

Impact of Balance Scorecard Dimensions on Bank Performance: Evidence from Nepal

Dr. Dilip Parajuli

Associate Professor, Bhaktapur Multiple Campus, Tribhuvan University, Nepal

Dr. Prakash Shrestha*

Lecturer, Nepal Commerce Campus, Tribhuvan University, Nepal

*E-mail of the corresponding author: mrprakashshrestha@gmail.com

Abstract

The purpose of this study is to examine the status of BSC dimensions and their impact on bank performance. A formal questionnaire was used for collecting data. For evaluating responses, a five-point Likert-type scale has been used. A total of 1,080 questionnaires were distributed to the managers (including corporate and senior managers, officers, and junior managers) of the 27 banks with an average of 40 questionnaires per bank and a total of 562 (52.04 percent) available responses were obtained and evaluated in this research. Empirical tests and observations were used for descriptive statistics and the regression model. The findings show that the use of the BSC method is satisfactory in the Nepalese banking sector. Nepalese banks have improved relative performance on four of the BSC dimensions from the financial perspective. Also, the findings show a strong and significant impact of all four of the BSC dimensions considered in this study on the performance of the banks. This study indicates that a wider examination of corporate success is offered through the BSC approach. The Nepalese banking sector can use BSC to more comprehensively assess their organizational performance.

Keywords: Balanced scorecard, Commercial banks, Dimensions, Impact, Organizational performance, Status

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1. Introduction

In a recent study, Rafiq, Zhang, Yuan, Naz, and Maqbool (2020) very well said that business entities are profit-making machines. These entities always seek to earn maximum profits and ensure a high level of performance. Enhancing organizational performance is one of the major objectives of any business entity. However, proper measurement of organizational performance is always a major issue and the problem for the business entities. In this regard, Erdoğan, Onay, and Karamaşa (2019) reported that the Balanced Scorecard (BSC) introduces solutions to problems arising from strategic management failures and insufficiency of traditional performance management systems.

The issue of the BSC came to form a distinctive method for assessing the performance of the business organization. After developing the concept of BSC in the early 1990's (Kaplan and Norton, 1992), it has become the most commonly used management approach for assessing companies' success. Using this tool is thought to improve organizational outcomes, innovation levels, and productivity (Dar & Presley, 2000). It is also believed that the BSC forms a tool for expanding administrative responsibility so that all corporate bodies are gathered in a basic and very important way. It uses key performance indicators and critical success factors to transform an organization's mission and strategy into a balanced set of integrated performance measurements (Ho & Chan, 2002).

BSC approach has been widely adopted in all organizations, whether business or non-profit. Kaplan and Norton (1996) focus on the causal relationships between measures such as organizational learning and development, internal business processes, customer perspective, and finally financial indicators. They further argued that these all indicators or dimensions of BSC lead to greater organizational performance. An effective BSC should have a mixture of outcome measures (lag indicators) and drivers of performance (lead indicators). This believes a relationship between cause-and-effect is important as it enables the indicators to be used in non-financial areas to predict future financial results. And the point is that financial measures express something about past performance while the generators of potential success are non-financial measures (Kaplan & Norton, 1996). The past performance (Dar & Presley, 2000) defines the potential results. In particular, many firms are implementing the BSC as a supplement to traditional accounting measures concerning financial perspective and some non-financial measures such as customers, internal business processes, and learning & growth (Kaplan & Norton 1992, 1996). Kaplan and Norton (1996) also add that these four BSC dimensions allow for a balance between short and long-term objectives, between expected results and the performance drivers of those results, and between tough objective indicators and softer, more subjective actions (Walker & Ainsworth, 2007). BSC is a modern and full performance assessment method that would aim at corporate vision objectives and improve success in the company (Kaplan & Norton, 1996).

Coming to the banking sector, since 1990, Nepalese commercial banks have been delivered a new banking experience in Nepal. Their services matter for customers (Shrestha, 2019). The banking sector is being one of the most important industries. It has delivered a new banking experience to the public in Nepal. Most of the new commercial banks have promptly delivered a new banking experience by providing sophisticated technology, A-class services, and a customer-centric approach towards the customer so that the market growth of these banks is increasing. Looking at the increasing popularity of services that the commercial banks have provided, their counterparts in the public sector have started emulating them. Their performance is concerned with all (Parajuli & Shrestha, 2020). In this regard, it is questionable how have these banks performed in terms of financial and non-financial dimensions. Despite the recognition that both BSC and banking performance, there are no in-depth studies that explicitly examine the joint impact of the BSC dimensions and the bank's performance. Thus, this study focuses on the usage of the four key BSC dimensions and their impact on the performance of Nepalese commercial banks.

