

Devising A Balanced Scorecard to determine a Standard Chartered Bank's Performance: A Case Study

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Performance management plays a pivotal task in evaluating the strategic performance of commercial banks. This paper makes a study about how to use the Balanced Scorecard (BSC) as a tool, which is applied to commercial banks performance management system. It also points out that, BSC makes a way into the imperfections of the traditional single application of financial indicators which measures performance. BSC is a performance management appraisal system based not only on the financial aspects but also on non-financial aspects like customer factors, internal business processes, and employee learning and growth. The purpose of this study is to contribute to the understanding of how BSC is developed and applied in evaluating the performance of Standard Chartered Bank (SCB), a foreign bank in India. Using the concepts of Kaplan and Norton, and the data made available from the bank's financial and non-financial data, BSC was derived to measure the performance of the foreign bank in India during 2009-2012. The analysis assisted the cause-effect relationships between the non-financial, and the financial dimensions of the BSC. The use of the BSC developed here is limited to the bank studied. However, the approach could trigger off reflections among policy makers and other banks to start using the BSC.

KEY WORDS: Balanced Scorecard, Banks Performance Management, Foreign Banks and Performance Evaluation.

INTRODUCTION

In the business world the only thing that really matters is organization's performance. The introduction of performance management of commercial banks is of crucial significance owing to the openness of India to the world and investors abroad after 1991 liberalization, privatization and globalization. The banking sector has begun adopting holistic performance

measurement systems such as the Balanced Score Card (BSC) to exhibit to stakeholders that this sector is turning to take advantage of financial and non-financial measures to offer investors with performance information. While, Balanced Score Card was invented in 1990s, it has received a wide range of importance and promotion in the global industry community, and certain major international banks have effectively used the

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Balanced Scorecard, which has enhanced its performance, greatly.

In the contemporary years, in the perspective of unvarying improvement of global financial products, especially in the United States in 2008 monetary crisis caused by worldwide financial tumult, how to deal with the banking performance successfully? In reply to this issue and the current tribulations of commercial bank performance management, this paper formulates research as regards how to employ the Balanced Scorecard as a tool, which is practical to performance management system in foreign banks.

PERFORMANCE MEASUREMENT AND BALANCED SCORECARD

The literature indicates that performance measurement is mostly designed around financial measures and targets in operational and management control systems. Namazi & Abhari (2010) states that previous to 1980's, organizations adopted financial measures (Net profit, return on equity, ROI, etc.) to appraise their performance. Nevertheless it is very well known that financial measures are excellent, only, in the short term. Thus, performance management disregarded the nonfinancial measure, with the result that the conclusion did not completely reveal the overall operations of the Organisations. Thereby, financial indicators can only reveal the performance of the organizations in the past and does not reveal the bank's future operating state of affairs. The dependence on financial measures only to evaluate the strategic performance of the organization motivated Kaplan and Norton (1992) to suggest the Balanced Score Card as a means to connect performance measures by looking at

the business's strategic vision from four diverse perspectives: Financial, Customer, Internal Processes, and Learning and Growth. The BSC is proposed to showcase a strategic reason in terms of cause and effect associations among the existing activities of an organization and its long-term success (Chang, 2007, Henri, 2004, 2006).

Given below is the explanation of the BSC perspectives based on Kaplan and Norton (1992, 1996, and 2001):

Financial: This is a strategy for growth, profitability, and risk from the perspective of the shareholder. Hence, under this perspective managers are obligated to produce measures that answer the subsequent question: "To succeed financially, how should we appear to our shareholders?" Kaplan and Norton recognize the requirement for conventional financial data. The stipulation of the right and appropriate financial data to the right person in the organization aids much in the course of making the right decision in the right moment. Under this perspective the common performance measures included are: ROI, Cash Flow, Net Operating Income, Revenue Growth, etc.

Customer: This is a strategy for creating value and differentiation from the perspective of the customer. The managers are obligated to produce measures to respond the following question: "To achieve our vision, how should we appear to our customers?" Distinctive measures used under this perspective are: customer satisfaction, customer complaints, customer lost/won, sales from new product, etc.

Internal Business Process: This is a strategy

for producing goods and services in the most efficient and effective methods. Consequently, managers are obligated to offer measures that answer the following question: "To satisfy our customers and shareholders, what business processes must we excel at?" The essential idea of this perspective is the consequences of the internal business processes which lead to financial success and satisfied customers. Commonly used measures for this perspective are: cost of quality, cost of non-conformance, process innovation, time savings etc.

