Using Balanced Scorecard for Managing Performance in Selected Ghanaian Banks

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Abstract

Prior to 1992, Kaplan and Norton posited that organizations solely rely on financial measures to manage their performance. It has become possible for organizations to incorporate in addition to financial measures non-financial measures to manage their performance. It is in this light that balanced scorecard is one of the tools used to manage performance. However, managing the overall performance of organizations using balanced scorecard is limited in literature in Ghanaian banks. This study explores the extent of use of the four perspectives of balanced scorecard as a tool to for managing performance in selected Ghanaian banks. Survey research method was employed.   In relation to the extent of used of balanced scorecard perspectives by selected Ghanaian banks to manage performance, it was found that financial perspective was used followed by customer perspective, learning and growth perspective, and internal business process. The ANOVA test showed that the mean scores of the four perspectives of the balanced scorecard was statistically and significantly different from each other. The research concludes that, Ghanaian banks relied heavily on financial perspective to measure performance.

Keywords: Balanced Scorecard, Bank Performance, financial measures, non- financial measures, Ghana

1. Introduction

The effect of non-financial variables on the financial performance of banks in Ghana can become significant. The extent to which customer satisfaction, internal business processes, organizational learning and growth influences financial performance indicators is therefore of great importance in assessing performance of banks in Ghana (Yahaya, 2009). Conventional performance measurement systems have been seen as inadequate and insufficient for appropriately and pertinently measuring firm's performance in the current environment (Ridwan, Harun, & Fahmid, 2013). Today's competitive environment demands continuous improvement and innovation. However, traditional financial accounting measures like return on investment (ROI) and earnings per share (EPS) can give misleading signals for such activities. The traditional financial performance measures work well for manufacturing industries, but are not adequate for the skills and competencies that companies are trying to master for the contemporary business environment.

The complexity of managing an organization today requires that managers are able to view performance in several areas at once. The balanced scorecard allows managers to look at the business from four important perspectives i.e. customer perspective (how do customers see us), internal business perspective (what must we excel at), innovation and learning perspective (can we continue to improve and create value) and financial perspective (how do we look to shareholders). While giving senior managers information from four different perspectives, the balance scorecard minimizes information overload by limiting the number of measures used. It forces managers to focus on the handful of measures that are most critical. Hence the question of the extent of use of balance scorecard perspectives by selected Ghanaian banks? The researcher believe that with the openness of Ghana to the world and foreign investors with a sound political environment and peaceful nation, the banking sector should start adopting holistic performance measurement systems such as the BSC to demonstrate to stakeholders that this sector is turning to exploit financial and non-financial measures to provide investors with performance information. Therefore, a research work of this type is significant and worthy of investigation within the context of the banking sector in Ghana. Asante, 2013 examined the different measures, financial and non-financial, used by Ghanaian banks to evaluate the financial performance of their branches and if the same performance measures are used to access the performance of the divisional managers. Nawangwulan,

Anantadjaya, and Finardi (2014) examined whether BSC represent organizational performance by incorporating environmental perspective in Indonesian Manufacturing Firms. The discussion above suggests that there are relatively few empirical studies about using BSC perspectives in assessing the overall performance of selected Ghanaian banks are limited. It was against this that the study examined balanced scorecard as a tool for managing performance in selected Ghanaian banks. This paper is organized into five sections. Section one is the introduction, section two, reviews related literature on balanced scorecard, section three, discusses the methodology, section four present and discusses the results obtained from the data generated for the study and finally, section five gave the conclusion of the paper.

