BALANCED SCORE CARD FOR MEASURING BANK PERFORMANCE

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ABSTRACT

Performance Measurement of any organization has an important role to play in the efficiency and evaluation of an organization. The business environment is continuously changing and becoming more and more competitive and the existing methods of measurement may not do justice to the nature of business today. The banking sector in India has undergone substantial changes in the last two decades. The nature of competition, infusion of technology, prominence of customer service has changed the environment in the banking industry. The banking sector is a very important part of any economy and hence the performance of banks is of utmost importance. Traditional methods of performance measurement may not be suitable to evaluate bank performance in the present context. The Balanced Scorecard provides a mix of financial and non-financial parameters provides a holistic view of organizational performance.

Keywords: *Bank Performance, Performance Management, Balanced Scorecard*

INTRODUCTION

Performance Measurement of any organization has an important role to play in the efficiency and evaluation of an organization. The business environment is continuously changing and becoming more and more competitive and the existing methods of measurement may not do justice to the nature of business today. The banking sector in India has undergone substantial changes in the last two decades. The nature of competition, infusion of technology, prominence of customer service has changed the environment in the banking industry. The banking sector is a very important part of any economy and hence the performance of banks is of utmost importance. Traditional methods of performance measurement may not be suitable to evaluate bank performance. The traditional methods look only at the past performance and do not take into consideration the efforts and innovations made by the banks for getting a competitive advantage and for long term survival and growth. As opined by Sanjeev Kumar (2010) "Financial measures of performance measurement system are no longer enough to survive, sustain and grow in the globalized competitive environment; banks have toinvest in intangibles. The method of monitoring performance should be dynamic in orderto adapt to internal and external changes."

The Balanced Score Card (BSC)

The Balanced Scorecard has emerged as an alternative to the traditional performance measurement systems. The traditional systems have largely placed their focus on financial measures like the Return on Equity (ROE). It is difficult to estimate what could be a good ROE for bank sustainability. A measure of ROE is good when the economic conditions are stable and the going is good for the banks. But during times of volatility, the efficacy of ROE as a performance measure has to be questioned. This is when the stability and sustainability of the banks comes into picture. Many banks which hadconsistently high ROE measures have fared badly in times of crisis. This enables us to understand that a high ROE or any other profit measurement factor need not necessarily indicate good performance as this may be a temporary factor. Bank performance has to be evaluated in its capacity to generate sustained profits in the long run.

The BSC combines financial and non-financial metrics to measure performance of an organization. The BSC measures performance from four different perspectives – financial, customer, internal business processes and learning and growth (Kaplan 2008). It incorporates the strategy of the organization, helps to break down the strategy into several doable components and communicates the same to the managers and other employees down the line. Traditional performance systems focused on the financial results to be achieved but did not highlight the path and direction to be followed for achieving the same. Managers had an implicit understanding of the factors that lead to financial success. Also, managers, eager to fulfill their immediate financial goals, takeshort-run decisions which were not optimal for long term business success. The BSC gives an explicit direction to the managers as to how the financial goals can be achieved. Italso makes the performance of managers more measureable as it objectively breaks down the strategy and goals of the organization into operational goals at every level within the organization.The traditional performance measurement systems have overlooked the customer and the processes that lead to customer satisfaction. The BSC stresses on value creation for the customer through the tools that drive customer value and shareholder value. BSC focuses on how each area of improvement and performance affects the overall success and health of the organization. It is a performance system that comprehensively measures the effect of lagging, current and leading indicators of performance (Kaplan and Norton, 1995).The original structure of balanced score card as suggested by Robert Kaplan and David Norton is as below:

Figure 1: Courtesy: Robert S. Kaplan and David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," Harvard Business Review (January-February 1996): 76.

The four measures in the Balanced Scorecard are briefly described as follows. All the measures in the diagram above are shown to be interlinked and further derived from the strategy.

