

Determination of Performance Measures used in Balanced Scorecard for Insurance Companies in Turkey¹

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Abstract

Performance measurement is essential word for every business. Balanced scorecard is one of the methods which are used for performance measurements. In recent years, balanced scorecard is an attractive method. Most of studies conducted were practiced in non-financial sector in Turkey. Financial sector is one of the important sectors. The performance of financial sector must be improved by new different methods. So this paper was done to show to be practicability in insurance company which is important for financial sector. In this paper, survey was sent to experts who work in Insurance and Reinsurance Companies of Turkey to determine measures which are used in balanced scorecard's perspectives. And then data obtained was analyzed with SPSS13. In consequence of analysis, measures were determined according to order of importance to be able to use in balance scorecard.

Key Words: Balanced Scorecard, Insurance Company, Firm Performance

1. INTRODUCTION

Nowadays, firms want to improve their management strategies. Because these firms want to strengthen in presence of rivals. Because of this a firm has to have a performance measurement system which dominates over all parts of a firm. Kaplan and Norton (1992:71), assimilated to manage a firm like being in a cockpit. A pilot must to know every indicator like fuel, air speed, altitude, bearing, destination and other indicators during the flight. Looking at only one indicator might produce deadly results. So it is necessary to use many indicators. In the same way, simultaneously using many indicators for manages performance.

With the transition to information age, the change and transformation influenced organizational structure and management method (Cukurcayır and Eroglu, 2004:42). At the same time, increasing importance of global competition and service sector increased the need for alternative control and performance measures (Davis and Albright, 2004:136). In the last 15-20 years ago, firms measured corporate performance with such as revenue, cash flow which was acquired with the help of the balance, income statement, and cash flow statement. However as a result of such as changed and progressive customer, intellectual capital, brand value, human resources, it was stated that financial perspectives on the activities of the past periods was inadequate to measure real value of firms and real value of performance (Utkutuğ, 2008:56). In addition to this, this situation prevents improvement and innovation. Another idea has emerged that operational measures should be adopted and accordingly financial measures self improvement will take place. In the short, a single aspect of performance should not include all critics. So there is no need to choose between financial (traditional) and non-financial (operational) perspectives, as a result it will be balance between financial and non financial perspectives (Yenice, 2007:97). Therefore balanced scorecard occurred to compensate for deficiencies resulting from only used financial measures (Asosheh, Nalchigar ve Jamporazmey, 2010:5931). In this context balanced scorecard has managed to attract the attention of both academics and administrators (Ahn, 2001:441).

Balanced scorecard translates mission and strategy into objectives and measures. While it is doing so, it take advantages of four perspectives- "financial", "customer", "internal business process", "learning and growth perspectives"- (Kaplan and Norton, 1996). Financial and customer perspectives define what organization to achieve, internal business process and learning and growth perspectives define how implement the strategy (Kaplan and Norton, 2004:12). If four perspectives of the balanced scorecard are used at the same time, business reaches the goals and objectives (Yenice, 2007:99).

Balanced scorecard was early introduced by Kaplan and Norton in 1992. Since that time, balanced scorecard has become widespread. Kaplan and Norton (2001), focused on a different approach rather than assigning measures with balanced scorecard. These different approaches are considered to manage change, increase firm's effectiveness, efficiency and competitive advantage (Asosheh et al., 2010:5932). In addition to this, employees' activities and targets are aligned with the firm's strategy (Davis and Albright, 2004:135).

¹ Thanks to Association of the Insurance and Reinsurance Companies of Turkey for the contributions of applying survey.

Balanced scorecard is used in firms, industry, government, non-profit organizations (Alptekin, 2008:680). Slightly it is more extended by R&D, (Eliat, Golay and Shtub, 2008), e-commerce (Asosheh et al., 2010), supply chain (Bhagwat ve Sharma, 2007), health, banking (Al-mawali, Zainuddin and Ali, 2010:1722). According to Kaplan and Norton (1996:85), Companies are using the balanced scorecard to:

1. Clarify and update strategy
2. Communicate strategy throughout the company
3. Align unit and individual goals with the strategy
4. Link strategic objectives to long term targets and annual budgets
5. Identify and align strategic initiatives
6. Conduct periodic performance reviews to learn about and improve strategy.