2. Objectives of the Study

This study aims to capture the organizational performance analysis of commercial banks in Nepal. However, to attain main objectives this study has covered the following specific objectives:

- a. To examine the status of BSC dimensions and organizational performance of commercial banks.
- b. To analyze the impact of BSC dimensions on bank performance.

3. Research Hypothesis

In the line of the above discussions and discourses, this study aims to test the following four research hypotheses:

- H1: The financial dimension of the BSC has a positive and significant impact on bank performance.
H2: The customer dimension of the BSC has a positive and significant impact on bank performance.
H3: The internal business process dimensions of the BSC have a positive and significant impact on bank performance.
H4: The learning & growth dimensions of the BSC have a positive and significant impact on bank performance.

4. Literature Review

This section reviews key study variables including BSC, its key dimensions such as financial, customer, internal business process, and the learning & growth dimensions. It also reviews the relationship between BSC and the commercial banks.

4.1 Balanced Scorecard (BSC)

The BSC is a new approach to strategic management that was developed in the early 1990's (Kaplan & Norton, 1992). This approach identifies some of the shortcomings and vagueness of previous management strategies and offers a straightforward guideline as to what businesses will calculate to 'balance' the financial perspective. It is widely used by organizations as a tool to assess and manage their companies' organizational performance (Parajuli & Shrestha, 2020). It is introduced as a superior combination of financial and non-financial measures of performance (Kaplan and Norton, 1996). (Marr & Schiuma, 2003; Smith, 1998) praised that the use of BSC has gained increasing popularity and attention among industry practitioners and researchers over the years. It is used as the dominant framework in performance management and strategic management (Shrestha, 2019).

Many previous studies (e.g. Hoffecker & Goldenberg, 1994; Hogan, Gressle, & Neyland, 1999; Huselid, 1995; Ittner et al., 1998; Johnson, 1998; Kaplan & Norton, 1996; Maisel, 1992; McWilliams, 1996; and Newing, 1995) reported that the BSC is a strategic management and evaluation framework that blends strategic priorities with a wide variety of main performance indicators to provide a balanced perspective. This approach is focused on evaluating key measures of success in all dimensions and areas of an enterprise: financial; customer; internal business process; and learning & growth (Tabari & Araste, 2008; Kaplan & Norton, 1996; Hoque, 2014; Park & Gagnon, 2006; Sundin, Granlund, & Brown, 2010; Anand, Sahay, & Saha, 2005; Ardabili, 2011).

Financial Dimension

This dimension of the BSC describes the tangible outcomes of the corporate strategy in traditional financial terms such as profitability, return on capital employed, residual income, economic value-added, sales growth, market share, etc (Atkinson, 2006). Financial measures are considered the 'lagging' indicators in the sense that they are the results of other former actions mostly of qualitative nature (Cohen, Thiraios, & Kandilorou, 2008). Extensive research in the marketing, corporate strategy, and management accounting literature has studied the relation between market share and firm performance. Buzzel and Gale (1987) found a strong and positive relation between market share and profitability that ultimately enhances organizational performance.

Customer Dimension

This dimension of the BSC is concerned with the value proposition used to generate sales and loyalty from targeted customers (Kaplan and Norton, 1996). It requires companies to identify the potential customers in the targeted

segments and consequently choose the value parameters to deliver to the customers. The wide spectrum of marketing literature has provided evidence that perceived customer value determines the level of customer satisfaction, which leads to customer acquisition, retention, and ultimately customer profitability and market share (Malina & Selto, 2001).

Internal Business Process Dimension

The BSC aspect describes the essential processes, expertise, competencies, and technology that will provide consumers with a value proposition, existing, and potential organizational performance (Atkinson, 2006). Gartrell (1990) claimed that R&D investment is a crucial factor in leading to greater economic efficiency. On the other hand, Aboody and Lev (1998) found that capitalization at R&D is related to firm potential earnings in a substantial way. Bhagat and Welch (1995) found an important positive relationship between lagging stock returns of two years and current R&D expenses. Some of the research on process improvement tried to equate quality control with organizational efficiency.

Learning and Growth Dimension

Learning & growth aspects of the BSC approach emphasize a firm's innovation, ingenuity, competencies, and ability. They apply to the most important intangible assets in the creation and execution of strategies. The goals of these dimensions are to recognize human resources, knowledge capital, and the organizational environment required to sustain internal processes. They also focus on people and their attitude, knowledge, growth, and desire to learn and improve which ultimately affects the success of the firm (Cohen et al., 2008).