Learning and Growth: This is a strategy to create a climate that supports organizational change, innovation and growth. Under this perspective managers should recognize measures to answer the subsequent question: "To achieve our vision, how will we sustain our ability to change and improve?" This perspective is related to the employees of the organization, and it measures the extent to which the organization exerts efforts to provide its employees with opportunities to grow and learn in their domain. The following are the commonly used measures for this perspective: employee empowerment, employee motivation, employee capabilities, and information systems capabilities.

LITERATURE REVIEW

Ever since the appearance of the Balanced Score Card (BSC) in 1992, developed by Kaplan and Norton, it has gained widespread acceptance as a nuanced tool for performance measurement and strategic management in various business sectors including the banking sector. However, BSC has gradually gained popularity in Europe, USA, Latin America and Australia (Janota, 2008).

Fakhri et al. (2011) explored the usefulness of a multi-perspective performance measures in the banking sector in Libya attempted to explore the usefulness of a multi-perspective performance measures in the 55 banks in Libya. The study identified that these banks use both financial and non-financial measures of BSC extensively. Kollberg and Elg (2010), attempted to recognize the key characteristics of the BSC application in health care organizations in Sweden. The researcher used a case study approach where they paid attention on diverse managerial levels in a hierarchical branch in three health care organizations that applied the BSC. The examination discovered that the BSC is used as an instrument for increasing internal capabilities and organizational development. Greiling (2010) conducted an explorative pragmatic study on a sample of 20 non-profit organizations in the social services sector in Germany. The rationale of the study was to examine the BSC's implementation in terms of execution levels, perspectives, challenges, hindrances, etc. The author stated that the BSC was still used as a measurement device and not as a management tool in the businesses deliberated.

Chwan-Yi and Lin (2009) in a study developed an integrated framework by merging the concepts of the BSC and the Data Envelopment Analysis (DEA). The study discovered that the synergy of the BSC and the DEA explains the suitable performance indices into management proposition. Zhang and Li (2009) in their study examined commercial banks in China and they proposed the BSC as a tool to improve the performance of commercial banks in China. They suggested a method and a strategy for application along with the restrictions of the BSC.

Harold (2006) in a study clarified how a surge of balanced scoreboards can be constructive in the technology efficiency of commercial banks in India for the assurance of enhanced performance management. This study helped in the development of a comprehensive performance management tool for IT in the banking sector in India. Huang and Lin (2006) investigated the performance system and designed a new performance evaluation system based on the BSC of five commercial banks in China.

Panday (2005) in a study with a group of bank managers developed BSC tool and demonstrated that the strategic objectives are greatly driven by internal process improvement and that the non-financial variables overtook the financial variables. Tapanya. S, (2004) investigated into Thai Banking Industry post the 1997 financial crisis, the researcher has investigated the factors that influence performance management systems especially in a fast changing environment through the application BSC approach. It has been found that the institutional factors play a decisive role in the selection of performance measurement systems, irrespective of the strategic orientation and the organizations ownership.

Although not exhaustive, the above literature review demonstrates that the BSC approach had its chance of widespread applications in different countries and business sectors.

THE RESEARCH PROBLEM

The literature states a strong interest on appraising banks' performance by the BSC approach. However, the BSC, as a performance evaluation tool, did not find its way to the banking sector, in

specific. The authors did not stumble upon any research work mainstreamed to the BSC application in the banking sector in MNC banks in India. In addition, the performance measurement used in the SCB is still based on financial measures, and monthly or annual reports. Although the SCB administration is not aware of it, the dependence on financial measures is misleading because it does not provide a holistic view about how the bank is doing on the internal processes, customer, and learning and growth perspectives.

Therefore this study shall address the problem of developing a BSC model to measure the performance of the SCB. The performance results can benefit the bank studied, the stakeholders, and the financial sector analysts.

PURPOSE AND RESEARCH METHODOLOGY

This research effort aims to:

- To contribute to the BSC literature,
- To encourage further research on BSC of foreign banks in India,
- To increase our understanding about how the BSC may be developed and applied within the context of the foreign banking sector in India.

In this research the authors have adopted a case study approach. Relevant data was available from the bank websites, and was studied for four years (2009-2012). Data was collected directly from the bank's financial statements, monthly, quarterly, annual reports, sustainability report, complaint analysis reports and Director's reports for last four years (2009-2012).

DATA ANALYSIS AND BSC DEVELOPMENT

The following steps were used to develop the BSC for the SCB:

FIRST: Based on the concept of the strategic map, the author's effort was to determine the characteristic of bank's administrative activities so as to develop a cause-effect relationship to relate the bank's objectives to its strategic goals in an attempt to choose the measures relating to each one of the four BSC perspectives.

