Balance Score Card and Business Performance: A Comparative Study of State and Private Sector Banks in Eastern Provinces of Sri Lanka

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Abstract

The balance score card (BSC) is a management system that maps an organization's strategic objectives into performance with four perspectives such as financial, internal business perspectives, customers, and learning and growth which provide relevant feedback as to how well the strategic plan is executing so that adjustment can be made if necessary. The score card itself is essentially a performance measurement frame work with two key objectives; converting strategy into specific goals for different sections of the organization, and communicating that strategy to all parts of the organization. Hence the associations between four perspectives in balance score card and performance should be examined. Various studies have been done on the above theme, but no enough studies have been conducted in Sri Lankan context, especially in banking sector. Thus the present study is initiated on "Balance score Card and business performance as a comparative study of state and private sector banking Organizations in Srilanka "with a samples of 143 respondents in 16 banking organizations in eastern provinces. The results from the operational hypotheses indicates that total perspectives (CP, IBP, LGP, and FP) have a significant relationship with business performance which means, as the total perspectives increase business performance increases in state banks and private banks. Whereas learning growth perspectives and customer perspectives significantly contributes to total perspectives in both banks are important contributors to positive Business performance, specially learning growth perspectives are significantly impact on state banks. But the private banks customer perspective is mostly impact on business performance.

Keywords: Balance score card, financial perspectives, internal business perspectives, Customer perspective, Learning and growth perspectives, business performance.

Introduction

A growing number of organizations are using performance measurement with a "Balance Score Card". Proponents of the balance score card concept contend that this approach provides a powerful means for translating a firm's vision and strategy into a tool that effectively communicates strategic intent and motivates performance against established strategic goals (Kaplan and Norton, 1996).The balance score card is a management system that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. The balance score card which saw its initial development during the years of 1987-1992(Art Schneider man, 2002), links performance measures by looking at a business's strategic vision from four different perspectives: financial, customer, innovation and learning, and internal business process .These four perspectives do not eliminate , but instead support the goals of various management techniques such as strategic planning , Total quality management , and core competence, employed during the several decades surroundings the balance score card's appearance .Each of four perspectives is considered by four parameters, which are

Goals : What do we need to achieve to become successful?

Measures : What parameters will we use to know if we are successful?

Targets : What quantities value will we use to determine successful of the Measure

Initiatives: What will we do to meet our goals?

Organizations that have a defined core business and a strategic plan to meet their customer objectives tend to be leaders within their industry. The key to organizational success and growth is the ability to translate organizational strategy into operational terms and the ability to measure performance and achievement of strategic objectives (Shortell and Kaluzny, 2000).

Managers and leaders within the organization are the links between communicating strategic objectives and mission to employees .Employees are on the forefront of the organization representing the values of the organization to the customer , and are thus in a critical position to make positive or negative impacts on customers' perceptions and satisfaction .A successful organization must be able to communicate its strategy through its employees in order to meet customer objectives and achieve their satisfaction .The balance score card represents a mechanism for communicating that strategy and defining levels of success based on W.Edwards Deming's Total quality management (TQM) principles (Deming ,1986; Kaplan and Norton ,1996,2001).Thus the balance score card consists of a set of performance measures that give a comprehensive view of the company based on the following for perspectives

- **Financial perspective**, including traditional financial measures such as revenue growth, return on investment or return on assets, market share, and earnings per share,
- **Customer perspective**, with measures of importance to customers such as timeliness, quality, performance, cost, and service,
- **Internal business process perspective**, with measures of the critical internal activities and processes that the organization uses to meet its customers' expectations, and
- **Learning and growth perspective**, which measures the organization's ability to adapt and innovate for the future; this could include time to market for new product development, workforce training and development, and process improvement.

These perspectives provide a multi-dimensional balance between internal and external perspectives, leading versus lagging indicators, objective versus subjective measures, current versus future needs, etc. Tradeoffs become explicit business decisions based on strategy.