Early 1992 Kaplan and Norton stated that non-financial measures and in addition to financial measures must be used to decide to manage. Then in 1996 they linked balanced scorecard to organization's strategies. They made four steps connected with each other to translate the strategic objectives to tangible objectives and measures. These steps are: clarifying and translating vision and strategy, communicating and linking strategic objectives and measures, business planning and target setting and enhancing strategic feedback and learning. In 2001 they developed five basic principles to keep strategy the focus of organization's management process. These principles are: translate the strategy into operational terms, align the organization to the strategy, make strategy everyone's everyday job, make strategy a continual process, and mobilize change through executive leadership. After these processes balanced scorecard is a tool to develop strategy and to convenience for performance measurement systems rather than definition of performance management (Braam, 2004:338).

2. INSURANCE AND TURKISH INSURANCE COMPANY

Insurance is safety facility and it was created 700 years ago and to bring people who cannot afford something alone. So they can afford all together. Since those days it has shown that it is essential. In today's world, to carry out insurance activities which entered into every area of life with nested, there are companies set up solely for this work. People need to feel safe in his economic and social fields. So this requirement has created a big industry in the world. In Britain -enhanced insurance, in order to assess the premiums they collect, insurance companies set up banks. Insurance which covers our country is indispensable of the financial state of the economy. An insurance company can handle risks but after a particular level cannot handle. In such a case, insurance companies will transfer the rest of risk to reinsurance companies which are the insurer of companies. These companies also transfer some risks to another company (Başpınar, 2005:5).

To be understood, target of insurance is not to exactly handle. The target is to meet many people who face the same risk and to ensure risks with statistical method (Reasürör, 2011:5). Below there is a general information about insurance sector.

Table1: General Information of Insurance Sector

	2010 June	2011 June
Number of Companies	57	58
Insurance	56	57
Life	9	7
Non-Life	33	34
Life & Pension	14	16
Reinsurance	1	1
Insurance Companies According To Ownership		
Domestic	22	21
Foreign	34	36
Number of Agencies	15.852	16.386
Number of Employees	15.843	15.468
Total Assets (TL)	30.977.343.859	38.291.059.370
Total Capital (TL)	6.489.852.422	7.272.555.125

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In 2010, total number of companies is 57 but in 2011 it is 58. Both of the two years, there is one reinsurance company. Although there are 9 life insurance companies in 2010, in 2011 the number dropped to 7. But increased number of non-life insurance from 33 to 34. Likewise number of Life & Pension increased from 14 to 16. In 2010 domestic companies had a decreased number but foreign companies had an increased number. Despite increase of number of agencies in 2011 compared to 2010, there was decline in the number of employees. Besides both of years, total assets and total capital is increased.

3. THE PURPOSE OF THE RESEARCH

Recently, insurance is a developed and an attractive sector. So insurance, which is the element of financial sector, has been operating in the service sector. And addition to this, insurance, which has a lot of working about, contributes to economy.

When the other studies about balanced scorecard are examined, there is no study in detail about insurance companies in Turkey. That's why this study is about balanced scorecard for insurance companies in Turkey. By introducing balanced scorecard, insurance companies can achieve easily strategic targets. This balanced scorecard is widely used in commercial industry. But it is clear that it is not widely used in financial sector. The balanced scorecard developed by Kaplan and Norton, is used in financial sector less than commercial industry for Turkey. So insurance which is the element of financial sector was chosen in this study. Thus, a system for insurance companies to achieve strategic targets will be created.

4. DATA AND RESEARCH METHOD

First of all, a survey was prepared to determine future targets and identify sub-criteria to be used for four perspectives (Financial, customer, internal business process and learning and growth) of balanced scorecard. In this survey used measures in this survey chosen from the commonly used measures from literature. For this list, some studies were examined. The list of studies is Kaplan and Norton (1996), Baspınar (2005), Niven (2006), Ege and Bayrakdaroğlu (2009) and other studies from literature. After the measures were converted into survey, was sent to Association of the Insurance and Reinsurance Companies of Turkey. 41 experts responded to survey. They arranged five measures from the list. These measures were wanted to be thought that which measures were important for their companies. So experts decided which measures are most important for their companies. 95,2 % (39 surveys) of Surveys were used and 4,88% (2 surveys) are regarded as invalid. The data obtained from surveys was analyzed by SPSS13 .

