a BSC is to measure how well the organization is doing in view of competing stakeholder wants.

Insurance Companies in Nepal

Insurance is an arrangement by which a company or the state undertakes to provide a guarantee of compensation for specified loss, damage, illness or death in return for payment of a specified premium. It is necessary to develop insurance business in compliance with national need by embracing the globally accepted insurance norms to provide economic protection to all class of the people against natural and social risks while embracing the globally accepted insurance norms. Rights and interests of the insured are being safeguarded by regulating the insurance business through development, regularization thereby making the insurance business competitive and trustworthy in the delivery of quality and reliable insurance services to the public.

The Insurance Committee, established on 14th May, 1969, has been carrying out operations as a regulatory agency by systemizing, regulating, developing, and controlling the insurance business. Currently, there are 27 insurance companies in Nepal out of which 9 companies have been carrying out life insurance business, 17 companies involved in non-life insurance and 1 insurance company is engaged in reinsurance. According to figures of ownership structure of insurance companies, three are working as branches of foreign insurance companies, three on joint investment with foreign companies, 18 on private ownership, and two on Government ownership.

Types of Insurance Companies	Non-life	Life	Reinsurance	Total
Government	1	1	-	**2**
Private/Public	13	5	-	**18**
Foreign	2	1	-	**3**
Joint	1	2	1	**4**
Total	**17**	**9**	**1**	**27**

(Source: Insurance Board)

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Objectives of the Study

The main objective of the study is to examine the nature and magnitude of application of Balance Scorecard in insurance companies of Nepal.

Methodology Used

This study has followed both descriptive and analytical approach of research. A questionnaire survey was conducted for getting the answer of research questions. The questionnaire survey includes 20 questions. Questionnaires were distributed to 20 top, middle and lower level managers of various departments of each company. In order to increase the reliability and number of responses, personal visits to each and every respondent were made to distribute and collect the questionnaire.

The primary data has been analyzed using different statistical tools, like means, standard deviation; and coefficient of variance. Five scale Likert Scale has been used for analysis on which 1 represented worst and 5 represented best.

There are total of twenty seven insurance companies in Nepal, which constitutes the population of the study. For this study, only four insurance companies, *i.e. Rastriya Beema Sansthan (RBS), Premier Insurance Company (PIC), American Life Insurance Company (ALIC) and Nepal Life Insurance Company (NLIC)* have been selected as sample insurance companies. Selection of sample is based on judgmental basis.

Cronbach's Alpha test has been done to test the reliability of data. Each and every variable have been tested and it was found that every variable reliability test was above 90%.

Brief Profile of Sampled Insurance Companies

Name of the Insurance Companies	Types	Established Date	Ownership
Rastriya Beema Sansthan	Life/Non-life	December 15 1968	Government
Premier Insurance Company	Non-life	April 21 1994	Private/Public
American Life Insurance Company	Life	August 2 2001	Foreign
Nepal Life Insurance Company	Life	January 7 1988	Joint-venture

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Respondent's Profile

In this section, characteristics of respondents have been presented first gender wise and then age wise.

a) **Gender Wise Respondents**

Name of the Insurance Companies	Male (No.)	%	Female (No.)	%	Total
Rastriya Beema Sansthan	14	70	6	30	20
Premier Insurance Company	12	60	8	40	20
American Life Insurance Company	15	75	5	25	20
Nepal Life Insurance Company	13	65	7	35	20
Total	**54**	**67.5**	**26**	**32.5**	**80**

Majority of respondents were males i.e. 67.5%. But female respondents were also satisfactory i.e. 32.5% or in number 26 out of 80.

Highest number of male respondents was in ALIC and females were in PIC i.e. 15 and 8 in number out of 24 respectively. Similarly lowest number of males respondents were in PIC and female were in ALIC i.e. is 12 and 5 in number respectively.

The reason behind low number of female respondents is that all companies have high number of male employee,

b) **Age Wise Respondents**

Name of the Insurance Companies	20 - 35	%	35 - 50	%	above 50	%	Total
Rastriya Beema Sansthan	5	25	9	45	6	30	20
Premier Insurance Company	8	40	9	45	3	15	20
American Life Insurance Company	7	35	10	50	3	15	20
Nepal Life Insurance Company	8	40	8	40	4	20	20
Total	**28**	**35**	**36**	**45**	**16**	**20**	**80**

Majority of respondents were found to be between 35 to 50 years group i.e. 45%. Very few respondents fall in the category of above 50 years group i.e. 20%. Respondents in category 20 to 35 years group were 28 i.e. 29.86%. Majority respondents were in 35 to 50 age groups in all insurance companies i.e. 40% to 50%.