4.2 Relationship between BSC and Commercial Banks

Business banks are facing intense competition in the rapid growth of financial markets. Modern performance management appears insufficient in assessing all-round success to meet the strategic development's banking needs. Bank performance management is an important part of the management of the banking business. Traditional performance management overlooked the non-financial variables, resulting in the bank's overall activities being unable to adequately represent the inference. At the same time, financial dimensions can only reflect banks' success in the past and do not reflect potential operating conditions for the bank (Sharma, 2013).

Banking industry has become competitive with banks competing with each other and with other financial institutions as well (Shrestha, 2018). Nowadays, commercial banks are facing challenges from the external environment. If the banks don't correctly analyze the external environment and reflect what it is during the process of performance management, they cannot give an accurate analysis of their strengths and weaknesses. They cannot understand the opportunities and threats facing either that make them difficult to win in the intense competition (Simons, 2000). Implementing BSC in banking is a very strategic issue, as there is a huge propensity to concentrate solely on the financial dimension. Commercial banks are focused on making more profits on the money. Thus, it is very easy to overlook non-financial dimensions which, however, have a direct effect on the financial results of these banks (Ittner, 2008). These discussions justify the importance of BSC in measuring the performance of the commercial banks in our context too.

5. Research Methods

This study is based on primary data. For data collection, a formal questionnaire was used. For calculating the responses a five-point Likert-type scale was used. 27 commercial banks are the study unit. For this purpose, 1,080 questioners were distributed to the managers (including corporate and senior managers, officers, and junior managers) of the banks with an average of 40 questionnaires for each bank and a total of 562 (52.04 percent) usable responses were received and analyzed in this study.

BSC approach has been measured using a modified scale that was developed by Hoque and James (2000). The instrument comprises of items that incorporate Kaplan and Norton's (1992) four dimensions of the BSC. Organizational performance has been measured by appraising four comprehensive dimensions of the BSC approach- financial perspectives, customer perspectives, internal business process perspectives, and learning & growth perspectives of performance. The instrument is conceptually consistent with Kaplan and Norton's (1992) BSC theorizing. The following Table 1 depicts the variables and indicators applied in this study.

Table 1: Study Variables

Financial Dimensions	Customer Dimensions	Organizational Performance
<ul style="list-style-type: none"> ▪ Operating income ▪ Product profitability ▪ New customer and market ▪ Stakeholder relation ▪ Pricing strategy ▪ New product and applications ▪ Operating cost ▪ Cost structure ▪ Assets utilization ▪ Revenue opportunities ▪ Productivity ▪ Stakeholder value 	<ul style="list-style-type: none"> ▪ Customer retention ▪ Customer profitability ▪ Customer acquisition ▪ Customer satisfaction ▪ Customer complaints ▪ Customer service times ▪ Market share ▪ Market penetration ▪ Service staff number ▪ Staff skills and competences ▪ Appearance and friendliness ▪ Number of new accounts opened ▪ Unique product ▪ Brand image ▪ Social activities 	<ul style="list-style-type: none"> ▪ Return on assets ▪ Return on equity ▪ Shareholders value ▪ Shareholders expectations ▪ Participative culture ▪ Commitment and loyalty ▪ Organizational citizenship ▪ Service quality ▪ Teamwork
Internal Business Process Dimensions	Learning & Growth Dimensions	
<ul style="list-style-type: none"> ▪ Service cycle duration ▪ Range of distribution reach ▪ New products/services ▪ Training hours ▪ Customer needs identification ▪ Innovation process ▪ Operation process ▪ Post-sale services ▪ Process delivery 	<ul style="list-style-type: none"> ▪ Employee capabilities ▪ Employee satisfaction ▪ Training and development ▪ Employee morale ▪ Employee productivity ▪ Employee absenteeism ▪ Employee turnover ▪ Market share ▪ New product share ▪ Technology ▪ Information technology ▪ Employee empowerment ▪ Teamwork ▪ Culture and leadership 	

Source: *Literature review*

To analyze the data, descriptive statistics such as mean and standard deviation (S.D.) were used whereas the impact of BSC dimensions on bank's performance was examined by using multiple regression analysis that reveals the impact of four performance scales of BSC model with the organizational performance formulated as below:

$$Y = \alpha + \beta_1 \text{ FINANCE} + \beta_2 \text{ CUST} + \beta_3 \text{ INTBUSS} + \beta_4 \text{ LEARNGRO} + \varepsilon$$

Where;

Y = Organizational performance

β = Coefficient of each dimension

FINANCE = Financial dimension

CUST = Customer dimension

INTBUSS = Internal business process dimension

LEARNGRO = Learning & growth dimension

ε = Error term

6. Results and Findings

This segment presents empirical results and research findings. This section begins by exploring the status of the BSC dimensions used in Nepal's commercial banks. This section also provides an overview of multiple regression findings in the next section to analyze the impact of BSC dimensions on the performance of commercial banks.