Each measure for each perspective in a balanced scorecard is selected based on the corporate vision and strategy. For each measure, there is a defined goal, a target, and specific initiatives to translate the goal into action. Cause and effect relationships among the measures explicitly define how the various elements contribute to achieving strategic goals. This becomes a communication mechanism to demonstrate the meaning of the strategy and how different perspectives and departments contribute to achieving the strategy.

Based on this background the present study is initiated on balance score card and business performance with 16 branches of 04 banks in Eastern provinces of Srilanka.

Research Question

- How Balance Score Card impact on Business Performance?
- To see what impact there is nexus between Balance Score Card and Business Performance?

Objective of this Study

- To examine the impact of four perspectives on Business performance
- To find out the relationship between balance score card system and Business performance.
- To identify the perspectives which determine Business performance

Research Hypothesis

H_{1a}: There is a significant relationship between financial perspective and business performance.

$H_{1b:}$ There is a significant relationship between Internal business perspective and business performance.

$H_{1c:}$ There is a significant relationship between customer perspective and business performance.

$H_{1d:}$ There is a significant relationship between Learning and growth perspective and business performance.

$H_{2a:}$ There is a significant impact of financial perspective on business performance

$H_{2b:}$ There is a significant impact of internal business perspective on business performance

$H_{2c:}$ There is a significant impact of customer perspective on business performance

$H_{2d:}$ There is a significant impact of learning and growth perspective on business performance

$H_{3:}$ There is a significant mean difference between state banks and private banks

Literature Review

The balance score card is a performance management frame work that links strategy with day – to – day operations (Becky Roberts, ----).It provides a holistic view of the enterprise based on the business objectives. The balance score card approach supplements traditional financial measures with non- financial measures focused on at least three other perspectives- customers, internal business processes , and learning and growth.(Kaplan and Norton , 1992, 1996).Proper role of the balance score card in determining compensation is not yet clear , a recent survey of score card implementation found that 70% of the respondents already use the balance score card or some variant for compensation purposes , and 17% are actively considering its use for this purpose (Towers Perrin, 1996).Similarly research by Ittner et.al. (1997) indicates that 36% of US Firms now use both financial and non-financial measures in their chief executive officers annual bonus contracts, with the weight placed on these measures a function of the firms' strategic objectives. Consistent with the balance score card concept theoretical work on performance evaluation using multiple signals in agency settings indicates that financial measures alone may not provide the most efficient means to motivate managers to act in the manner desired by the firm's owners(Feltham and xie, 1994).

The purpose of this paper is to investigate the application of the Balance Score Card (BSC) in improving Organizational performance .The BSC has gained increasing popularity as an effective management tool that aligns employee actions and goals with corporate strategy since first being introduced in 1992. Beginning in the early 1980s, management accounting researchers described the increasing irrelevance of traditional control and performance measurement practices. Weaknesses included failure to link performance measurement to strategy initiatives of organizations , an emphasis on accounting for external reporting rather than on accounting reports for internal decision making , and a failure to account for advances in technology that change how manufacturing firms operate (Palmer ,1992; Spicer ,1992). The growing importance of service industries and increased global competition has further intensified the need for alternatives control and performance measures.

The BSC arose out of the need to improve planning, control, and performance measurement functions of management accounting .Because of the rise in popularity of the BSC, and benefits attributed to its usage, Atkinson et al (1997) state the BSC is a significant development in management accounting that deserves intense research attention. The BSC translates the often-nebulous goals found in corporate mission statements into a strategic road map to be followed by employees .By dealing specific actions and outlining cause –and- effect relationships between those actions and key financial objectives, a BSC serves not only as a performance measurement system, but also as means for communicating long term strategic initiatives to business – units and achieving long –term financial success. It combines important practices and concepts from various disciplines and theories into a single performance measurement system for the purpose of improving financial performance.

