

Managerial perception on the application of the balanced scorecard evaluation approach

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Abstract

This study aims to examine the managerial perception of the application of the balanced scorecard (BSC) evaluation approach. It considers the main four perspectives of the BSC evaluation approach including the financial, the customer, the internal processes, and the learning and growth perspective. This study is primarily descriptive in nature. The questionnaire was delivered to nine commercial bank managers, including three state-owned banks, three joint-venture banks, and three private banks. A total of 180 questionnaires were distributed to them, and 129 (71.67%) were returned and used. The results reveal that Nepalese bank managers have a perception of a better financial position. They use the financial perspective as an important aspect of the BSC evaluation approach when measuring bank performance. In terms of customer perspective, the results show that banks have better customer connections. It also suggests that Nepalese bank managers believe that using customer viewpoints is critical to the performance of their institutions. In practice, both the internal process and the learning and growth perspective appear to be fair. As a result, Nepalese commercial banks succeed in each of the four aspects of the BSC evaluation approach.

Keywords: Application, Approach, Balanced scorecard, Manager, Perception

Introduction

Commercial banks are concerned with increasing their earnings. However, in today's rapidly expanding financial markets, these banks have become competitive, with banks competing with one another as well as with other financial organizations (Shrestha, 2018). They are currently confronting external concerns. They will be unable to provide a precise assessment of their own abilities and shortcomings if the external environment is not thoroughly explored and commented upon during the performance management process. They do not comprehend the chances and challenges that they face, making it harder for them to prevail in strong competition (Simons, 2000). In the banking industry, applying a balanced scorecard (BSC) evaluation approach is an extremely important concern because there is a strong tendency to focus solely on the financial element.

In today's business world, the BSC is the most widely utilized for evaluating an organization's performance. It uses critical success factors and significant performance indicators to convert organizational objectives and strategies into a comprehensive group of unified indicators of performance. Performance measurements, according to Ho and Chan (2002), provide a concise yet comprehensive perspective of an organization's progress toward its stated goals and mission. Following the development of the concept of BSC in the early 1990s (Kaplan & Norton, 1992), it swiftly became the most widely used management method for analyzing a company's success. Dar and Presley (2000) contend that using this instrument will improve organizational outcomes, productivity, and levels of creativity.

In general, the financial component is used to evaluate an organization's performance. But, it is only an important aspect of evaluating organizational performance. There are some other aspects too. Numerous scholars have determined that financial measures are insufficient for assessing achievement. Accounting information, according to Hayes (1977) and Brownell (1982), becomes less acceptable as a focus element in organizational control as the organization, or elements of it, become more exposed to the environment. Indeed, numerous businesses are using the BSC technique to analyze their performance as an alternative to traditional accounting standards. This strategy, according to Kaplan and Norton (1992, 1996), comprises financial and non-financial indicators concentrating on at least three distinct viewpoints, including customers, internal processes, and learning and growth. Likewise, Erdoğan et al. (2019) mentioned that BSC presents answers to problems emerging from strategic management failures and the inadequacy of existing performance management methods. The BSC is a comprehensive performance-measuring tool. It drives each organizational unit's actions to fulfill its objectives and business strategy at large (Zazueta Salido et al., 2019). The BSC evaluation approach is thought to be very important for measuring business organization performance from each perspective (such as *financial, customer, internal business process, and learning and growth*). Szóka (2012) claims each perspective of the BSC approach generates strategic goals. Such an outlook can give businesses a competitive advantage. Based on these discussions, this study aims to examine the application of the balanced scorecard evaluation approach considering the banking industry.

Literature review

Conceptualization of balanced scorecard (BSC)

Kaplan and Norton (1992, 1996) claim that the BSC is a novel method of strategic management. It came into existence in the early 1990s. It considers both the financial and non-financial indicators as measurement factors. Over the years, the use of BSC has expanded in popularity and attention among managers and scholars (Smith, 1998; Marr & Schiuma, 2003). In fact, the BSC is the dominating framework in performance management and strategic management (Huselid, 1995; Ittner & Larcker, 1998; Kaplan & Norton, 1996; Hogan et al, 1999; Tabari & Araste, 2008; Hoque, 2014). This approach highlights some of the flaws and ambiguities of earlier management approaches and offers a clear framework for how businesses will gauge corporate performance. It is frequently used by businesses to monitor and manage their entire performance.

