

CHAPTER II

LITERATURE REVIEW

2.1 Previous Research

The use of balanced scorecard is not limited only to business industry or profit oriented organization, the non-profit organization can also use the balanced scorecard to measure their performance. Hladchenko (2015) mentioned, that universities are one of the non-profit organizations. Thus, in implementing the balanced scorecard the universities must pay more attention on special characteristics on the activity. By the implementation of balanced scorecard, it can provide a framework for communicating the values and objectives of the institutions and the contributions towards the objectives. Moreover, the balanced scorecard helped the management in assisting problem that occurs due to institution's strategic goals.

Philbin (2011), discussed about the design and its implementation of balanced scorecard in university institution. The study pointed the importance of performance measurement system for universities which use balanced scorecard (BSC) as their tool. One of the examples mentioned the use of BSC in managing intellectual property right. This method is proven to bring the economical and non-economic benefits to the university. Not only that, the study explained more deeply about how to implement the BSC in educational institution. The first step begun with the design of strategy map which help to clarify the areas of academic and stakeholders' management. The four BSC perspective are modified according to the stakeholder needs, institute management team and industrial partner. The

implementation of BSC was then begin, and then it produced reports which need to be discussed at the board meeting. The implementation of BSC is being continue as a tool to track the management performance. There are four benefits mentioned from using the balanced scorecard for institutions, as follow:

1. *Access to a central source of data and information that was previously located in dispersed areas across the Institute.*
2. *Scorecard reports provide specific information on the development of the Institute research and teaching capability and this contributes to improve decision making, e.g. decisions on which training courses to be developed in the future.*
3. *Identification of the monetary value of financial leverage is used by the Institute's industrial sponsor to justify the value for money case for its investment.*
4. *The ability to track and measure performance of the Institute systemically, which includes consideration of finance, people development, institute capability and research output, contributes to the sustainability of the Institute through identification of tangible outcomes and evidence to support the Institute's business case.*

However, the weakness of the study was only involving a single application of BSC which may be described in terms of normative study.

A study by Brown (2012) discussed about the challenge and opportunities of the application of balanced scorecard (BSC). The aim of the study is to evaluate the application of BSC for higher education institution as a non-profit sector. One of the ideas mentioned in this study is the acquirement of equilibrium between financial and non-financial, which mentioned as the core of the implementation of BSC system. The BSC is currently being implemented in many higher educational institutions which resulted in the consistent focus in the

organization. BSC is also claimed as an effective communication tool for higher educational institution, which help the management in allocating their resources and also communicating the needs of internal and external stakeholder. As an evidence, this study discussed several universities which have already implemented the BSC, one of it is the University of California System which implement the BSC for measuring their partnership performance. In the study of St. Scholastica college, the implementation of BSC begins with the strategy map which expressed the cause and effect relationship in various perspective, then it continues to the development of objectives which support the overall's goal of the institutions. However, as by McDevitt, Giapponi, and Solomon in Brown (2012), the implementation of BSC in St. Scholastica does not implemented spready in all aspects, the aspect of service and outreach perspective should be included.

Syafruddin (2018) conducted a study about the implementation of balanced scorecard in accounting education in specified university which is Universitas Islam Indonesia. This research focuses on the performance of accounting education in Accounting Department, Universitas Islam Indonesia and its contingency to its quality goals. The BSC four perspectives which are finance, customer, internal process and learning & growth were directly applied and discusses in this study, in order to measure the accounting education, quality in higher education and students as customer of Universitas Islam Indonesia. According to the BSC measurement done by Syafruddin (2018), in the scope of accounting education by Department of Accounting International Program Universitas Islam Indonesia concluded that the organization did not achieved the

quality goals as well as the international students and lectures because of the minimum effort by the management in achieving the quality goals.

In spite of the study about the balanced scorecard (BSC), the study about international program are discussed specifically by Altbach & Knight (2007). The terms introduced by Altbach & Knight (2007) is internalization of education. The internalization of education is a result of the globalization competition among higher education institution. One of the aims of international education offered by several institutions is the profit. Education institution used the international market by attracting the students who are aiming for higher education. The international program university have different offer compared to the non-international program universities. One of it is the English language as lingua franca. This English language is used in all activities which then can accept foreign students who mastered language. Not only that the cross-culture environment as well as foreign universities partnership are becoming the competitive advantage that are offered by the universities. This research also discussed about the condition of internalization of education from around the world. It classifies the location based on their continent. The international program or the internalization of knowledge currently have spread in almost all country which kept on developing to obtain better quality programs.

2.2 Theoretical Review

Performance measurement is a topic that are currently often being discussed. However, in the research of performance measurement there are still lack of theoretical foundations that can be applied in the further research

(Ferreiraa, Otley, 2009). The contingency theory was first adopted in management accounting which focuses to help the organization structure (Otley, 2016). As cited by Otley (2016) it mentioned that

a contingency theory must identify specific aspects of an accounting system which are associated with certain defined circumstances and demonstrate an appropriate matching.