2. Literature Review

2.1 Performance Measurement Concept

Balanced Scorecard combines financial and non-financial figures that helps managers in making necessary evaluation on what is really happening inside firms (Indra & Anantadjaya, 2011; Kaplan, 2010; Spulber, 2009). Performance measurement is the process by which organizations undertake strategies that lead to the attainment of their overall objectives (Nanni, Dixon, & Vollmann, 1992). According to Cheng (2008), performance measurement is a system by which an organization monitors its operations to see if the organization is achieving its objectives or not. Performance measurement is a contributory tool for successful modernization. (Ireland, Cantens & Yasui, 2011). Performance measurement is a system that helps management to follow up, coordinate, control, and improve certain aspects of organizational activities (Kollberg, Elg, & Lindmarket, 2005). Further, Neely, Gregory, and Platts (1995), defined performance measurement as the process of quantifying the efficiency and effectiveness of an action. The term effectiveness means doing the right thing, efficiency means doing things right. Performance measurement is multi-dimensional, comprising the ways and manners through which the operations of an organization overtime are monitored and assessed with a view to determining whether the organization is attaining its goals in terms of value delivery to customers and other stakeholders (Ibrahim, 2015). From the above definitions performance measurement is the means by which the operations of an organization are monitored and controlled to determine whether the organization's goals and objectives are achieved.

2.1.1 Financial Measures of Performance

Financial measures are used to assess the performance of business organizations and this has been in the system for long. Most businesses use financial measurement system because it is required by law. Traditional performance measurement systems focus is on financial measures (Ibrahim, 2015). However, prior to 1992, accounting measures were being extensively utilized for performance evaluations. Accounting measures include total income, operating profit, net profit, value added income and return on investment (Horngren, Datar, & Foster 2006). Although the use of financial performance measures is important in performance measurement, there has been growing criticism of financial measures as they are historic in nature and lack futuristic outlook (Emmanuel & Otley, 1995; Kaplan & Norton, 1996). From the ongoing discussions, even though there are criticisms of using financial measures of performance by businesses, some companies still consider them as the most efficient and effective tool for managing and measuring performance. However, because of these criticisms in using financial performance measures some researchers have argued the inclusion of relevant non- financial performance measures.

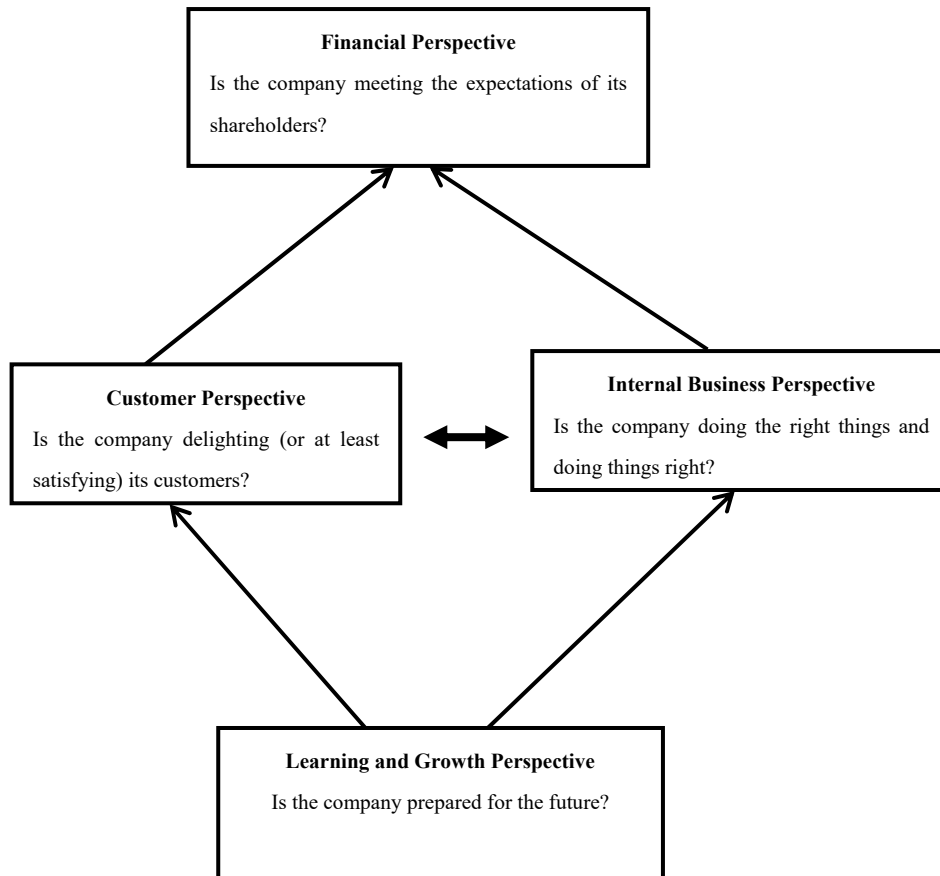#### 2.1.2 Non- Financial Measures of Performance