The BSC substituted criteria that assess performance from three extra perspectives—the viewpoint of the customer, the viewpoint of internal business processes, and the viewpoint of learning and growth—for conventional economic indicators. As a result, it enables businesses to track financial performance while also tracking progress in capacity building and acquiring intangible assets (Kaplan & Norton, 1996). Along with financial resources, today's organizations require such intangible assets for future growth (Banker et al., 2004). The BSC considers these all aspects.

Perspectives of balanced scorecard (BSC)

The BSC evaluation approach is a multi-dimensional framework (Kaplan & Norton, 1996). It describes a possible implementation phase sequence. Indeed, it may help to explain its successful operation (Mbala, 2016). This approach is built on four distinct viewpoints that strike a balance between long- and short-term performance, internal and external performance, non-financial and financial performance, and multiple stakeholder perspectives (Benkova et al., 2020). Therefore, this approach has four perspectives including the *financial, the customer, the internal processes, and the learning and growth perspective*.

Financial perspective

This perspective of the BSC evaluation approach emphasizes financial elements when measuring an organization's success. Particularly, profitability, return on capital employed, residual income, economic value-

added, sales growth, market share (Ghoneim & Baradei, 2013), and other traditional financial outcomes are described in this component of the BSC (Atkinson, 2006; Niven, 2011).

The financial perspective of the BSC encourages shareholders to focus on the financial stake in the organization. Moreover, it sees an organization's ultimate aim as maximizing shareholder profit. Bhagwat and Sharma (2007) state that attaining profitability, sustaining short- and long-term liquidity, and maximizing shareholder wealth are all examples of financial goals. For instance, an organization's financial viewpoint illustrates its past operational success, which includes meeting a financial target and carrying out plans (Ardekani et al., 2013).

Customer perspective

To succeed, a firm must understand how to provide value for its consumers (Pollanen & Xi, 2018). A satisfied customer base means higher revenues, which leads to better financial outcomes (Niven (2005; Zahoor & Sahaf, 2018). Dissatisfied customers will seek alternate sources to meet their demands, resulting in lost business for the organization (Roya, 2016). In this regard, the customer perspective of the BSC evaluation approach is a new management philosophy trend. With this perspective, business organizations across all industries recognize the importance of customer satisfaction. It describes how a company intends to distinguish itself from competitors in order to recruit, retain, and strengthen connections with particular customer segments (Atkinson et al., 2014). This BSC perspective addresses the value offering utilized to drive targeted customers and their loyalty (Kaplan and Norton, 1996). It also explores the organization's consumers, who are critical to its financial performance in generating income through the purchase of goods and services. According to Panicker and Seshadri (2013), the distinct measures employed under the consumer perspective are customer happiness, customer complaints, customer loss/win, and sales from a new product.

Internal process perspective

The internal process is the most important aspect to measure a company's performance because its internal processes establish its success. The internal process perspective of the BSC focuses on measures and goals that can help a company perform more efficiently. Furthermore, this perspective aids in analyzing the company's products or services and deciding whether they satisfy the requirements that customers demand. To achieve high levels of quality and innovation, production and operational procedures must be reduced and optimized (<https://analyticssteps.com/blogs/what-are-four-perspectives-balanced-scorecard>). It is vital to collect information on delays, blockages, and any type of waste or scarcity of resources, as well as to create measures to avoid them. Internal processes that must adhere to deadlines, have rapid cycle times, and provide high-quality internal processes are actually reflected in the internal perspective. In this situation, BSC is used to determine ways to speed up essential internal operations while enhancing quality (Sorensen, 2002). Moreover, Atkinson et al. (2014) noted that critical operations management, customer management, regulatory and social procedures, and innovation that the business must excel at in order to fulfill its revenue growth, profitability, and customer satisfaction objectives are the key aspects of the internal process domain.

Learning and growth perspective

This perspective is also one of the main points of the BSC evaluation method. This perspective is also a key aspect of the BSC assessment method. This point of view considers long-term organizational advancement and learning goals and criteria. According to Erdoan et al. (2019), this perspective attempts to provide the infrastructure needed to achieve the lofty goals and improvements mentioned in other views. This point of view stresses factors such as invention, creativity, ability, and expertise. This is also about individuals, their thoughts, culture, expertise, and achievements. Narayanamma and Lalitha (2016) noticed that the learning and growth perspective gives more focus on the employee ability to adapt and evolve in order to manage and sustain change and improvement. Furthermore, it addresses workplace preparedness and organizational cultural

practices related to personal and corporate self-improvement (Atkinson et al., 2014), and assimilation and implementation of new ideas in organizational activities (Nair, 2004).