5. RESULTS

Results of analysis are shown in table below.

Table 2: Measures in Financial Perspectives

<i>Financial Measures</i>	<i>Mean</i>
Accounting Profit/ Equity	2,0225
Technical Profit/Premium Received	3,6410
Loss Ratio	4,0510
Banded Rates	4,8205
Accounting Profit / Premium Received	5,0769
Equity / Technical Provisions	5,1026
Premium Received / Equity	5,4359
Retention Rate	5,5385
Profit Before Tax / Premium Received	5,5641
Agency Claims /Equity	5,5897
Liquid assets /Total assets	5,5897
Liquid assets /Short term Liabilities	5,6154
Compensation /Payment Rate	5,6154
Expense Ratio	5,6667
Profitability of Insurance Funds	5,6667
Net assets/ Insurance Funds	5,8462
Premium Reinsurance Receivable/ Total Assets	5,8718
Total Loans/ Total Assets	5,9231

Measures of financial perspectives are Accounting Profit/ Equity (2,0225), Technical Profit/Premium Received (3,6410), Loss Ratio (4,0510), Banded Rates (4,8205), Accounting Profit / Premium Received (5,0769), Equity / Technical Provisions (5,1026), Premium Received / Equity (5,4359), Retention Rate (5,5385), Profit Before Tax / Premium Received (5,5641), Agency Claims /Equity (5,5897), Liquid assets /Total assets (5,5897), Liquid assets /Short term Liabilities (5,6154), Compensation /Payment Rate (5,6154), Expense Ratio (5,6667), Profitability of Insurance Funds (5,6667), Net assets/ Insurance Funds (5,8462), Premium Reinsurance Receivable/ Total Assets (5,8718), Total Loans/ Total Assets (5,9231).

The first five measures of financial perspectives are listed as follows Accounting Profit/ Equity (2,0225), Technical Profit/Premium Received (3,6410), Loss Ratio (4,0510), Banded Rates (4,8205), Accounting Profit / Premium Received (5,0769). While there are huge differences between first and second measures, there is no much difference between other measures. Although there are no huge differences between last five measures, The last five measures are listed as follows Total Loans/ Total

Assets (5,9231), Premium Reinsurance Receivable/ Total Assets (5,8718), Net assets/ Insurance Funds (5,8462), profitability of Insurance Funds (5,6667), Expense Ratio (5,6667).

Table 3: Measures in Customer Perspectives

Customer Measures	Mean
Customer Satisfaction	2,1795
Market Share	4,0513
Customer Loyalty	4,4615
Rate of New Customer Acquisition	4,5128
Customer Profitability	4,7949
Customer Complaints	4,8462
Brand Recognition	5,1538
Number of Customers	5,2564
Total Cost to Customer	5,3077
Agencies Performance	5,5641
Customer Loss	5,6667
Adds Cost as a Percentage of Sales	5,6923
Cancellation Rate of Sales	5,8462
Frequency (Number of Sales Transactions)	5,9744

Measures of customer perspectives are Customer Satisfaction (2,1795), Market Share (4,0513), Customer Loyalty (4,4615), Rate of New Customer Acquisition (4,5128), Customer Profitability (4,7949), Customer Complaints (4,8462), Brand Recognition (5,1538), Number of Customers (5,2564), Total Cost to Customer (5,3077), Agencies Performance (5,5641), Customer Loss (5,6667), Adds Cost as a Percentage of Sales (5,6923), Cancellation Rate of Sales (5,8462), Frequency (Number of Sales Transactions) (5,9744).

The first five measures of customer perspectives are listed as follows Customer Satisfaction (2,1795), Market Share (4,0513), Customer Loyalty (4,4615), Rate of New Customer Acquisition (4,5128), Customer Profitability (4,7949). While there are huge differences between first and second measures, there is no much difference between other measures. Although there are no huge differences between last five measures, The last five measures are listed as follows Frequency (Number of Sales Transactions) (5,9744), Cancellation Rate of Sales (5,8462), Adds Cost as a Percentage of Sales (5,6923), Customer Loss (5,6667), Agencies Performance (5,5641).