Learning and Growth perspective: This measure is concerned with the organization's people and infrastructure. It includes both individual and organizationalself-improvement.
Internal business process perspective: The key business processes which lead to the success of an organization are the focus of this measure. The measurement tools in this metric help the managers to understand how well the business is running and whether they are able to meet the requirements of the customers.
Customer perspective: In order to achieve organizational success and increase in business, this perspective is highly important. Customers are the core of any service oriented business as in a bank and hence customer satisfaction must be of the highest order.
Financial perspective: This perspective measures the value the organization delivers to its stakeholders. Generally, financial parameters like return on investment, level of operating income, return on capital employed are key indicators. In the traditional measurement systems this metric was the only focus. With the balanced score card, the focus is on the non-financial performance areas which are leading indicators for financial excellence.

The following diagram is indicative of the cause and effect relationship between the measures of BSC.

Figure 2: Causal relationships in a BSC

Balanced Scorecard in a banking environment

In a bank environment, the employees face many job challenges due to introduction of new products and changes in technology. In this era of rapid technological advancements, employees must be on a continuous learning path. Providing adequate training to the employees increases their confidence in handling their respective jobs leading to more satisfaction. This would enable them to grapple with the latest technological changes and address the needs of their customers. Investing in learning and growth activities leads to a more knowledgeable and job-ready workforce who can face such challenges and bring in greater customer satisfaction. Investment by the bank in these areas is critical to long term success. There should be a mentor-mentee kind of relationship in organizations between the employees which gives way to a more "learning" than a "training" environment.

Improvements in learning and growth leads to improvements in service quality like reduction in turn-around time, less waiting time for the customers, and reduction in number of customer complaints. The training and job improvement inputs which the employees receive help them to deliver better services and products to their customers. Thus, investment in learning and development leads to improvements in internal processes.

The banks must also constantly innovate on their internal processes for two reasons – firstly to keep in pace with the changes in technology and introduction of new products; secondly to improve on customer service delivery. Product quality, product innovations are some of the important areas on which the organization should concentrate. The improvement in internal processes leads to better products, increase in efficiency, and greater customer value. This results in more satisfaction and loyalty among the customers which can be measured by increase in market share, increase in business per employee and such other parameters. The improvements in learning and growth processes ultimately culminate in improved customer service. A larger market share and customer base is a leading indicator to greater financial success.

Working backwards from what should be the end result the bank would like to achieve, the achievable goals for different levels in the organization can be derived. Firstly, the financial goals that the bank needs to achieve have to be explicitly spelt out. These goals could be in terms of revenue growth, profitability, reduction in operating costs and other suitable parameters like increase in customer base, business per employee. Secondly, the relationship between these financial goals and customer value propositions need to be understood. Customer value propositions could mean customer service satisfaction, operational excellence, product leadership and such other parameters which add value to the customer. Thirdly, how these customer value propositions have to be achieved can be spelt out by understanding the relationships between these and the processes that deliver value. Key processes that lead to value addition to the customer need to be identified like reduction in turnover time, easy-to-use self-services like e-lobby, e-banking facilities, problem resolution systems and such others. Lastly, the learning and growth measures that will motivate the organization to enhance operational excellence for delivering the customer value propositions like training to front-line employees, upgradation of technology, keeping the employees up to date with developments in the bank products and technology, employee satisfaction etc. need to be identified. This exercise helps in breaking down the strategy into goals at the grass root level of the organization. Once the real drivers of performance are outlined, it becomes simple for an organization to quantify these goals for individual performance measurement.