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Analysis of Balanced Scorecard in Insurance Companies

Different perspectives of BSC have been analyzed with main issues of each perspective

a. The Financial Perspectives

The financial perspective measures the financial performance of the insurance companies. It clearly indicates the company's strategy, implication, and execution for achieving organizations goals and objectives.

Name of the Insurance Companies	POI	CS	PI	SV	Total	Mean	S.D.	C.V
Rastriya Beema Sansthan	3.10	3.08	3.13	3.11	**12.42**	**3.11**	**0.021**	**0.67**
Premier Insurance Company	3.25	3.33	3.22	3.21	**13.01**	**3.25**	**0.054**	**1.66**
American Life Insurance Company	3.40	3.27	3.37	3.30	**13.34**	**3.36**	**0.061**	**1.82**
Nepal Life Insurance Company	3.56	3.50	3.42	3.62	**14.10**	**3.53**	**0.085**	**2.41**

POI (Profitability and Operating Income) is concerned with company's attempt to increase its profitability and operating income**.**

In all the companies, the value has been above average, i.e. 3. In case of NLIC it was the highest, i.e. 3.56 and in case of RBS it was lowest, i.e. 3.1. This indicates that all the companies have been more concerned about their profitability and operating income.

CS (Cost Structure) is concerned with the activities reducing unnecessary cost in the companies.

The value of 'CS' in all the companies has been above average, i.e. 3. In case of NLIC it has been 3.5, whereas in ALIC and PIC it has been 3.27 and 3.33 respectively. This shows that all the companies have been concerned about reducing unnecessary cost in the companies.

PI (Product Improvement) is concerned with an attempt that has been made to emphasizes on productivity improvement

This value has been higher than the average in all the companies. Individually NLIC outperforms all by scoring 3.42. In case of RBS it has been 3.13. This shows that all the companies have made efforts to improve its productivity.

SV (Shareholder's Value) analyzes the role played by the companies to increase shareholder's wealth.

The value of 'SV' in all the companies has been above average i.e.3. In case of NLIC, it has been the highest, i.e. 3.62. In case of RBS, it was the lowest, i.e. 3.11. This shows that

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management of all the companies has used different techniques to increase the shareholder's wealth.

From the above table, it is observed that mean value of all the companies has been above average, i.e. 3, which indicates that all the companies have been concerned about improving their financial performance.

In all the cases, the value of standard deviation has been below 1 and coefficient of variation has been 0.67% to 2.41%; this indicates that the mean of different companies has been trustworthy.

b. The Customer Perspectives

The customer perspective focuses on customer satisfaction, customer retention, new customer acquisition and customer profitability. The customer perspective enables business unit managers to articulate the customer and market-based strategy that will deliver superior future financial returns.

Name of the Insurance Companies	SC	CR	CP	BSCB	Total	Mean	S.D.	C.V
Rastriya Beema Sansthan	3.20	3.90	3.15	3.22	**13.47**	**3.37**	**0.356**	**10.56**
Premier Insurance Company	3.35	3.50	3.25	3.27	**13.37**	**3.34**	**0.114**	**3.41**
American Life Insurance Company	3.45	3.70	3.38	3.44	**13.97**	**3.49**	**0.142**	**4.07**
Nepal Life Insurance Company	3.40	3.80	3.45	3.42	**14.07**	**3.52**	**0.189**	**5.37**

SC (Satisfied Customers) is concerned with company's attempt to satisfy its customers.

In all the companies, the value has been above average, i.e. 3. In case of ALIC it was the highest, i.e. 3.45 and in case of RBS it was lowest, i.e. 3.20. This indicates that all the companies have been concerned to satisfy their customers.

CR (Customer Retention) is concerned with the activities performed by the companies to retain its customers.

The value of 'CR' in all the companies has been above average, i.e. 3. In case of RBS and NLIC it has been 3.9 and 3.8 respectively, whereas in PIC it has been 3.5. This shows that all the companies have been concerned about retaining its customers.

