
The Balanced Scorecard Approach with Customer Dimension

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ABSTRACT

This study aims to evaluate the customer dimension of the balanced scorecard approach in the banking industry of Nepal and to compare the state of the balanced scorecard from the customer dimension in state-owned banks, private banks, and joint-venture banks. It employs a descriptive method of study. A questionnaire survey is used to collect data for this study. The results show that the top five elements of the customer dimension of the balancing scorecard technique are believed to be customer retention, brand image, minimum customer complaints, careful staff to provide service and customer acquisition. The important factors that follow them include sufficient staff to provide services to customers, best appearance and friendliness of staff, customer profitability, distinctive product/service attributes, increasing market share, offering social/community services, in-time customer services, satisfied customers, and skillful and competent staff. However, market penetration success is thought to be the least important factor in the customer dimension of the balanced scorecard. Therefore, to be successful, today's financial institutions must gather information from customers, use it to create a plan that will fulfill their demands, and then put that strategy into action by being receptive to their needs and desires.

Key words: Balanced scorecard approach, Customer dimension, Banking sector, Joint-venture banks, Private banks, State-owned banks

Introduction

Multi-dimensional performance measurement has become more popular among businesses around the world in recent years (Chenhall 2005; Garengo & Bititci, 2007; Khan, 2016). It has grown in favor since it supposedly inspires staff members and managers by balancing financial information with people's feelings of achievement and belonging in attaining organizational goals (Yasin & Gomes, 2010; Greiling, 2006). It also gives information on important aspects of the value chains of businesses, such as customers, employees, quality, the business process, and suppliers (Khan, 2016; Duh et al., 2008; Neely et al., 2005). The balanced scorecard (BSC) approach is recognized as a basic tool of the multi-dimensional performance approach since it considers the employees' contributions at all organizational levels in accomplishing the company's strategic objectives and vision. It is a powerful performance management tool as well as a scientific approach of assessing strategic performance (Muda et al., 2018, cited in Song, 2022). It has been praised as a popular and highly effective management tool that has undergone significant research in a number of academic and business contexts (Olson & Slater, 2002, Elbanna et al., 2022).

The balanced scorecard, as described by Kaplan and Norton (1992), enables managers to view the business from four dimensions: first, the customer dimension, which provides the response to the query, "*How do customers regard us?*" The internal perspective, which responds to the question "*What do we have to excel at?*" is the second dimension. "*Can we continue to improve and create value?*" is answered from the viewpoint of creativity and learning. The topic of "*How do we look at shareholders?*" is finally addressed by the financial dimension (Kaplan & Norton, 2006). Each dimension of the balancing scorecard approach, according to Szóka (2012), generates strategic goals. Such a viewpoint can provide the business with a competitive edge. The strategic objectives are propelled by the fundamental values, vision, and missions.

In order to effectively connect their strategies with corporate goals based on performance analysis, banking institutions, like all companies, must discover a suitable method. If financial institutions wish to keep their competitive edge, they must carefully analyze the customer dimension linking with the strategic objectives (Jafari et al., 2013). In this regard, customer dimension is considered as one of the most important components of the balanced scorecard approach (Kaplan & Norton, 2006). The customer viewpoint in the balanced scorecard enables banks to target the market sectors they have decided to succeed in. The development of strategies for the same business that optimize outcomes and, eventually, financial rewards depends on accurately defining the market group the banks intend to target (<https://www.performancemagazine.org/customer-perspective-balanced-scorecard/>). In the past, the balanced scorecard did not place a strong emphasis on the viewpoint of customers since business organizations believed that technological innovation and product efficiency were the main drivers of business success.

However, the customer dimension has consistently highlighted the importance of taking into account what customers need. Nowadays, business and market sectors are defined by banking institutions from the viewpoint of the customers, which offers some fundamental or general measures of strong performance from a well-developed and implemented plan (Bawaneh, 2019). Customers have a critical role in the banking institutions' success. In order to improve performance, these banks must concentrate on this aspect of the balanced scorecard approach. Customer viewpoint is the value proposition that the business will use to win over customers and subsequently increase sales to the most targeted client segments. According to Jensen (2001), the measurements used for the viewpoint should track both the value provided to the customer and the underlying presumptions. Measures for the balanced scorecard's customer dimension are chosen based on the preferred customer types and the value that the organization offers to those consumers (Niven, 2002; Tran Trung, 2020). Based on these discussions, this study aims to evaluate the customer dimension of the balanced scorecard approach in the banking sector of Nepal and to compare the state customer dimension of the balanced scorecard in state-owned banks, private banks, and joint-venture banks.

Review of the Literature

The balanced scorecard, a popular management tool, allows for the measurement of both financial and non-financial performance. Adopting BSCs can lead to better communication (Oliveira et al., 2021). According to Erdoğan et al. (2019), the BSC presents answers to issues brought about by existing performance management systems' limitations and strategic management failures. Among the four dimensions, the customer dimension is one of the key dimensions of balanced scorecard. According to Atkinson et al. (2012), the customer dimension focuses on how a business provides value for its customers. Identifying the organization's customer and market groups is the first step (Figge et al., 2002). After the organization has determined its target market segment, Kaplan and Norton (1996) advise it to choose two sets of metrics: performance drivers (i.e., the characteristics of the product or service, the relationship with the customer, and the organization's public image and reputation) and generic metrics (i.e., market share, customer acquisition, customer retention, and customer profitability). Then, in order to retain, attract, and satisfy (generic measures) their target customers, businesses must ascertain what customers value and define how they differ from rival businesses (performance drivers). In conclusion, the value proposition is used from the standpoint of the customer to describe the service, goods, and brand that a business offers (Kime, 2015).