Research methods

This study is primarily descriptive in nature. The questionnaire survey is used to collect data on the four perspectives of the BSC evaluation approach. As of mid-July 2020 (NRB, 2020), Nepal had 27 commercial banks. Out of these banks, nine commercial banks including three state-owned banks, three joint-venture banks, and three private banks were selected as samples for this study.

A set of questionnaires was distributed to managerial-level staff (including high-level executives, managers, middle-level managers, and branch managers) of the selected commercial banks. The responses are graded on a five-point scale. A total of 180 questionnaires were distributed to them, with 20 distributed to each of the nine banks. In this study, 129 questionnaires (71.67%) were returned and utilized. The data were analyzed using descriptive statistics like mean and standard deviation (S.D.).

Results

This section presents four perspectives of the BSC evaluation approach. Table 2 displays the application of each BSC perspective.

Table 1
Application of four perspectives of the BSC evaluation approach

S.N.	Perspectives	Mean	S.D.
1.	Financial perspective	3.61	0.61
2.	Customer perspective	3.53	0.57
3.	Internal process perspective	3.34	0.49
4.	Learning and growth perspective	3.27	0.37

The financial perspective has an overall mean score of 3.61 (with a standard deviation of 0.61). It suggests that Nepalese bank managers have a perception of a better financial position. In measuring bank performance, they apply the financial viewpoint as a crucial part of the BSC evaluation approach.

Customer perspective has a mean value of 3.53 (with a standard deviation of 0.57), indicating that banks have better customer relations. It indicates that Nepalese bank managers perceive that the application of customer perspective also matters a lot in the success of their banks.

Internal process and learning & growth perspective mean values are 3.34 (with S.D. of 0.49) and 3.27 (with S.D. of 0.37), respectively; bank performance in both of these domains appears to be fair.

As a result, Nepalese commercial banks succeed in all four perspectives of the BSC evaluation approach. Therefore, it is possible to infer that the application of the BSC technique in commercial banks is effective.

Discussion and conclusion

The results of this study indicate that managers have a favorable impression of the BSC dimensions. The results show that Nepalese bank management perceives a better financial situation. They use the financial viewpoint as an important aspect of the BSC evaluation approach when measuring bank performance. Such a viewpoint is important to achieve the financial goals of their institutions. These goals ensure that the corporation makes a return on its investments while simultaneously managing significant risks involved with the firm's operations.

Meeting the expectations of all corporate stakeholders, including shareholders, consumers, and suppliers, will allow the financial goals to be reached.

The results also suggest that Nepalese bank executives believe that using customer perspective is crucial to their organization's performance. They believe that customer happiness is a sign of a company's performance and that how a firm treats its customers has a direct impact on its profitability. The internal process perspective looks to be fair. Managers believe that a company's internal processes characterize how well its business activities are run and operated. However, banks perform rather poorly in terms of learning and growth. A learning and growth perspective is essential in optimizing goals and objectives for positive outcomes in an organization. All the employees of the organization need to perform well by considering leadership, organizational culture, application of knowledge, and skill sets. Proper infrastructure is also required for the organization to deliver on management's expectations.

To conclude, these findings demonstrate that in order to be successful, today's organizations must apply the BSC evaluation approach to measure their performance more holistically and comprehensively. They need to focus on all perspectives of the approach. Giving focus to the financial aspect is not enough. They also equally pay attention to the customer, the internal processes, and the learning and growth perspective to remain successful in the competitive market.

Implications

The BSC evaluation approach is quite beneficial for measuring an organization's performance. However, the right policies affect its effectiveness and success. Specific policies may assist with BSC application. Therefore, this study can help in the formulation of policies and strategies that allow for the application of the BSC evaluation approach in our organizations. Building and strengthening the organizational accountability structure and culture, increasing employee knowledge and involvement, and improving the technique for applying performance evaluation findings are all required for the effective implementation of the BSC evaluation approach.

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