The use of scorecard models in particular, entails a reconsideration of the traditional corporate management style, and a move away from reliance on purely financial measures as a basis for strategy development. It may be argued that the scorecard attempts a genuine marketing orientation by ensuring a co-operative organizational framework exists, which will ensure customer value. This emphasis on customer satisfaction is not merely a woolly, academic statement, but arises out of hard economics: The scorecard itself is essentially a performance measurement framework with two key objectives; converting strategy into specific goals for different sections of the organization, and communicating that strategy to all parts of the organization (Migliorato et al., 1996). Recent literature includes three attempts to associate BCS usage and improved organizational performance. Hoque and James (2000) surveyed Australian manufacturing firms on their usage of non-financial measures typically found in discussions of BSC development .Organizational performance was a self- reported measures relative to peers within the same industry. Their results indicate a significantly positive relationship between the usage of typical BSC measures and superiors performance.

Banker et.al (2000) examined the association between improved financial performance and Non-Financial Measurements (NFM) in a Hotel chain where a new incentive programme included an emphasis on customer satisfaction, performance measures.

In an extensive field study of a large manufacturing organization , Malina and Selto (2001) investigates the effectiveness of the BSC in communicating strategies , objectives and serving as a management control device. They find evidence of an indirect relationship between BSC's management control function and improved performance on BSC measures. Further, managers in their study perceived improved performance on the BSC would lead to improved efficiency and profitability. Ittner et al. (2003) provide contradictory evidence to the two previously mentioned studies by finding a negative association between BSC usage and financial performance (ROA**)** in an expensive study of the financial services industry. They also find that while 20% of the respondents reporting using the BSC, over 75% of these firms reported not relying on business models that causally link performance drivers to performance outcomes. Various studies have been done on this area, but a detailed study has not yet been conducted in SriLankan context, especially in banking sectors. Hence the present study is made on "Balance Score Card and business performance "of banking organization in Eastern Provinces with the samples of 143.

Research Methodology

The questionnaire was administrated to banking executives in Eastern Province of Srilanka .The questionnaire was designed by the researchers with some modification from Kaplan and Norton ,(1996).A five item scale from strongly disagree (1) to strongly agree(5) was adopted to measure four perspectives and business performance. Each two variables were taken to measure customer, learning growth, and financial perspectives, internal business perspectives and business performance. From these score correlation analysis was carried out to find out the relationship among the variables .Further the following , model was formulated to examine the impact of four perspectives on business performance .

BP=f (CP, IBP, LGP, PP)
$BP = ß_O + ß_1(CP) + ß_2\ (IBP) + ß_3(\ LGP) + ß_4(FP)$

Where $ß_0,\ ß_1,\ ß_2,\ ß_3,$ ß4 are the coefficient of correlation
CP = Customer Perspectives
IBP = Internals Business Perspectives
LGP = Learning Growth Perspectives
FP = Financial Perspectives
BP = Business Performance

Here four perspectives are considered as independent variables whereas business performance is the dependent variables .In order to test the above model, a bivariate correlation and liner regression analysis were carryout using SPSS. A covariance method with correlation matrix (Inter item correlation) was used for reliability analysis in the first step in order to confirm the reliability of the data. The well-known measure of Cronbach's alpha was computed for variables; Perspectives in balance score card and organizational performance .The reliability value was 0.742, and 0.743 for perspectives and business performance respectively. The measures confirmed that the data was highly reliable to use and then it was decided to continue the analysis.

Regarding the validity , an instrument with small modification from the model developed by Kaplan and Norton , (1996) was used .The statements included in the questionnaire are most suitable for the variable , because many researchers used this variables to measure the perspectives and performance , (Kaplan , and Norton, 1996, Deming , 1986 , Ittner , et .al, (1997).Hence the researchers satisfied with the content validity.

To test how well the model fit the data and findings correlation (r), R, Rsquare (Coefficient of determination), F ratio, analysis of variances (ANOVA) and the t statistic were used. Correlation analysis was performed to find out the relationship between variables; CP, IBP, LGP, FP, and BP.