LITERATURE REVIEW

According to a report by the Central European Bank, “a good performance measurement framework should incorporate more forward-looking indicators and be less prone to manipulation from the markets”. Ralph C. Kimball opines in his paper that banks have been successful in creating risk-based performance standards for their lines of business so as to avoid the misallocation of resources to risky businesses that appear superficially attractive. DejeneMamoBekana in his paper titled “Evaluation of Financial Performance of Banking Enterprises; The case of Construction and Business Bank of Ethiopia” states that "the less you understand the business, the more you rely on accounting numbers" and "the nearer you get to operations, the more non-financial performance indicators you realize could be valuable aids to better management". “At the same time it has been established that with the help of appropriate indicators – or, even better, a combination of appropriate indicators – we could make a good deal of headway towards a better understanding of competition” opines J Bikker in his paper titled “Measuring performance of bank: as assessment”. In his paper titled “Bank performance measurement in a developing economy: An application of data envelopment” AyadiO Felix et al conclude that “The driving force for monitoring the performance of banks is to gain insight into their objectives. In order to monitor the performance of banks, financial economists use financial ratios. These benchmark ratios may not be suitable and may mislead an analyst. Financial ratios are not appropriate as they aggregate many aspects of performance such as marketing, finance and operations". Michael Oyewo Babajide, while studying the Nigerian Banking Industry opines that "the inclusion of performance measures like innovation, continuous improvement, and risk management should be enshrined in the PMS of the Nigerian banking industry to strengthen monitoring". Mostaque Hussainet al studied the implications of non-financial performance measures in Finnish banks and conclude that "The inadequacies of traditional management accounting information indicate a need for management to find proper measuring tools for emerging non-financial performance in the highly competitive financial services. It was found that customer service, quality of service, time service and commitment are important aspects of non-financial performance measures". Dr. Franko Milost in his paper on Information power of non-financial performance measures comments that "Annual financial statements do not provide a true picture of a company's operations in the past. In addition, this means that the financial performance measures based on such sources are not sufficient to satisfy the information needs of the users As a consequence, an increased number of non-financial performance measures or measurement systems are developed. While non-financial performance measures can be seen as completing the financial ones, they certainly cannot replace them".

METHODOLOGY

The present study is a descriptive study. 10 banks, 5 each from the public sector and the private sector in India, have been chosen for this purpose. Primary data has been collected from employees of the above banks regarding the various parameters of the Balanced Scorecard. The data collected was subsequently collated. The different parameters were studied on a scale of 1 to 5 for understanding the factors that lead to increased employee satisfaction. 288 bank employees from various banks were interviewed. The questionnaires are divided into the following sub-sections – Learning and Growth and Internal Business Perspective and the opinions from the bank employees were elicited. Chi Square analysis was used to analyze the responses obtained under the various parameters.

The causal linkages in Learning and Growth perspective

The various parameters that were used to measure employee satisfaction are shown in the diagram below. The figure also provides linkages between the factors that promote employee satisfaction and the ultimate result of the process which leads to employee retention and increased employee productivity.