Five measures for every perspective were selected as under:

Financial Perspective: Liquidity Ratio, Leverage Ratio, Return on Equity, Net Profit, and Return on Investment

Internal Processes Perspective: Business per employee, Growth of Banking Services, Credit Growth, process and reliability operational errors and number of suppliers

Customer Perspective: Customer complaints redressed, Growth in customer savings account, growth in safety deposit, growth in current account and Consumer banking net promoter's score

Learning and Growth: Number of Employees, Profit per employee, Percentage of employee appraise, Percentage of employee receiving training and employee engagement score.

SECOND: With the help of the data available about the SCB performance from 2009-2012, the authors were able to identify the BSC's objectives, measures, and targets for the four perspectives as they appear in Table (1).

Table 1: Score Assignment

	SCORE					2008-09	2009-10	2010-11	2011-12	
	10	20	30	40	50	2009	2010	2011	2012	
FINANCIAL	SCALE					SCORE ASSIGNMENT				
Liquidity Ratio	1-6 %	7-12%	13-18%	19-24%	25-30%	30	50	40	20	
Return on Equity	0-0.75%	0.75%-1.50%	1.50-2.25%	2.25-3.00%	3.00-3.75%	40	50	40	20	
Net Profit (in Rs 000's)	0-0.5	0.5-1	1-1.5	1.5-2.00	2-2.5	40	50	50	40	
Leverage Ratio	100-120	121-140	141-160	161-180	181-200	40	40	50	50	
Return on Investment	1-3%	4-6%	7-9%	10-12%	13-15%	20	20	20	20	
						170	210	200	150	
INTERNAL PROCES										
Business Per Employee Growth	0-5%	6-10%	11-15%	16-20%	21-25%	40	30	50	30	
Growth of Banking Services	1-3%	4-6%	7-9%	10-12%	13-15%	40	50	10	10	
Credit Growth	0-5%	6-10%	11-15%	16-20%	21-25%	30	30	40	30	
Process & Reliability Operational Errors	0-125	126-250	251-375	376-500	500-625	10	20	50	40	
Numbers of suppliers	0-10	11-20	21-30	31-40	41-50	20	40	20	40	
						140	170	170	150	
CUSTOMERS										
Customer Complaints Redressed	0-20%	21-40%	41-60%	61-80%	81-100%	50	50	50	50	
Growth in Customer Saving Accounts	0-5%	6-10%	11-15%	16-20%	21-25%	20	50	10	10	
Growth in Term Deposit	0-7%	8-14%	15-21%	22-28%	29-35%	40	10	50	20	
Growth in Demand Deposit	-1-10%	11-20%	21-30%	31-40%	41-50%	10	30	20	10	
Consumer Banking Net Promoter Score	0-15	16-30	31-45	46-60	61-75	20	30	40	50	
						140	170	170	140	
LEARNING AND GROWTH										
Number of Employees	0-15000	15001-30000	30001-45000	45001-60000	60001-75000	20	20	20	20	
Profit Per Employees in '000's	2000-2200	2201-2400	2401-2600	2601-2800	2801-3000	20	40	40	20	
Percentage of Employees Appraised	0-20%	21-40%	41-60%	61-80%	81-100%	50	50	50	50	
Percentage of Employees receiving Training	0-20%	21-40%	41-60%	61-80%	81-100%	50	50	50	50	
Employee Engagement (Score out of 5)	0-1	1.1-2	2.1-3	3.1-4	4.1-5	50	50	50	50	
						190	210	210	190	
						TOTAL	640	760	750	630

THIRD: A performance scale was identified for each measure, and 50 score points were divided on the elements of each scale. The total scores in the BSC developed are therefore 1000 (20 measures x 50 points, or 250 points/perspective). Table (2) presents the measures, the scales and the scores breakdown for each measure within perspectives.

Table 2: Tables showing the objectives and measures of BSC required by SCB

FINANCIAL	
Liquidity Ratio	30%
Return on Equity	3.75%
Net Profit (in Rs 000's)	2.5million
Leverage Ratio	200
Return on Investment	15%
INTERNAL PROCESS	
Business Per Employee Growth	25%
Growth of Banking Services	15%
Credit Growth	25%
Process & Reliability Operational Errors	625
Numbers of suppliers	50
CUSTOMERS	
Customer Complaints Redressed	100%
Growth in Customer Saving Accounts	25%
Growth in Term Deposit	35%
Growth in Demand Deposit	50%
Consumer Banking Net Promoter Score	75
LEARNING AND GROWTH	
Number of Employees	75000
Profit Per Employees in '000's	3000
Percentage of Employees Appraised	100%
Percentage of Employees receiving Training	100%
Employee Engagement (Score out of 5)	5

FOURTH: The SCB performance is measured for the four years of study according to the scales and scores developed in step 3. The last four columns of Table (2) present the scores assigned to each measure from 2009-2012. Table (2) also explains the perspective subtotal/year, whereas the last row of the table provides the total score/year for all the perspectives.