Analysis and Discussion of Findings

Data Presentation

Table 1 (a) :Correlation matrix for state banks

		Financial Perspective	Internal Business Perspective	Customer Perspective	Learning and growth Perspective	Business Performance
Financial Perspective	Pearson Correlation	1	.390**	.095	.264*	.280*
	Sig. (2-tailed)		.001	.434	.027	.019
	N		70	70	70	70
Internal Business Perspective	Pearson Correlation		1	.313**	.280*	.373**
	Sig. (2-tailed)			.008	.019	.001
	N			70	70	70
Customer Perspective	Pearson Correlation			1	.354**	.285*
	Sig. (2-tailed)				.003	.017
	N				70	70
Learning and growth Perspective	Pearson Correlation				1	.607**
	Sig. (2-tailed)					.000
	N					70
Business Performance	Pearson Correlation					1
	Sig. (2-tailed)					
	N					

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).
Source: Survey data

Analysis of the Data
According to the above Table 1 (a): correlation coefficient value is 0.280 it indicates that there is strong positive relationship between Financial Perspective and Business Performance in state banks, which is significant at 0.05 level. . Business Performance is dependent variable and Financial Perspective is independent variable.

Correlation coefficient value is 0.373 it indicates that there is strong positive relationship between Internal Business Perspective and Business Performance in state banks, which is significant at 0.01 level. Business Performance is dependent variable and Internal Business Perspective is independent variable.

Correlation coefficient value is 0.285 it indicates that there is strong positive relationship between Customer Perspective and Business Performance in state banks, which is significant at 0.05 level. Business Performance is dependent variable and Customer Perspective is independent variable. Correlation coefficient value is 0.607 it indicates that there is strong positive relationship between Learning and growth Perspective and Business Performance in state banks, which is significant at 0.01 level. Business Performance is dependent variable and Learning and Growth Perspective is independent variable

Table 1 (b) : Correlation matrix for Private Banks

		Financial Perspective	Internal Business Perspective	Customer Perspective	Learning and growth Perspective	Business Performance
Financial Perspective	Pearson Correlation	1	.594**	.531**	.225	.277*
	Sig. (2-tailed)		.000	.000	.055	.018
	N		73	73	73	73
Internal Business Perspective	Pearson Correlation		1	.607**	.416**	.392**
	Sig. (2-tailed)			.000	.000	.001
	N			73	73	73
Customer Perspective	Pearson Correlation			1	.501**	.467**
	Sig. (2-tailed)				.000	.000
	N				73	73
Learning and growth Perspective	Pearson Correlation				1	.294*
	Sig. (2-tailed)					.011
	N					73
Business Performance	Pearson Correlation					1
	Sig. (2-tailed)					
	N					

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

According to the above Table 1 (b): correlation coefficient value is 0.277 it indicates that there is strong positive relationship between Financial Perspective and Business Performance in private banks, which is significant at 0.05 level. Business Performance is dependent variable and Financial Perspective is independent variable. Correlation coefficient value is 0.392 it indicates that there is strong positive relationship between Internal Business Perspective and Business Performance in private banks, which is significant at 0.01 level. Business Performance is dependent variable and Internal Business Perspective is independent variable. Correlation coefficient value is 0.467 it indicates that there is strong positive relationship between Customer Perspective and Business Performance in private banks, which is significant at 0.01 level. Business Performance is dependent variable and Customer Perspective is independent variable.