The terms of contingency theory in the management accounting is relatively related to the studies of effective organizations and the contingency of organization and its environment. By the future time, the adoption of contingency theory in management accounting are further elaborated by Lawrence and Lorch, which then it creates the Lawrence and Lorch theory (Brooklyn Derr, 2015). According to Brooklyn Derr, (2015), the Lawrence and Lorch theory is as follows:

Lawrence and Lorsch viewed organizations as open systems capable of internal differentiation and developed a contingency model for studying the relationship between environment and internally differentiated complex organizations.

By the time, contingency theory was developed and adopted in the performance measurement studies. The contingency theory was then implemented in the performance measurement of non-profit organization, which concluded that there are variety of organizational factors that can influence the performance measurement such as organization's structure, strategy, technology and others. The external environment is also an influential factor for organization. Thus, it explained that contingency variables affect the performance measurement and the organization effectiveness (Wadongo, 2014).

A performance measurement framework can also be used in this research. According to Ferreira in Otley (2009) this framework can be used for the management control system (MCS) operations in profit organization as well as non-profit organization. Not only that, it can also be used in dealing with case-based research as well as the control mechanism such as the use of balanced scorecard (Ferreira, 2002). Otley (1999) developed the performance management framework which aims in four areas of performance management. The first area, it aims on key of organization's objectives, process and methods obtained in assessing the level of achievement. The second area, it aims on the process of formulating and implementing strategies and plans and the performance measurement and the evaluation process itself. The third area, it aims on the process of setting the performance targets as well as the levels of target set. The fourth area, it aims on the rewards system used by the organization and their implication.

2.2.1 Internationalization of Higher Education

In these recent years, as the numbers of universities around the world are increasing, the terms internalization of education are becoming more familiar. In defining the internalization of education, the same writer states as,

a dynamic process and not a set of isolated activities, integration or infusion that contributes to the sustainability of the international dimension (Qiang, 2003).

According to Altbach & Knight (2007), the internalization of education is a result of a globalization condition. As it explained further,

the results of globalization are such the use of English language as lingua franca, the development of IT as well as the growing international market for labor, scholars, and scientist. Thus, from the description from different researchers, the definition of internationalization of education is align.

Details regarding to the implementation of internationalization of education in university level are the internationalized education should provide students with range of different programs such as study abroad and faculty exchange. The university also should stress more on the attracting the international students to achieve the cross-culture environment among the students (Criswell and Zhu, 2015). The statement is supported by Altbach and Knight (2007) that mentioned the activities that should be ranging from the traditional to abroad programs, environment that enable students to learn about other culture, as well as providing access to other higher institution in other countries. Not only that the internationalized higher education should provide the curriculum which are enrich with the international studies or area of studies, strengthen the instruction of foreign language and also providing sponsorship for the foreign students (Siaya & Hayward in Altbach & Knight, 2007).

Another issue regarding to this internationalization of education is in the financial area. One of the motivation of establishing the internationalized educational program is to earn profit (Altbach & Knight, 2007). The same writer also mentioned that education is now entering the international

market for higher educational institution. Beside that, it aims on the undergraduate students who are seeking for overseas academic and cross culture experiences. Thus, it requires students who are willing to choose the internationalize program or universities must pay more than the regular program. Dewey and Duff in Albacch & Knight (2007) agreed that it should be very expensive because students need to travel and work in the overseas. However, since the number of internationalize education are keep increasing, it become a concern for World Trade Organization (WTO) which then classify international education as a commodity which is freely trade and as a private goods.

2.2.1.1 International Program in Universitas Islam Indonesia

International program (IP) of UII is the international class of UII which is only offered in several faculties that use the foreign language as lingua franca (“International Program” n.d.). Besides, the academics study, IP UII provide the non-academics study to enrich students’ soft skill through programs such as character building program to prepare the students of IP UII in achieving global leadership characters. The students of IP UII will have opportunity for international activity mobility, such as exchange programs, double-degree programs, in several partnership university such as Saxion University of Applied Sciences, University of Gloucestershire, Youngsan University, The University of Queensland, and Nanjing Xiaozhuang University.

In the first establishment of IP UII, there were only three faculty which has the International Program, those are, faculty of economics, faculty of law, and faculty of industrial engineering. Currently, UII offers more international classes as follows:

Table 2.1 Study Programs offered in International Program UII

Study Program	Language of Instruction
Management	English
Accounting	English
Economics	English
Law	English
Industrial Engineering	English
Civil Engineering	English
Architecture	English
Ahwal Al Syakhshiyah	English & Arab
Communication Studies	English
International Relations	English

(Source: <https://www.uui.ac.id/international/international-program-en/>)

2.2.2 Balanced Scorecard Four Perspective

The balanced scorecard (BSC) was introduced by Kaplan and Norton (1992) in their article in the Harvard Business Review. The establishment of BSC aims to measure the performance of organizations which are very crucial for the organization's management (Kaplan, 2010). In the development of BSC, the BSC is not only applied in business organization but, it also applied in the non-profit organization. Kaplan (2010) claimed that BSC have been adopted by thousands of private, public also non-profit organizations from around the world because the BSC approach brings benefit for organizations to make improvement.