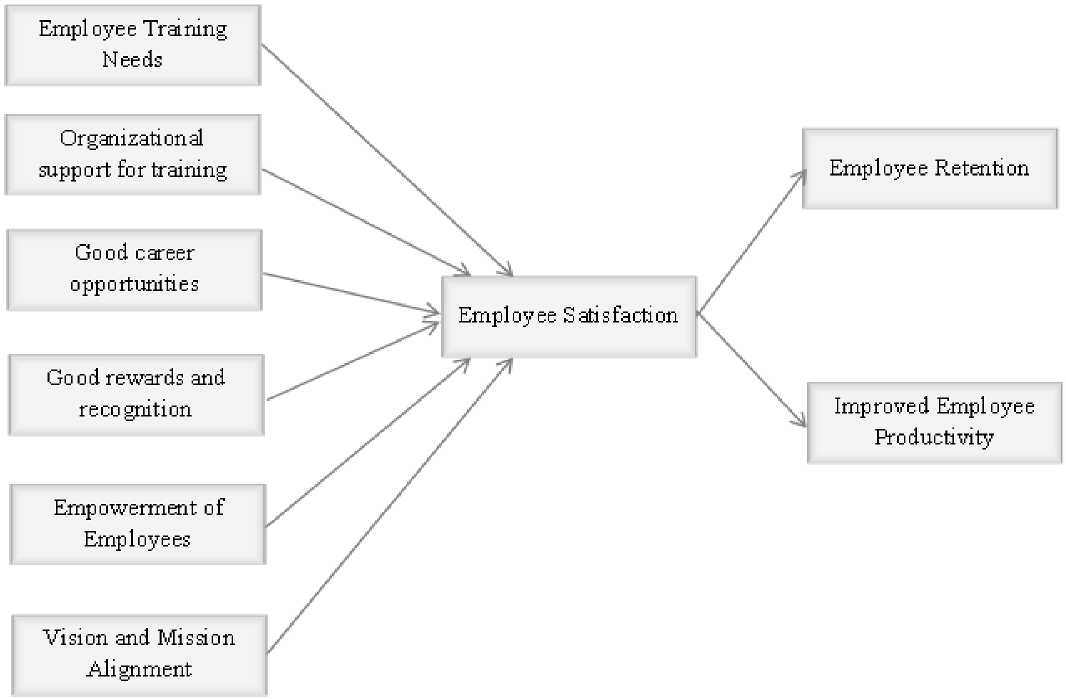

Figure 3: Factors leading to employee satisfaction

From the data collected from the employees, the following were the findings under the various parameters. Under the Learning and Growth perspective, opinion from the employees was collected under the above mentioned parameters.

Learning and Growth perspective		
	Parameter	**% of Employees expressing high satisfaction**
a.	Training Needs Fulfillment	46.5%
b.	Organizational support for training	63%
c.	Career Opportunities	61%
d.	Reward and Recognition	49%
e.	Employee Empowerment	59%
f.	Vision and Mission Alignment	68%

Table 1: Responses under the Learning and Growth Perspective

The first factor taken into consideration is "Training need fulfillment of the employees". It can be observed that only 46.5% of the employees expressed satisfaction at the fulfillment of their training needs. 46.2% of the employees opined that bank must give them more opportunities to develop new skills. It was concluded from the study that the employees were satisfied with the training opportunities provided by the organizations. The second factor was about the recognizing of training needs by the supervisors of the employees in the organizations and providing the necessary opportunities to them. Heskett et al. [1994] was of the opinion that employee satisfaction was high when the organization provided good support services which included addressing their training needs. The employees were more than satisfied with the organizational support that they received for training. 63% of the employees were highly satisfied. They felt that they also learnt to a great extent by sharing knowledge with their peers.

The third factor which was considered was the availability of good career and growth opportunities within the organization. It was observed that the employees were quite clear about the career path available to them in the banks and were satisfied with the growth opportunities. 61% of the employees were happy that their banks provided a clear cut career path for them. Regarding the Rewards and Recognition parameter, the employees felt that their work was well recognized and well rewarded. Koberg et al. [1999] conducted a study among hospital employees and found that employees who were empowered in their jobs by giving them lot or responsibilities were highly satisfied. 49% of the employees opined that their work was well recognized by their banks and that there was an equitable system of rewards and recognition in the bank. Under the Employee Empowerment factor, it was observed that decentralization of responsibilities was followed to a great extent. The employees were moderately satisfied with the level of responsibility given to them. 59% of the employees were satisfied with the enhanced responsibilities given to them by the bank and felt empowered to take up new challenges in the bank. Communication of the vision and mission statement to the employees is very essential as it gives them a sense of belongingness to the organization. It can be concluded from the survey that the employees were clear about the bank goals and strategies and they related their success to the success of the bank. 68% of the employees were well aware of the Vision and Mission of the bank and were aware of how their contribution to the bank was leading to the organizational growth. They expressed that they were motivated to contribute their best to the bank.

The causal linkages in Internal Business perspective

Improvement in employee capabilities leads to improvements in efficiencies. The internal business perspective focuses on the business processes that lead to improved customer satisfaction and value. Under the Internal Process perspective, the opinions of the employees were collected under the following parameters.