Drury (2004) opined that management accounting control systems tended to focus mainly on financial measures of performance, where only those items that could be expressed in monetary terms were considered. Other factors or variables such as product quality, delivery, reliability, after sales service and customer satisfaction were not given prominence in measurement. Fisher (1995) states that there are three main reasons for the emergence of non-financial performance measures: the limitations of traditional financial performance measures, competitive pressures, and the growth of the other initiatives.

2.1.3 Balance Scorecard Concept

The Balanced Scorecard is a strategic management system as well as a measurement 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 the external outcomes in order to continuously improve strategic performance and results (Ishtiaque, Khan, Akter, & Fatima, 2007). The Balanced Scorecard is a tool that helps to measure performance by balancing financial and non-financial measures (Ishtiaque, Khan, Akter, & Fatima, 2007). Kaplan and Norton (1992) had devised the Balanced Scorecard in its present form. They had framed the Balanced Scorecard as a set of measures that allows for a holistic, integrated view of the business process so as

to measure the organization's performance. The Balanced Scorecard was originally created to supplement the "traditional financial measures with criteria that measured performance from three additional perspectives – those of customers, internal business processes, and learning and growth" (Kaplan and Norton, 1992). The Balanced Scorecard concept has been successfully employed by many companies in recent years to better measure their financial results. About 40 per cent of Fortune 500 companies were using this system to evaluate performance at the end of 2000 (Punniyamoorthy & Murali, 2008).

The balanced scorecard perspectives affect each other as shown below:

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                    ┌─────────────────────────────────────────┐
                    │          Financial Perspective          │
                    │  Is the company meeting the expectations of its │
                    │  shareholders?                          │
                    └─────────────────────────────────────────┘
                              ↗                   ↖
   ┌──────────────────────────────┐        ┌──────────────────────────────┐
   │     Customer Perspective     │        │  Internal Business Perspective │
   │  Is the company delighting (or at least │ ←→ │  Is the company doing the right things and │
   │  satisfying) its customers?  │        │  doing things right?          │
   └──────────────────────────────┘        └──────────────────────────────┘
                    ↖                           ↗
              ┌─────────────────────────────────────────┐
              │       Learning and Growth Perspective    │
              │     Is the company prepared for the future? │
              └─────────────────────────────────────────┘
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Source: Ibrahim, 2015.

2.1.4 Imperical Review of Balanced Scorecard and Performance

Nair and Pareek (2011) examined the performance management systems adopted by selected Indian private sector companies and the kinds of measures used to evaluate their performance. A survey method was used and it was concluded that all the surveyed companies used both financial and non-financial performance measures to evaluate their performance.

Umar and Olatunde (2011) examined the performance of consolidated banks in Nigeria using non-financial measures and a survey methodology for 303 customers of four consolidated banks observed that cost of transaction, information technology, quality of service, service delivery, bank offering, loan application and customer satisfaction are non-financial measures used by consolidated banks in Nigeria. Ridwam, Harun, An, and Fahmid (2013) examined the impact of the use of a corporate scorecard system adapted from the BSC on the performances of a state-owned company (Freemantle Port Authority). Case study methodology was used. It was found that BSC had significant impacts on the organizational structure, operation, as well as the overall performance of the organization. Lord, Shanahan, and Gage (2005) investigated balanced scorecard from a New Zealand perspective. The purpose of the paper was to examined the existence and understanding of cause-and-effect relationships; whether or not the BSC was perceived as a strategic control model. The findings showed that the BSC is not used extensively by the firms studied but those that do use it take full advantage of