FINDINGS

The analysis reveals that the SCB performance measured by the BSC was 640, 760, 750 and 630 for the years 2009-2012 respectively. Converting these scores on a 100% scale yields: 64%, 76%, 75%, and 63% for the same years.

It seems evident that the SCB performance was improving during the first two years of study, in the next two years the performance further declined. In general the annual average score achieved by the bank was 695 which indicate an average performance. With respect to performance on individual perspectives, we observe from Table (2) that the scores achieved on the financial perspective improved steadily from 2009-2011. This finding coincides with the bank's concentration on the financial performance as a measure of performance. However, there was a decrease in Liquidity Ratio as Cash at RBI and Balance in Bank is also included with the other current assets that can be a reason for low liquidity. This also indicates that as RBI required the bank to have a low CRR, it may not be mandatory for banks to keep money with RBI. There has been a decrease in Demand Deposit (Current Account): due to good industrial growth, especially in India in the recent past. Thereby, the bank has used the money for investment in industrial sectors.

There is also a decrease in saving account in the foreign bank which is operating in India due to Mark-to-Market phenomenon. This phenomenon states that when government securities are giving good rate of interest to the customers. The customers would prefer to invest in securities that to invest it with banks. SCB being a foreign bank, their reach to smaller towns and rural areas of India are minimal. The internal processes perspective does not reveal significant improvements; the average annual growth rate was about 2%. In fact the SCB performance was hurt severely on this perspective. We notice that the growth of banking services, measures scored ten during the third year and fourth year.

The SCB scores on the customer perspective were the worst. The growth in customers saving bank account and current deposit scored ten for both year three and year four. The average annual growth rate has dipped during the third and fourth years of study. However, the customer banking net promoter score definitely showed a steady growth. This shows that the customer's were confident about the performance of SCB in India.

Finally, the learning and growth perspective was better than the customer perspective, financial and internal process. The bank has scored almost 100% on employee appraised, training received and employee engagement. These definitely show that the bank definitely values its stakeholder's, the employees. Currently, the bank has 38 differently-abled employees. About 30% of the banks employees in India are women. The company has given various employee benefits like crèche facilities, six months maternity leave, paternity leave, flexible work from home opportunities and

independent counselling services from a professional organisation.

There has been a decrease in profit per employee, because of Net profit going down as well as the number of employees remaining constant.

MANAGERIAL IMPLICATIONS

This research work may be viewed as part of a diverse investigation of the usage of many performance evaluation approaches developed in the past few decades. It can, also, provide guidelines to organizations when they consider methods of performance evaluation. The purpose of this study was to increase our understanding on how the BSC approach may be developed and applied to measure the performance in the foreign banks in India. This study has constructed a BSC model (including 20 measures) that was used to measure the SCB performance. Despite the fact that the results of the performance of the SCB looks average, we should, appreciated the bank for being one of the oldest international bank to be started in India in the year 1858, and being the first foreign bank to list in India through the issuance of Indian Depository Receipts in June 2010.

However, SCB is does not use BSC as a performance tool. The results of this work have many implications on the authorities of the Central Bank of India and policy makers in the financial sector in terms of the diffusion of the BSC as a systematic approach to performance evaluation. We expect that with the increased demands from stakeholders, financial sector analysts, educators, and practitioners the BSC shall be widely used in the banking sector in India. Although the SCB did not use this approach in the past, this study has

highlighted the importance of viewing performance from other perspectives in addition to the financial perspective. The bank's can consider and realize the importance of this tool as a strategic and valuable performance management system. The successful application of the BSC does not come from a vacuum; rather top management of the bank should demonstrate its commitment to the adoption of the BSC.

SCOPE FOR FURTHER RESEARCH

Future researches in the foreign banks operating in India are needed in this domain, and should focus on studying the contingent factors that facilitate or impede the implementation of the BSC such as: organizational culture, organizational structure, private vs. public organizations, environment, and technology. More studies are, also, needed to identify the relevant measures of the BSC for the banking sector.

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Diagram of Balance Scorecard

