BALANCED SCORECARD AS A TOOL 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 use of the four perspectives of balanced scorecard as a tool to for managing performance in selected Ghanaian banks. Survey technique (questionnaires) was used to gather data for the research. Twenty eight (28) registered Ghanaian banks were used as the population for this study. A purposive sampling technique was used to arrive at a sample of three (3) banks. Descriptive statistics, such as percentages was used as the technique for data analysis. On the impacts of balanced scorecard perspectives on the performance of selected Ghanaian banks, it was found that balanced scorecard had a great impact on performance. The research concludes that, Ghanaian banks relied heavily on financial perspective.

Keywords: Balanced Scorecard, Bank Performance, Ghana.

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 and 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.

LITERATURE REVIEW

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 and 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 and 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 and Yasui, 2011). Performance measurement is a system that helps management to follow up, coordinate, control, and improve certain aspects of organizational activities (Kollberg, Elg and 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.

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 and 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 and Otley, 1995; Kaplan and 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 for the inclusion of relevant non- financial performance measures.

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.

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 and Fatima, 2007). The Balanced Scorecard is a tool that helps to measure performance by balancing financial and non-financial measures (Ishtiaque, Khan, Akter and 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 and Murali, 2008).

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 its 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.usefulness for international hotel industry. 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.

METHODOLOGY

The study evaluates the perceptions of banks on the impact of BSC as a tool for managing 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) formally Statistical Package for Social Sciences (SPSS) version 20. Descriptive statistics, such as percentages were used to ascertain the level of agreement or disagreement with the statement in the questions

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: Impact of Balanced Scorecard Perspectives on Performance

Impact of Balanced Scorecard perspectives on performance.	Yes		No	
	F	%	F	%
A. Have you heard of the four perspectives of balanced scorecard before?	30	100.00	-	-
B. Has your bank implemented the four perspectives of balanced scorecard as a performance measurement tool?	30	100	-	-
C. Has the implementation of the balanced scorecard assisted the bank's performance measurement?	26	86.70	4	13.30
D. Have you observed whether customer perspective has an impact on the performance of your bank?	28	93.30	2	6.70
E. Have you observed whether financial perspective has an impact on the performance of your bank?	26	86.70	4	13.30
F. Have you observed whether internal business process perspective has an impact on the performance of your bank?	28	93.30	2	6.70
G. Have you observed whether learning and growth perspective has an impact on the performance of your bank?	26	80	4	20

Source: PASW questionnaire response

Table 1 shows responses and the respective percentages that respondents expressed with respect to the impacts of balanced scorecard perspectives on performance. From the table, it can be deduced that the respondents agreed or disagreed to the above statements.

Considering the first question, 100% were of the view that, they have heard of the four perspectives of balanced scorecard before and none disagreed. With respect to whether the bank's implementation of the four perspectives of balanced scorecard was used as performance measurement, 100% agreed, and none disagreed. Considering whether the implementation of the balanced scorecard assisted in the bank's performance measurement, 86.70% agreed, 13.30% disagreed. Regarding if the banks have observed an impact of customer perspective on their performance, 93.30 agreed and 6.70% disagreed. With respect to whether the banks have observed an impact of financial perspective on the performance 86.70% agreed and 13.30% disagreed. Considering whether the banks have observed an impact of internal business process perspective on their performance, 93.30% agreed and 6.70% disagreed. Regarding if the banks have observed an impact of learning and growth perspective on their performance 80% agreed and 20% disagreed.

From the findings above, most respondents of the sampled banks agreed that the four perspectives of the balanced scorecard have a great impact on performance of banks. This is consistent with the study of Nightingale, (2005) who concluded that more than 50% of US companies and 47% of Europe companies have implemented the balanced scorecard and have reported some significant gains in their performance. Similarly, Murtala and Ibrahim (2015) concluded that by adopting a BSC, a firm will increase employee satisfaction and subsequently firm performance that will in turn increase firm profitability. This finding is also in line with the findings of Al-Matarneh (2011), who found that there is recognition by the Jordanian industrial companies of the importance of implementing the BSC as a technique for assessing their overall performance

CONCLUSIONS

The paper made an effort to examine the use of balanced scorecard as a tool for managing performance by three selected Ghanaian banks. Performance, measurement, performance measurement, operational and financial measures of performance and the four perspectives of balanced scorecard were discussed. Empirical studies on balanced scorecard as a tool for managing performance were also highlighted. It was found that balanced scorecard had a great impact on performance.

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