the BSC's flexibility, using broader perspective names, as needed, to incorporate the desired aspects of organisational performance. Teker, Teker, and Kent (2011) examined financial performances of commercial banks of Turkey using time series panel data from the period of 2003-2010. Thirteen Commercial banks listed in the Istanbul Stock Exchange in Turkey were used. The purpose was to develop an indexing model to measure financial performance. Proposed performance measurement model for the banks was developed. It was found that non-financial factors have become more important in recent years measuring performance of the selected commercial banks than the use of financial performance. Non-financial factors such as higher customer satisfaction, effective management and leadership, using more advanced technology in banking operations makes valuable contributions to measuring performance of the banks.

Ibrahim and Murtala, (2015) examined the relevance of BSC as a technique for assessing performance in the Nigerian banking industry. Survey method was used. It was found that the sampled banks recognized the relevance of using BSC for performance measures. Evans (2005) conducted a survey on hotels in Northeast England to assess balanced scorecard as a strategy and it was found that a wide variety of the hotels used all the four measures of the BSC perspectives namely financial perspective, customers' perspective, internal business perspective, and learning and growth perspective. Ibrahim (2015) investigated on the use of the four perspectives of balanced scorecard as a technique for assessing performance by Nigerian banks. Survey was used. It was found that the sampled banks used financial performance measures as a technique for assessing their performance. Asante (2013) investigated on divisional performance evaluation tools Employed by indigenous Ghanaian Banks. The purpose was to identify the performance measures used by local Ghanaian banks to measure the performance of their branches and if the same performance measures was used to measure their branch managers. A combination of qualitative and quantitative research methodologies was used. A questionnaire and both structured and unstructured interviews were the tools used in gathering primary data. Data was also gathered from the selected banks Annual Accounts from 2009-2012. The research findings indicated that local Ghanaian banks are employing both financial and non-financial performance measures in accessing performance for their branches and branch managers. Discussions so far suggest that there are relatively few empirical studies on Balanced Scorecard as a tool for managing the overall performance of Banks in Ghana.

3. Method

The study evaluates the extent of use of the four perspectives of balanced scorecard to manage performance. Survey research method was used. The population for the study comprised the banking institutions operating in Ghana. There are twenty- eight (28) registered commercial or universal banks in Ghana. In this research, the questionnaires were distributed to executives of the selected Ghanaian banks. The research made use of 3 Ghanaian banks as its sample size. Purposeful sampling technique was used to arrive at the sample size of 3 because these banks are implementing the BSC. The questionnaire was administered by the researcher directly on the banks executives namely, the General Manager, Operation Manager, Customer Service Manager, Marketing Manager, Chief Finance Officer, etc. Ten (10) questionnaires were administered to each of the selected banks. The data collected were analysed using Predictive Analytic Software (PASW) version 20. Descriptive statistics, such as percentages, means, medians, modes, standard deviation, minimum points and maximum points were used to ascertain the extent of use of the four perspectives of balanced scorecard. One-way ANOVA test was used to ascertain the significant differences between the mean score of the four perspectives of the BSC used by the selected Ghanaian banks.

4. Results and Discussion

Of the forty five (45) copies of questionnaire administered to the respondents of the sampled banks, thirty (30), representing 66.67% were filled and returned, while fifteen (15), representing 33.33% were not returned.

Table 1. Descriptive statistics on the extent of use of BSC

	Financial Perspectives	Customer Perspectives	Internal Business Process Perspectives	Learning and growth Perspectives
N Valid	30	30	30	30
Missing	0	0	0	0
Mean	4.41334	3.54666	3.11332	3.11334
Median	4.60	3.80	3.20	3.50
Mode	4.60	4.00	3.00	3.90
Std. Deviation	.621528	.959442	1.137552	1.155338
Minimum	2.60	1.40	1.00	1.00
Maximum	8.33	5.00	5.00	5.00

Source: Computed by Predictive analytic software from Questionnaire Response.