Table 2: Predictors of Business Performance – Model summary
Table 2 (a): Model Summary (State banks)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Financial Perspective	.280 [a]	.078	.065	.61259
Internal Business Perspective	.401 [b]	.161	.135	.58903
Customer Perspective	.440 [c]	.194	.157	.58167
Learning and Growth Perspective	.646[d]	.418	.382	.49814

d. Predictors: (Constant), Financial Perspective, Internal Business Perspective, Customer Perspective, Learning and growth perspective
Source: Surveys data

Correlation coefficient value is 0.294 it indicates that there is strong positive relationship between Learning and growth Perspective and Business Performance in private banks, which is significant at 0.05 level. Business Performance is dependent variable and Learning and Growth Perspective is independent variable. Above this model the financial perspective 6.5% impact on business performance, internal business perspective 13.5% impact on business performance, customer perspective 15.7% impact on business performance and learning and growth perspective 38.2% impact on business performance in state banks. Therefor learning and growth perspective highly impact on business performance in state banks.

Table 2 (b) : Model Summary (Private banks)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Financial Perspective	.277[a]	.077	.064	1.01465
Internal Business Perspective	.395[b]	.156	.132	.97675
Customer Perspective	.487[c]	.238	.204	.93527
Learning and growth Perspective	.489[d]	.240	.195	.94086
d. Predictors: (Constant), Financial Perspective, Internal Business Perspective, Customer Perspective, Learning and growth perspective				

Source: Surveys data

Above this model the financial perspective 6.4% impact on business performance, internal business perspective 13.2% impact on business performance, customer perspective 20.4% impact on business performance and learning and growth perspective 19.5% impact on business performance in state banks. Therefor customer perspective highly impact on business perormance in state banks.

Table -3: Coefficients for predictors of Business performance

Table: 3 (a) Coefficients for predictors of business performance (State banks)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	2.744	0.530	-	5.176	.000
	Financial Perspective	0.318	0.132	.280	2.406	.019
	Internal Business Perspective	0.355	0.139	.311	2.559	.013
	Customer Perspective	0.135	0.082	.192	1.645	.105
	Learning and growth Perspective	0.535	0.107	.525	4.999	.000

a. Dependent Variable: Business Performance

In the above model, t values are significant for only learning and growth perspective in state banks. t values for financial perspective, internal business perspective and customer perspective are not significant at 0.01 levels in state banks.

Table: 3 (b) Coefficients for predictors of business performance (private banks)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	2.087	0.733	-	2.846	.000
	Financial Perspective	0.474	0.195	.277	2.427	.018
	Internal Business Perspective	0.596	0.232	.351	2.573	.012
	Customer Perspective	0.595	0.220	.372	2.710	.008
	Learning and growth Perspective	0.067	0.158	.053	0.428	.670

a.Dependent Variable: Business Performance

In the above model, t values are significant for only customer perspective in private banks. t values for financial perspective, internal business perspective and learning and growth perspective are not significant at 0.01 levels in private banks.

Conclusion

The results from the operational hypotheses indicates that perspectives (Customer Perspective, Internal Business Perspective, Learning and Growth Perspective, and Financial Perspective) have a significant relationship with business performance which means, as the perspectives increase business performance increases in state banks and private banks whereas learning growth perspectives significantly contributes to total perspectives in both banks are important contributors to positive business performance , Specially learning and growth perspectives is significantly contributing business performance in state and private banks. It is therefore very clear from the study that the customer perspective, learning and growth perspective, and internal business perspective affect the assessment of the performance of banks to a very large extent in Srilanka. With the kind of results that have been gathered through this research, any investor who wants to invest, merge or takeover these banks will be better informed with measures in several dimensions in terms of customer perspective, internal business perspective (operational structures and controls), and learning and growth perspective (systems and leadership development) all of which affect the long term performance and survival of the banks than just looking at their financials alone. Customer perspective, internal business perspective, and learning and growth perspective therefore play complementary roles in assessing performance of institutions. The perfect performance measurement tool is the Balanced Scorecard (BSC). On the other side, there are some of the measures but the perfect measure is the Balanced Scorecard (BSC). It is the universal solution and it is the tool which is so much helpful in maintaining the proper management. The banks always try to manage its performance measurement activities by the help of the Balanced Scorecard (BSC). It is very much sustainable and if it can be implement perfectly, and then the perfect performance management for the organization can be done

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