In introducing the balanced scorecard, it includes the four perspectives of BSC for measurement. Syafruddin (2018) further described the four perspectives of BSC based on Kaplan & Norton (1996: 25-28) as follows:

1. **Financial Perspective:** *The results of the business' activities are measured at that dimension. Using the measures which give open and obvious results, the company's profitability, operating income, return on investment and economic value added are put forth by that dimension of BSC. Similarly, the measurements regarding cash flow and sales targets are included in the financial dimension.*
2. **Customer Perspective:** *It is about the customer dimension of BSC that defining the activities of business units regarding customer and market segments determined by the managers and analysing the activities with these measurements. The strategies set for customer and market segments have various metrics. Metrics such as customer satisfaction, customer retention, new customer acquisition, customer profitability etc. constitute the base of customer dimension of BSC.*
3. **Internal Process Perspective:** *It means that defining internal processes which is needed for fulfilling the outcomes and the goals of BSC's other dimensions and supplying them by the managers. For example, constituting the internal processes needed to meet business stakeholders' /owners' financial expectations or providing customer satisfaction and business outcomes.*
4. **Learning and Growth Perspective:** *It is about learning and growing dimension of BSC that defining the required hardware and infrastructure, which the businesses gain growth and development in the long-term. Meeting the customers' expectations in long-term and businesses' internal processes are related to the innovative ability of the businesses. Employee training, renewal of information technology and systems and reorganization of business operation*

procedures are also related to the learning and growing dimension of BSC.

According to Sholihin and Laksmi (2009), there are several benefits that can be obtained through the implementation of BSC, such as BSC helps the organization to translate their vision and strategies to the operational measure. It also helps to connect strategies to all management level in the organization. The implementation of BSC may combine the strategic planning and budgeting (operational) to the management. Moreover, it is also give feedback and learning for the organizations. The same writer also argued that the implementation of BSC can provide lessons on whether the strategies currently in use are functioning properly or it need to be changed, this can be done by connecting organizational objectives to a strategy.

2.2.3 Strategy Map

Strategy maps was introduced by Robert Kaplan and David Norton, as the 'pioneer' of the Balanced Scorecard (CGMA, 2012). Kaplan & Norton (2001) defined strategy map as the logical and comprehensive architecture in terms of explaining the strategy of every organization. The strategy map itself will help to create more understandable and more familiar point of refences for stakeholders. The same writer also mentioned that these days all the BSC project firstly begins with the drawing of strategy map then it only continues in selecting metrics assign with every objective. With the use of strategy map, the cause-effect correlation of organizations can be identified and the strategy may help to clearly define

validity of the strategy, it also links to strategic objectives, but also contains measurable indicators from different perspectives (Chen, et. al, 2006).

Philbin (2011) explained that before applying the four perspectives of balanced scorecard, in the beginning, the management needs to prepare strategy map as the visual representation of the institution's strategy and clarify the area of interest of stakeholders. The scorecard was initiated with the process of strategy mapping as an instructive stage that ensure the scorecard measurements are in line with the research and its strategies. It is also helps to deliver values to the management team and other industrial partner. Moreover, strategy map may encourage the organizations to define and communicate their strategies in a concise and succinct ways and to bridge the gap between formulation and successful strategy application (CGMA, 2012).

In designing strategy map of organizations, explained that there are six steps that need to be performed as follow:

1. Specify an overriding objective
2. Choose the value proposition
3. Choose the financial strategies
4. Choose the customer strategies
5. Execute through the internal perspective strategies
6. Plan the learning and growth strategies

2.2.4 Balanced Scorecard for Higher Education

In the change of demand and supply of university education, there has been a degradation of education quality. Thus it become necessary for universities to perform the performance measurement (Chen, et al., 2006). BSC is also applicable in the educational institutions, even though it is the

non-profit organization. In this term the educational institutions can learn from the business. One of the importance of performance measurements in the universities is to assess the educational objectives as well to increase the competitiveness of globalized education.

Syafruddin (2018) implemented the balanced scorecard as measurement tools in accounting education of International Program Universitas Islam Indonesia. The research comprises the efficiency of accounting education in International Program UII into the four perspectives of balanced scorecard. Unfortunately, this previous research only uses the sample of accounting students' batch 2013, which then it does not provide the overall performance measurement, since it only uses one batch of the accounting students of International Program UII.

This research will be as the complement from the previous research by Syafruddin (2018), which will try to implement the complete balanced scorecard, starting from the strategy map and the implementation of balanced scorecard itself. In addition, the field of this research will be enlarged, not only use students as the customer perspective, but several involved stakeholders such as International Program management, alumni, parents of enrolled students, and the students itself. Thus, this research can provide more complex and complete result in implementing balanced scorecard to Accounting Department International Program of UII.