Table 1 presents the elements of descriptive statistics on the use of performance measures under each of the four perspectives of Balanced Scorecard in managing performance of banks in Ghana. From the table, it can be seen that the median and the mode responses are high for all the four perspectives of Balanced Scorecard with the exception of internal business process perspective which has 3.20 and 3.00 as its median and mode respectively. This means that the majority of the respondents of the sampled banks opted for strong agreement and agreement with the statements on financial, customer and learning and growth perspectives of Balanced Scorecard. However, there is low inclination toward internal business process perspective.

Moreover, it could be deduced from the table that the respondents place a major weight on the use of performance measures under financial perspective (mean = 4.41334), followed by customer perspective (mean = 3.54666), learning and growth perspective (mean = 3.11334) and internal business perspective (mean = 3.11332). This means that on average, the sampled banks focus more on financial perspective followed by customer perspective and learning and growth perspective, but less emphasis was placed on internal business process perspective of balanced scorecard. This shows that the sampled banks are using both financial and operational or non-financial measures for managing performance.

4.1 Analysis of Variance

One Way ANOVA test was used to find whether the mean scores of the various four perspectives of BSC is significantly different.

Table 2. Analysis of variance

	F	Sig.
Balanced Scorecard	29.051	0.000

Source: PASW questionnaire response.

The results of the above table show that the three means are significantly different from one another: the significance level of F ratio is given as .000 which is less than .001, 0.05 and 0.10. Multiple comparisons are needed to establish where the differences lie.

Table 3. Multiple comparisons of BSC perspectives

Balanced scorecard		Sig.
Financial perspective	Customer perspective	0.885
	Internal business process	0.048
	Learning and growth	0.000
Customer perspective	Financial perspective	0.885
	Internal business process	0.050
	Learning and growth	0.000
Internal business process	Financial perspective	0.048
	Customer perspective	0.050
	Learning and growth	0.836
Learning and growth	Financial perspective	0.000
	Customer perspective	0.000
	Internal business process	0.836

At 5% levels of significant from the above table, it can be deduced that financial perspective is not significantly different from customer perspective but is significantly different from internal business process and learning and growth perspective. At 5% levels of significance customer perspective is not significantly different from financial perspective but is significantly different from internal business process and learning and growth perspective. At 5% levels of significance internal business process is significantly different from financial perspective and customer perspective but is not significantly different from learning and growth perspective. At 5% levels of significance learning and growth perspective is significantly different from financial perspective and customer perspective but is not significantly different from internal business process.

5. Conclusions

The paper examined the extent of use of the four perspectives of balanced scorecard by selected Ghanaian banks. Empirical studies on balanced scorecard as a tool for managing performance were highlighted.   It was found that the extent of use of the four perspectives of balanced scorecard was financial perspective followed by customer perspective, learning and growth perspective and internal business process. The ANOVA test showed that the mean scores of the four perspectives of the balanced scorecard was significantly and statistically different from each other. The research concludes that, Ghanaian banks relied heavily on financial perspective to measure performance.

6. Recommendations

From the results of this study, it is therefore recommended that the banks put more attention in incorporating the learning and growth perspective, followed by internal business process, customer perspective and this could improve their profitability under the financial perspective of the balanced scorecard. Again, as a comprehensive measure of performance, which is able to provide a framework for managing overall performance, there is the need for more enlightenment of Ghanaian bank managers, academics and practitioners on the impact of BSC in managing performance of banks in Ghana. It is recommended that the banks put more emphasis on return on investment under financial perspectives. Customer complaints should be honoured on first contact under customer perspectives. Under internal business process perspectives frequent training and development programmes for employees should be conducted, and under learning and growth perspectives infrastructural investment should also be carried out.

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