6.1 Status of BSC dimensions in commercial banks of Nepal

Four dimensions are used as the BSC dimensions in this study to determine this approach practiced at Nepal's commercial banks. Table 2 below presents the status of the BSC measurements used in these banks:

Table 2: Status of BSC dimensions in commercial banks of Nepal

S. no.	BSC Dimensions	Mean	S.D.	Reliability
1.	Financial dimension	3.79	0.421	0.85
2.	Customer dimension	3.75	0.692	0.82
3.	Internal business process dimension	3.67	0.651	0.79
4.	Learning & growth dimension	3.71	0.594	0.83

Note: Reliability is measured with Cronbach's Alpha value. The Alpha values are greater than the claim of Sekaran (2006). So, the instruments used to measure each variable in this study are reliable enough and provides useful results.

With considerably high, the mean values of each BSC variable are more than average. Therefore it can be concluded that the use of the BSC approach in the Nepalese banking sector is satisfactory. It means that the banking sector in Nepal makes extensive use of the BSC approach to assessment.

6.2 Status of Organizational Performance

Organizational performance is assumed as the outcome variable in this research. Consequently, the statistical analysis presents the status of organizational performance in the Nepalese banking sector as:

Table 3: Status of organizational performance in commercial banks of Nepal

Outcome variable	Mean	S.D.	Reliability
Organizational performance	3.89	0.781	0.91

Note: Reliability is measured with Cronbach's Alpha value. The Alpha value is greater than the claim of Sekaran (2006). So, the instrument used to measure this variable is reliable enough and provides useful results.

The mean value of the organizational performance as an outcome variable is more than average. So, the organizational performance of the Nepalese banking sector seems to be higher. It indicates that this sector has a better performance in all four perspectives of the BSC evaluation approach.

6.3 Test of assumptions of the regression model

Sheehan, Cooper, Holland, and Cieri (2007) claimed that the regression model could be used to test perceptual data hypotheses if there is no multicollinearity and normally in the results. Therefore, before using the regression model for evaluating hypotheses, this study tests the regression assumptions.

Test of normality

The normality of data in this analysis is checked using Kolmogorov-Smirnov (K-S). Test results are given in the table below:

Table 4. Kolmogorov-Smirnov (K-S) Test

Study variables	Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)
Financial dimension	4.259	0.00
Customer dimension	3.521	0.00
Internal business process dimension	4.158	0.00
Learning & growth dimension	4.366	0.00
Organizational performance	3.917	0.00

The K-S test confirms that the data is normally distributed at a one percent level of significance. Therefore, it is claimed that the data is normally distributed and parametric tests can be used in such normally distributed data.

Test of Multicollinearity

Test of multicollinearity regressing BSC dimensions and organizational performance using collinearity statistics are given below:

Table 5. Result of the Regression for Organizational Performance

Model	Unstandardized Coefficients		t	Sig.	Collinearity Statistics	
	B	Std. Error			Tolerance	VIF
(Constant)	26.613	1.901	13.999	0.000		
Financial dimension	1.515	0.058	25.997	0.000	0.557	1.794
Customer dimension	0.527	0.064	8.196	0.000	0.461	2.167
Internal business process dimension	1.080	0.109	9.938	0.000	0.460	2.176
Learning & growth dimension	1.704	0.039	43.876	0.000	0.582	1.719
R	0.969					
R ²	0.94					
Adjusted R ²	0.939					
F-statistics	276.983					
p-value	0.000					

The results show that the data in this study has shown no multicollinearity, as no data has a tolerance value lower than 0.1 or a VIF higher than 10. The results are consistent as Burns and Burns (2008) (1992) claim.

6.4 Impact of BSC Dimensions on Organizational Performance

Organizational performance is regarded as dependent variable in this regression model, and four BSC dimensions integrated into the analysis are known as independent variables. Consequently, the regression model is developed as:

Table 6. Regression Model

Y =	$\alpha +$	β_1 FINANCE +	β_2 CUST +	β_3 INTBUSS +	β_4 LEARNGRO + ϵ
	26.613	1.515 FINANCE +	0.527 CUST +	1.08 INTBUSS +	1.704 LEARNGRO + ϵ
	(13.999)	(25.997)	(8.1936)	(9.938)	(43.876)
p-value	0.000	0.000	0.000	0.000	0.000
R = 0.969					
F-statistics = 276.983					
R ² = 0.94					
Overall p-value = 0.000					

Note: Figures in parentheses indicate t value.