CP (Customer Profitability) is concerned with the company's activities for analyzing customer profitability

This value has been higher than the average in all the companies. Individually ALIC performed well all by scoring 3.38. In case of RBS it has been 3.15. This shows that all the companies have made efforts to improve its customer's profitability.

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BSCB (Company Services and Businesses by Customer) analyzes the services provided by the companies for maintaining regular businesses from the customers.

The value of 'BSCB' in all the companies has been above average i.e.3. In case of ALIC, it has been the highest, i.e. 3.44. In case of RBS, it was the lowest, i.e. 3.22. This shows that management of all the companies has tried to increase company's business for its regular customers.

From the above table, it is observed that mean value of all the companies has been above average, i.e. 3, which indicates that all the companies have been concerned about their customers satisfaction.

In all the cases, the value of standard deviation has been below 1 and coefficient of variation has been 3.41% to 10.56%; this indicates that the mean of different companies has been representative.

c. The Internal-Business-Process Perspectives

The internal-business-process focuses on the internal processes that will have the greatest impact on achieving insurance company's objectives. In other words executives identify the critical internal processes in which the organization must excel.

Name of the Insurance Companies	NPS	VAA	IP	ME	Total	Mean	S.D.	C.V
Rastriya Beema Sansthan	3.15	3.28	3.33	3.21	**12.97**	**3.24**	**0.079**	**2.44**
Premier Insurance Company	3.28	3.37	3.29	3.26	**13.20**	**3.30**	**0.048**	**1.45**
American Life Insurance Company	3.56	3.39	3.40	3.45	**13.80**	**3.45**	**0.078**	**2.26**
Nepal Life Insurance Company	3.46	3.42	3.44	3.52	**13.84**	**3.46**	**0.043**	**1.24**

NPS (New Products and Services) is concerned with company's attempt for adding new products and services to improve the company's income**.**

In all the companies, the value has been above average, i.e. 3. In case of ALIC it was the highest, i.e. 3.56 and in case of RBS it was lowest, i.e. 3.15. This indicates that all the companies have been more concerned about adding new products and services to improve the company's profitability.

VAA (Value Added Activities) is concerned with the efforts of management to increase value added activities.

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The value of 'VAA' in all the companies has been above average, i.e. 3. In case of NLIC it has been 3.42, whereas in RBS it has been 3.28. This shows that all the companies have been concerned about different activities to increase its value.

IP (Innovative Process) is concerned with the smooth operation processes within the companies for achieving better results

This value has been higher than the average in all the companies. Individually NLIC performed well all by scoring 3.44. In case of PIC it has been 3.29. This shows that all the companies have made efforts to smooth operation processes within the companies for achieving better results.

ME (Monitoring and Evaluation) is concerned with monitoring and evaluation of overall activities of the insurance companies.

The value of 'MV' in all the companies has been above average i.e.3. In case of NLIC, it has been the highest, i.e. 3.52. In case of RBS, it was the lowest, i.e. 3.21. This shows that management of all the companies has been followed different techniques for monitoring and evaluation of overall activities of the companies.

From the above table, it is observed that mean value of all the companies has been above average, i.e. 3, which indicates that all the companies have been concerned about improving their internal business processes.

In all the cases, the value of standard deviation has been below 1 and coefficient of variation has been 1.24% to 2.44%; this indicates that the mean of different companies has been trustworthy.

d. The Learning and Growth Perspectives

This perspective identifies the infrastructure that the organization must build to create long-term growth and improvements. Beside, this perspective focuses on investment in training & development of employees, enhancing new technology and aligning organizational procedures.

Name of the Insurance Companies	ES	ET	TD	IT	Total	Mean	S.D.	C.V
Rastriya Beema Sansthan	3.12	3.18	3.26	3.34	**12.90**	**3.23**	**0.096**	**2.97**
Premier Insurance Company	3.20	3.32	3.36	3.43	**13.31**	**3.33**	**0.096**	**2.88**
American Life Insurance Company	3.48	3.37	3.48	3.52	**13.85**	**3.46**	**0.064**	**1.85**
Nepal Life Insurance Company	3.46	3.30	3.42	3.32	**13.50**	**3.38**	**0.077**	**2.28**

ES (Employees Satisfaction) is concerned with company's efforts to satisfy its employees.

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In all the companies, the value has been above average, i.e. 3. In case of ALIC it has been the highest, i.e. 3.48 and in case of RBS it was lowest, i.e. 3.12. This indicates that all the companies have been made efforts to satisfy its employees.