Table 4: Measures Internal Business Process Perspectives

Internal Business Process Measures	Mean
Customer Database Availability	3,3846
Employee Benefit Rate	3,8718
Number of Positive Media Stories	4,6154
Consistency of Claim to Compensation	4,6410
Business Mix to Marketing Segments	4,8718
Community Involvement	5,0256
Frequency of Claim to Compensation	5,2051
Frequency (Cancellation of operations)	5,4359
Quality of The Policies	5,5897
Loss Ratio	5,6154

Measures of internal business process are Customer Database Availability (3,3846), Employee Benefit Rate (3,8718), Number of Positive Media Stories (4,6154), Consistency of Claim to Compensation (4,6410), Business Mix to Marketing Segments (4,8718), Community Involvement (5,0256), Frequency of Claim to Compensation (5,2051), Frequency (Cancellation of operations) (5,4359), Quality of The Policies (5,5897), Loss Ratio (5,6154).

The first five measures of internal business process perspectives are listed as follows customer Database Availability (3,3846), Employee Benefit Rate (3,8718), Number of Positive Media Stories (4,6154), Consistency of Claim to Compensation (4,6410), Business Mix to Marketing Segments (4,8718). While there are no huge differences between first and second measures, there are little differences between the second one and third one but there is no much difference between other measures. Although there are no huge differences between last five measures, The last five measures are listed as follows Loss Ratio (5,6154), Quality of The Policies (5,5897), Frequency (Cancellation of operations) (5,4359), Frequency of Claim to Compensation (5,2051), Community Involvement (5,0256).

Table 5: Measures in Learning and Growth Perspectives

Learning and Growth	Mean
Employee Satisfaction	4,0256
Invest in Training Employee	4,2821
Motivation	4,7692
Reward and Incentive	4,7949
Communication Between Employee and Departments	4,9231
Employee Offers	4,9744
Quality of The Work Environment	5,0000
Employee Improvement	5,0256
Employee Productivity	5,2821
Time for The Training of Employees	5,4359
Ethics Violations	5,5641
Leadership Development	5,6154
Absenteeism	5,7179
Support Operating System	5,8718
Turnover Rate	5,8974
Employee Participation in Professional or Trade Associations	6,9487

Measures of learning and growth perspectives are Employee Satisfaction (4,0256), Invest in Training Employee (4,2821), Motivation (4,7692), Reward and Incentive (4,7949), Communication Between Employee and Departments (4,9231), Employee Offers (4,9744), Quality of The Work Environment (5,0000), Employee Improvement (5,0256), Employee Productivity (5,2821), Time for The Training of Employees (5,4359), Ethics Violations (5,5641), Leadership Development (5,6154), Absenteeism (5,7179), Support Operating System (5,8718), Turnover Rate (5,8974), Employee Participation in Professional or Trade Associations (6,9487).

The first five measures of learning of growth perspectives are listed as follows Employee Satisfaction (4,0256), Invest in Training Employee (4,2821), Motivation (4,7692), Reward and Incentive (4,7949), Communication Between Employee and Departments (4,9231). There are no huge differences between all measures. Although there are no huge differences between last five measures, The last five measures are listed as follows Employee Participation in Professional or Trade Associations (6,9487), Turnover Rate (5,8974), Support Operating System (5,8718), Absenteeism (5,7179), Leadership Development (5,6154).

CONCLUSION

Through this study, measures in balanced scorecard of insurance companies which are operating in Turkey have been determined. Consequently insurance companies might regard to these measures. In this way companies can improve their performance significantly and work more efficiently also improve performance by determining measures which reduce the performance. In this way companies which have improved performance, make a major contribution to the economy particularly in finance sector.

Implementation of balanced scorecard in financial sector and explain this implementation in detail has not been encountered frequently in the literature. With the result, this study contributes to literature also guides those who wish apply balanced scorecard for insurance companies.

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