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Balanced Scorecard Model in the Banking Sector

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Abstract: ***The performance measurement system aims to keep the individuals and organizational units in the company in line with the previously established plan. In order to set a long-term strategy of the company that will enable competitive success, it is necessary to use a tool or approach that will enable performance measurement and will provide a clear picture of the overall operation of the company for both financial and non-financial purposes. Hence the subject of this research, and that is the Balanced Score Card model, through which executives in the company use it for communication, information and leraning system. The purpose of this research is through analytical method to make a descriptive analysis of the balanced score card model, ie its application in the banking sector by proposing appropriate strategic activities, goals and key performance indicators for each of the perspectives.***

Keywords: balanced score card, performance, banking sector, strategy

1. Introduction

"What you measure is you get," said Robert Kaplan and David Norton, noting that organizational systems for measuring performance strongly influence the behaviour of managers and employees. Lord Kelvin, on the other hand, said: "When you can measure what you say and express it numerically, then you can really be sure that you know something about it."

Balanced Scorecard as a tool for measuring organizational performance was first introduced to the world public in 1992 by Robert S. Kaplan and David P. Norton and according to the Harvard Business Review Balanced Scorecard it is one of the 75 most influential ideas of the 20th century with their concept reflecting the balance between short-term and long-term goals, but also between financial and non-financial measures and between indicators that reflect the past and future-oriented indicators.

Like all organizations, banking institutions need to find an effective way to align their strategies with corporate goals based on performance analysis. The structural analysis of the evaluation model that connects the strategic goals becomes an important issue for the banking institutions if they want to maintain their competitive advantage (Jafari, Roudabr, Kamifiroozi, 2013). Given that banks often measure financial performance, omitting non-financial performance which is an important part of their overall operations and have a direct impact on financial performance, the purpose of this paper is to present the BSC performance measurement framework and strategic map of the four BSC perspectives that can be implemented in the banking sector. First, this paper will theoretically address the four perspectives of BSC and the strategic map proposed by Kaplan and Norton, and then a BSC model for banking institutions will be developed.

2. Literature Survey

As the Balanced scorecard is a widely accepted management tool that enables the measurement of both financial and non-financial performance, the application of the BSC is involved in many areas and there is variety of research available for its application.

In the field of banking sector, research has been done from different aspects, as follows: Tariq, Ahmed, Rafi and Ahmed, S (2014) conducted research on the impact of Balanced scorecard on business performance, based on the banking sector and according to them the financial perspective of balanced scorecard has the most important role of all the performance of the banks, which positively contributes to the achievement of the goals set by the bank. Apart from the financial perspective, their emphasis is also on setting standards for consumer preferences, which with the development of a balanced scorecard model related to consumers increases consumer satisfaction. Dave, Sagar and Dave, Swati (2012) conducted research on the application of BSC in the Indian banking sector and emphasized the importance of the intangible aspects as a tool for measuring the performance of the banking sector. According to them, designing a BSC in the banking sector and its implementation is not only difficult but also complicated. Nevertheless, according to them, BSC is an effective tool that covers the various aspects of banks' performance and helps to understand the complementarities between the various performance indicators for the bank and therefore be able to more effectively design and implement the strategic process. Al-Najjar and Kalaf (2012) designed a BSC model for measuring the performance of Large Local Bank in Iraq, and their research showed that the bank focused most of its financial perspective on measuring its performance, while intangible perspectives remained neglected. Ozturk and Coskun (2014) presented the strategic approach to performance management in banks using BSC, using examples from different regions of the world and according to them the successful implementation of BSC consists of 9 steps.

Jafari-Eskandari, Roudabr and Kamifiroozi (2013) presented the methodology for linking the key performance indicators in the so-called BSC strategic map for banking institutions. Rostami, Goudarzi and Zaj (2015) define the aspects of BSC in the banking sector, using the FAHP approach, with the first priority being the consumer aspect. Balkovskaya and Filneva (2016) address the BSC strategic map for banking institutions using the example of the Russian Regional Bank. In this research, the key indicators are related in a strategic map which is of great importance when prioritizing the strategic steps. Zhang and Li (2009) explained in their paper how to use BSC as a tool that can be applied in the performance management system of commercial banks and present their governance mechanism for BSC. Wu (2012) presented the structural evaluation methodology for linking key performance indicators in a BSC strategic map for banking institutions using the DEMATEL method.