ET (Employees Turnover) is concerned with the activities for reducing employees' turnover in the companies.

The value of 'ET' in all the companies has been above average, i.e. 3. In case of ALIC   it has been 3.37, whereas in RBS and PIC it has been 3.18 and 3.32 respectively. This shows that all the companies have been concerned about reducing employees' turnover in the companies.

TD (Training and Development) is concerned with training and development provided by the company to its employees for improving their productivity

This value has been higher than the average in all the companies. Individually ALIC outperforms all by scoring 3.48. In case of RBS it has been 3.26. This shows that all the companies have been concerned about providing training and development to their employees for improving their productivity.

IT (Information Technology) is concerned with adoption of new and better information technology.

The value of 'IT' in all the companies has been above average i.e.3. In case of ALIC, it has been the highest, i.e. 3.52 but in case of NLIC, it was the lowest, i.e. 3.32. This shows that management of all the companies has concerned about adoption of new and better information technology.

From the above table, it is observed that mean value of all the companies has been above average, i.e. 3, which indicates that all the companies have been concerned about development and improvement of the companies.

In all the cases, the value of standard deviation has been below 1 and coefficient of variation has been 1.85% to 2.97%; this indicates that the mean of different companies has been representative.

Balance Scorecard in Insurance Companies

This table explained the different perspectives of Balance Scorecard

Name of the Insurance Companies	FP	CP	IBP	LG	Total	Mean	S.D.	C.V
Rastriya Beema Sansthan	3.11	3.37	3.24	3.23	12.95	3.24	0.016	0.49
Premier Insurance Company	3.25	3.34	3.30	3.33	13.22	3.31	0.041	1.24

American Life Insurance Company	3.36	3.49	3.45	3.46	13.76	3.44	0.056	1.63
Nepal Life Insurance Company	3.53	3.52	3.46	3.38	13.89	3.47	0.069	1.99

FP (Financial Perspective) analyzes the role played by the banks to increase shareholders' wealth.

In all the companies, the value has been above average, i.e. 3. In case of NLIC it has been the highest i.e. 3.53 and in case of RBS it was lowest i.e. 3.11. This indicated that all the companies have been more concerned about improving financial performance and shareholders' interest.

CP (Customer Perspective) is concerned with an attempt that has been made to increase market shares and clientele satisfaction.

In all the companies, the value of 'CP' has been above average i.e. 3. In case of NLIC and ALIC, it has been the highest i.e. 3.52 and 3.49 respectively, whereas in PIC it has been 3.34. This showed that all the companies have been concerned about market shares and customer satisfaction.

IBP (Internal Business Process) is concerned with the activities reducing unnecessary cost in the banks.

This value has been higher than the average in all the companies. Individually NLIC outperforms all by scoring 3.46. In case of RBS it has been 3.24. This showed that all the banks have made efforts to reduce unnecessary expenditure.

LG (Learning and Growth) has been made to explore the different techniques used by the banks to increase the skill of the employees, hiring new employees and minimizing employee turnover.

In all the companies the value of 'LG' has been above average i.e. 3. In case of ALIC, it has been the highest, i.e. 3.46, but in case of RBS, it was the lowest, i.e. 3.23. This showed that management of all the companies has used different techniques for the employee development.

From above table, it was observed that mean BSC in all the companies has been above average, i.e. 3, in other words, all the companies used the principle of BSC. In case of NLIC, the value has been 3.47. This indicated that in terms of BSC, all the companies have performed satisfactorily.

In all the cases, the value of standard deviation has been below 1 and coefficient of variation has been 0.49% to 1.99%; this indicated that the mean of different companies has been representative and trust worthy.

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Conclusion

BSC in all the insurance companies is more than the average. This indicates that the companies have adopted and adequately developed and applied the approaches of BSC and considers all the perspectives of BSC to be equally important.

Since the insurance companies have been benefited by the use of BSC approach, the authorities of the companies are suggested to pursue researches to measure the effectiveness of BSC perspectives from time to time.

Besides, it is recommended that the companies should develop effective monitoring and evaluating activities for achieving its objectives. Advanced information technology should be used in the companies.

New and latest training opportunities should be provided to the employees. Effective policies & strategies should be formulated for maximizing shareholder wealth. Similarly, priority should be given for developing infrastructure so that companies can satisfy its customers and able to maximize its productivity.

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