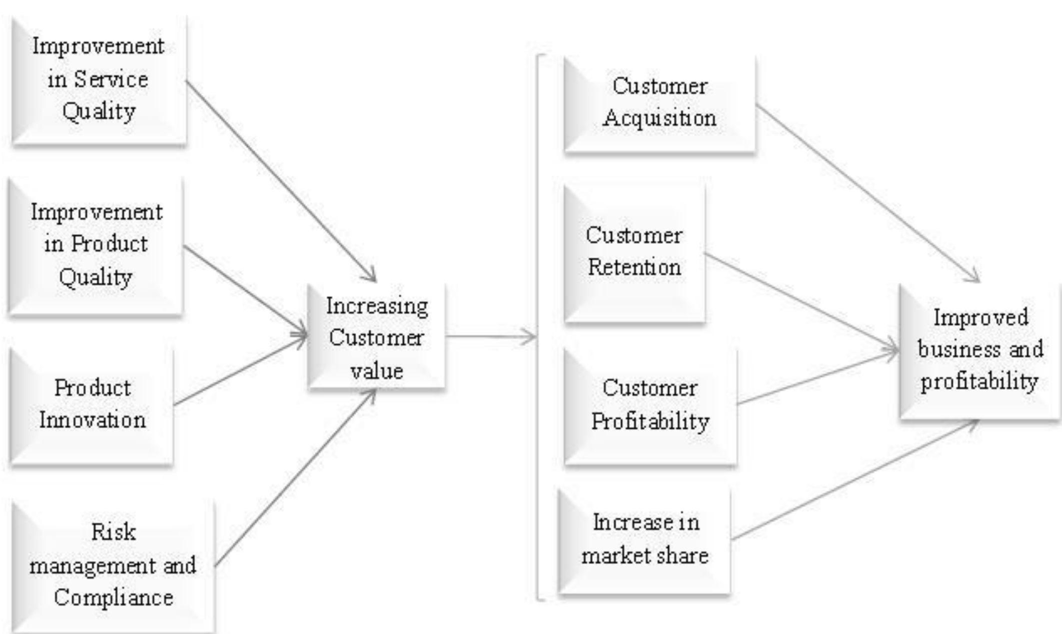

Figure 4: Factors leading to increased customer value and further to improved business and profitability

From the above figure, it can be seen that the factors that lead to improved business processes lead to increase in customer value. Increase in customer value can lead to retention of the existing customers, acquisition of new customers, increase in profitability per customer because of more product offerings and increase in market share of the bank. All this will ultimately lead to improved business and profitability for the bank.

Internal Process perspective		
a.	Service Quality	60%
b.	Product Quality	51%
c.	Product Innovation	68.4%
d.	Risk Management and Compliance	59.7%

Table 2: Responses under the Internal Process Perspective

The above table gives an insight into the responses received from the employees under the various parameters. The quality of service plays a very important role in enhancing customer service in the bank. When asked about the customer service in their banks, employees expressed their opinion about the service quality in their banks and 60% of them were satisfied with the service provided by their banks. A small percentage of the employees were of the opinion that time norms for service was not strictly adhered to. Product quality is very essential for delighting the customers. In this age of immense competition, banks can differentiate themselves only by bringing out custom made products for their customers. They must be efficient in positioning the right product for different segments of customers. Under product quality, 51% of the employees were satisfied with the products being offered by their banks. Some employees opined that their core banking services could be improved and others were of the opinion that their e-banking products need improvement. Product Innovation plays an important role in developing good products for the customers. Banks with high rates of innovation are able to provide differentiated and top of the shelf customer service for their clients. They are able to understand the needs of the customers and bring in new products to suit different requirements. Under this criterion, 68.4% of the employees were satisfied with the rate of product innovation in their banks. Few opined that their banks could bring out more differentiated products more frequently and could improve their cross sell business.

CONCLUSION

From the above study, it can be concluded that majority of the employees were satisfied with the Learning and Growth opportunities provided in their respective banks. Their views on the Internal Processes in their banks revealed that the employees were aware of the strides taken by their banks in improving service quality and product quality for their customers. In today's world of intense competition, there are many strategic moves made by banks to increase their business and to emerge as market leaders. Many of these factors are intangible in nature but ultimately lead to the success of the bank. These factors do not find a place in the traditional performance systems. The balanced scorecard is very effective in linking financial and non-financial measures. The non-financial measures are actionable and drive the success of the organization. The financial measures are the outcomes. The non-financial measures are the leading indicators and the financial measures are lagging indicators of performance. The Balanced scorecard is an excellent tool to incorporate all such factors. Various causal linkages have been established between the parameters in the Learning and Growth Perspective and Internal Process Perspective.

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