1) The four perspectives of the Balanced Scorecard

Robert S. Kaplan and David P. Norton introduced the concept of balanced scorecard in 1992, after recognizing the need for companies to develop the ability to use intangible assets versus the ability to invest and manage physical assets. The introduction of this concept did not replace the financial measures, but only supplemented the process of measuring the performance of companies, so that in addition to financial perspectives, companies will be able to emphasize non-financial perspectives such as consumers, internal business processes and learning and development.

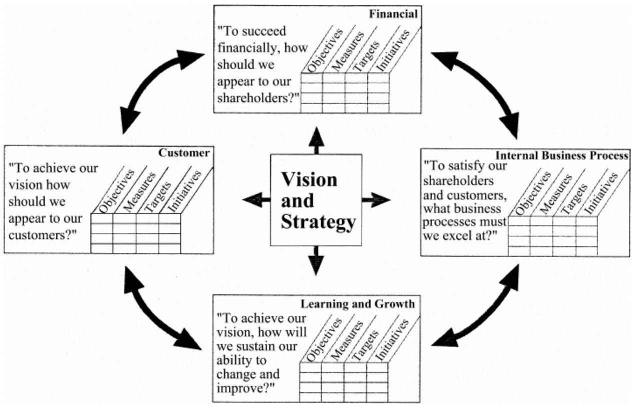

Figure 1: The four perspectives of the BSC
Source: Robert S.Kaplan, David P.Norton, Using the Balanced Scorecard as a Strategic Management System, Harvard Business Review

According to Norton and Kaplan, the financial parameters will increase, if the other performance of the companies is improved. If the preferences and expectations of shareholders, consumers, employees, suppliers and society are internalized, in the long run the value of shareholders will be optimized.

2) Balanced Scorecard in the banking sector

In today's business environment, organizations are constantly competing to meet the needs of consumers and through their satisfaction and loyalty target to make higher profits. Banks that aim to offer a high level of quality of services, but also to offer new products and make a profit through efficiency and economy in their operations are not excluded from this competitiveness. Banks, like other organizations, need to evaluate their performance and assess the achievement of their goals.

3) BSC financial perspective in the banking sector

Because the basic function of banks as financial institutions is to collect money from the population in the form of deposits and loan approvals and thus appear as intermediaries between depositors and loan applicants, in order to make a profit for their shareholders, we started designing the BSC for the banking sector from a financial perspective. Financial measures convey the economic consequences already taken by organizations and focus on profitability measures and according to which shareholders confirm the profitability of their investments (Al Najjar, Kalaf, 2012). Profitability is actually a reflection of the quality of the bank's management team, their implemented strategies and policies based on which the bank operates, the behaviour of shareholders, as well as the efficiency of their operations and the ability to manage risks. The income of the banks, being a source of finance, is especially important for them to be able to perform their work efficiently and is a precondition for the future growth of the bank. Better profitability means better prospect of raising additional capital and therefore investors having more confidence in its financial strength.

Table 1: Financial perspective of the banking sector

Strategic activity	Goal	Key Performance Indicators - KPI
Increasing the utilization of funds	Efficient use of funds	Return on Equity (ROE)
Increasing revenue opportunities	Increase profits through interest income and commissions	Return on Assets (ROA)
Improving the cost structure	Reducing the costs of financial intermediation of the bank and increasing efficiency	Net interest margin (NIM)

To assess financial performance, among the most commonly used indicators used by banks are return on equity (ROE), return on assets (ROA) and net interest margin (NIM). Return on assets (ROA), as a measure of banks' profitability, shows the earned profit per unit of assets and is a reflection of the ability of management to use the financial and real investment resources of the bank to make a profit. Return on equity (ROE), on the other hand, reflects the effective work of the bank's management in terms of using the funds available to them from the shareholders. This indicator shows the return realized by the bank as compensation for the investment of the shareholders' capital in that bank. If the return on assets shows the ability of management to use the bank's financial resources to make a profit, the return on equity shows how successful the bank's management is in maximizing shareholder wealth. The indicator of net interest margin refers to the costs of financial intermediation of the bank and its efficiency, which gives an idea of how efficiently the bank is run and what is the yield rate that the interest-bearing assets accomplish.

4) BSC Consumer Perspective in the Banking Sector

Banks customers are their source of profit so meeting the needs of the customers is their ultimate goal. From this perspective, the banks management identifies target customers and market segments, and then monitors the performance of the operating segments' operating units (Wu, Lin, Tsai, 2011).