The model provides results regarding the impact of BSC dimensions on organizational performance. The analyses reveal that the financial dimension has a significant and positive impact on organizational performance ($\beta = 1.515$, $p < 0.01$). The results also show that the customer dimension has a significant and positive impact on organizational performance ($\beta = 0.527$, $p < 0.01$). The internal business process dimension has a significant and positive impact on organizational performance ($\beta = 1.08$, $p < 0.01$). Finally, learning & growth dimensions have also a significant and positive impact on organizational performance ($\beta = 1.704$, $p < 0.01$). Thus, the results indicate that there is a positive and significant impact of all BSC dimensions on organizational performance. Thus, these findings provide support for H1, H2, H3, and H4.

Table 7: Summary of Hypotheses Results

Hypotheses	Decision
H1: The financial dimension of the BSC has a positive and significant impact on bank performance.	Accepted
H2: The customer dimension of the BSC has a positive and significant impact on bank performance.	Accepted
H3: The internal business process dimensions of the BSC have a positive and significant impact on bank performance.	Accepted
H4: The learning & growth dimensions of the BSC have a positive and significant impact on bank performance.	Accepted

7. Discussion and Conclusions

This study is set out to provide a better understanding of the impact of BSC dimensions on organizational from a managerial perspective. The perception of managers of Nepalese banks regarding the BSC dimensions is found considerably high. Therefore, it can be concluded that the use of the BSC approach in the Nepalese banking sector is satisfactory. Nepalese banks have relatively improved performance from the financial perspective on four of the BSC dimensions. Similarly, BSC's other performing dimensions are the customer and learning & growth. Within the internal business process dimension, however, the banks have relatively lower performance. However, overall,

it is found that the banking sector in Nepal makes extensive use of the BSC approach to assessment. The result also indicates that organizational performance tends to be higher in the Nepalese banking sector. It indicates that, in all four BSC dimensions, the BSC approach has a better performance for this sector.

With respect to the relationship between the BSC approach and organizational performance, the evidence suggests that there is a substantial positive association of organizational performance with all aspects of the BSC approach. These research findings are consistent with the results of many preceding studies (e.g., Tabari and Araste, 2008; Park & Gagnon, 2006; Sundin et al., 2010; Ardabili, 2011; Hoque, 2014; Erdoğan, et al., 2019; and Parajuli & Shrestha, 2020).

In conclusion, the empirical findings indicated the positive and significant impact on the banks' organizational performance of all four of the BSC dimensions considered in this study. The findings of this study are also consistent with the findings of several other researchers (e.g. Hoque & James, 2000; Anand et al., 2005; and Purwohedhi & Dan, 2006). It indicates that BSC dimensions (including financial, customer, internal business process, and learning & growth dimensions) have a substantial and optimistic impact on the banks' performance.

These results are the indications of the effectiveness of BSC as a performance measurement tool in evaluating organizational performance more holistically and comprehensively because of some reasons. Kaplan and Norton (1992, 1996) reported that a cause-and-effect linkage between non-financial and financial indicators is a major characteristic of BSC in translating strategic objectives into actions and measuring performance. Ong, Teh, and Lau (2010) also reported that the fact proved that the cause-and-effect logic has been described as the essence of the BSC. Likewise, Davis and Albright (2004); Othman (2006); and Binh (2012) also reported that BSC improves financial performance and the cause-and-effect relationship of the BSC leads to improved business efficiency and organizational performance.

8. Practical Implications

The contemporary performance evaluation system of the Nepalese banking sector is largely based on the traditional financial measures which ignore many qualitative aspects. BSC is a modern and multi-dimension performance evaluation approach. It provides a wider analysis of corporate performance. Nepalese banking sector may use BSC for evaluating their organizational performance more comprehensively. The application of the BSC approach for performance appraisal is a new concept in the Nepalese banking sector. Its effectiveness and success depend upon the sound policies. Specific policies are useful for the better implementation of BSC. In such a case, the findings of the current study can help formulate policies supportive of BSC evaluation.

This study suggests that the bank should formulate a clear policy on the extension of customer and market by reducing and controlling costs. Similarly, some specific policies for better customer service draw systematic acquisition, retention, and satisfaction of customers by providing a distinctive product or service attributes that will be beneficial to them. To enhance operation efficiency, the banks should formulate policy giving focus on systematic and efficient operation, and innovation process. Finally, the banks should apply more training and development schemes to adopt information technology and new technology to achieve growth in employee skills and learning that ultimately enhances organizational efficiency and performance.

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