Table 2: Consumer perspective of the banking sector

Strategic activity	Goal	Key Performance Indicators - KPI
Quality	Increase customer satisfaction	Degree of customer satisfaction
Availability	Increasing market share	Market coverage rate
Service	Continuous customer retention	Ability to retain customers
Selection	Attracting new customers	New customers growth rate
Functionality	Increase per customer profit	Realized profit per customer

According to Wu, the key performance indicators that need to be included in the consumer perspective for performance evaluation in the banking sector are the degree of customer satisfaction, the market coverage rate that can be obtained when the sales volume of products and services is divided by the total market sales, the ability to retain customers, the growth rate of new customers and the realized profit per customer that is obtained when the profit after tax will be divided by the total number of customers (Wu, 2012).

5) Internal business processes - BSC perspective in the banking sector

The purpose of this perspective is to satisfy shareholders and customers through good execution of business processes that have the greatest impact. In determining the goals and measures for this perspective, it is necessary to incorporate value chain analysis, as the operating process needs to be adjusted to the financial and consumption goals, while responding to current and future consumer needs. According to Wu, the internal value chain consists of three main business processes: innovation, operability and after-sales service (Wu, Lin, Tsai, 2011).

The efficiency of the transactions can be seen by the banks through the average time spent on solving the problems that arise during the transactions, while the clients' dissatisfaction with their services and products is perceived by the banks through the total number of complaints from their clients (Wu, 2012).

Table 3: Internal business processes - perspective of the banking sector

Strategic activity	Goal	Key Performance Indicators - KPI
Operational process management	- Increased transaction efficiency - Improving the efficiency and effectiveness of sales - Increased degree of systematization of documentation and software - Increase the effectiveness, efficiency and quality of each of the goals and routine tasks	- Transaction efficiency - Sales performance - Rationalized forms and processes - Performance management
Customer-oriented process management	Minimize customer complaints	Number of customer complaints
Innovative processes	Innovation of products and services	Number of new services and products

6) Learning and development - BSC perspective in the banking sector

From a learning and development perspective, managers need to identify goals to answer the question "How do we maintain the ability to constantly change and improve to achieve our vision?". This perspective actually refers to the organization employees and measures its efforts to enable the growth and learning of the employees in their domain. According to Kaplan and Norton, the measures for this perspective are the most difficult to choose and they propose as measures for this perspective: strengthening the knowledge of the employees, the motivation of the employees, the abilities of the employees and the capabilities of the information systems.

Table 4: Learning and development perspective of the banking sector

Strategic activity	Goal	Key Performance Indicators - KPI
Human capital	- Continuous professional development of employees - Increasing employee satisfaction and motivation	- Number of professional trainings - Employment stability - Number of bonuses and rewards per employee
Information capital	Development and improvement of information technology	Number of employees participating in the development and maintenance of programs (IT)
Organizational capital	Improving the organizational culture	- Teamwork of employees - Knowledge management

3. Conclusion and Future Work

From the analysis made for BSC in the banking sector it can be concluded that the financial perspective has the most significant role of all banks' performance with the greatest impact on the other three perspectives and thus is the main causal factor. The strategic activities covered by this perspective are increasing the utilization of funds, increasing the opportunities for income and improving the cost structure, and the goals of the bank from a financial point of view are the efficient use of funds, increasing profits through interest income and commissions. and reducing the cost of financial intermediation and increasing efficiency.

The consumer perspective is the main consequence factor and is most influenced by all the other three perspectives. The goals set for this perspective are to increase customer satisfaction, increase market share, maintain continuous customer retention, attract new customers and increase per customer profit.

The perspective of internal business processes aims to satisfy shareholders and customers and includes three strategic activities, namely operational process management, customer-oriented process management and innovative processes, and for each of the activities appropriate goals are set. Thus, for the strategic activity management of operational processes the following goals are set: increased transaction efficiency, improvement of efficiency and effectiveness of sales, increased degree of systematization of documentation and software and increase of effectiveness, efficiency and quality of each of the goals and routine tasks are set. Furthermore, for the strategic activity management of process oriented towards the consumer, a goal is set for minimizing the complaints from the clients and for the strategic activity for innovative processes, the goal that is set is innovation of the products and services.

The learning and development perspective refers to the employees in the organization and measures its efforts to enable the growth and learning of the employees in their domain. Strategic activities related to this perspective are human capital, information capital and organizational capital.

In accordance with the overall analysis of the Balanced score card in the banking for future research, we propose an evaluation of the performance in the banking sector that constitutes the consumer perspective which is the main "consequential" factor and is most influenced by the other three perspectives.

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