According to Roya (2016), the customer dimension is a recent development in management theory where businesses are beginning to understand the significance of customer happiness in a variety of sectors. Moreover, Kaplan and Norton (1996) argue that the value proposition utilized to attract sales and loyalty from targeted customers is a key factor in how customers perceive the BSC. Companies must discover potential customers within the targeted groups before deciding on the value criteria that will be provided to the customers. Malina and Selto (2001) also report that perceived customer value affects customer satisfaction, which in turn affects customer acquisition, retention, profitability, and market share. Customer satisfaction, customer complaints, customer lost/won, and sales from a new product are the characteristic measures utilized under the customer viewpoints, according to Panicker & Seshadri (2013). According to Pollanen and Xi (2018), in order for a company to prosper, it must understand how to create value for its customers.

Numerous literature sources established a number of BSC approach customer dimension indicators. Best appearance and friendliness of staff, brand image, careful staff to provide service, customer acquisition, customer profitability, customer retention, distinctive product/service attributes, in time customer services, increasing market share, minimum customer complaints, offering social/community services, satisfied customers, skillful and competent staff, success in penetrating markets, and sufficient staff to provide services to customers are the common indicators used in this study. By taking into account three bank groups in Nepal, this study aims to show the current state of these indicators to assess the organizational orientation of its customers.

Research Methods

This research is descriptive in nature. The questionnaire survey is used to get data on the customer dimension of the balanced scorecard approach in Nepalese commercial banks. In Nepal, there are 20 commercial banks as of mid-July 2023 (<https://www.investopaper.com/news/list-of-a-class-commercial-banks-in-nepal/>). Two state-owned banks, two joint-venture banks, and two private banks are chosen as the samples for this study out of a total of 20 banks.

Managers (including corporate and senior managers, officers, and junior managers) of these commercial banks were asked to complete the questionnaire. The responses are scored on a five-point Likert scale. A total of 150 questionnaires—25 for each of the six institutions—were given to them. A total of 135 questionnaires were returned and used in this study.

In this study, 15 customer-related elements were used to assess the banks' overall performance in terms of the customer dimension of the BSC approach.

Results and Findings

This section describes the balanced scorecard approach's customer dimension in Nepal's banking sector as well as the present scenario of the balanced scorecard from the customer dimension in state-owned banks, commercial banks, and joint-venture banks.

Customer dimension of the balanced scorecard approach

This section presents the customer dimension of the balanced scorecard approach in the banking industry of Nepal.

Table 1: Customer dimension of the balanced scorecard approach in banking industry

S.N.	Variables	Mean	Standard Deviation (S.D.)
1.	Best appearance and friendliness of staff	3.53	0.82
2.	Brand image	3.59	0.73
3.	Careful staff to provide service	3.52	0.75
4.	Customer acquisition	3.54	0.75
5.	Customer profitability	3.29	0.83
6.	Customer retention	3.58	0.75
7.	Distinctive product/service attributes	3.73	0.65
8.	In time customer services	3.56	0.71
9.	Increasing market share	3.39	0.79
10.	Minimum customer complaints	3.69	0.69
11.	Offering social/community services	3.76	0.71
12.	Satisfied customers	3.77	0.68
13.	Skillful and competent staff	3.39	0.72
14.	Success in penetrating markets	3.84	0.82
15.	Sufficient staff to provide services to customers	3.48	0.81

The results show that success in penetrating markets, satisfied customers, offering social/community services, distinctive product/service attributes, and minimum customer complaints are assumed to be the important top five aspects of the customer dimension of balanced scorecard approach in the Nepalese banking sector. They are followed by key aspects such as brand image, customer retention, in-time customer services, customer acquisition, best appearance and friendliness of staff, careful staff to provide service, sufficient staff to provide services to customers, increasing market share, and skillful and competent staff. Customer profitability is assumed to be the least aspect of the customer dimension of the balanced scorecard.

Comparative scenario of the balanced scorecard

The present scenario of the balanced scorecard from the customer dimension in state-owned banks, commercial banks, and joint-venture banks is described in this section.

Table 2. Comparative scenario of the balanced scorecard approach in banking industry

Variables	State- owned banks		Joint-venture banks		Private banks	
	Mean	S.D.	Mean	S.D.	Mean	S.D.
Best appearance and friendliness of staff	3.54	0.64	3.79	0.75	3.61	0.71
Brand image	3.67	0.81	3.57	0.81	3.59	0.79
Careful staff to provide service	3.65	0.75	3.69	0.73	3.57	0.85
Customer acquisition	3.62	0.76	3.43	0.61	3.26	0.69
Customer profitability	3.53	0.81	3.53	0.79	3.51	0.72
Customer retention	3.81	0.71	3.59	0.59	3.58	0.69
Distinctive product/service attributes	3.47	0.61	3.71	0.66	3.49	0.67
In-time customer services	3.32	0.73	3.61	0.78	3.29	0.77
Increasing market share	3.44	0.59	3.55	0.53	3.54	0.57
Minimum customer complaints	3.67	0.67	3.69	0.57	3.55	0.67
Offering social/community services	3.41	0.73	3.35	0.83	3.31	0.81
Satisfied customers	3.32	0.68	3.39	0.59	3.35	0.69
Skillful and competent staff	3.29	0.72	3.29	0.67	3.19	0.73
Success in penetrating markets	3.27	0.82	3.19	0.61	3.17	0.79
Sufficient staff to provide services to customers	3.59	0.84	3.31	0.72	3.28	0.84

In the case of the state-owned banks, the results indicate that customer retention, brand image, minimum customer complaints, careful staff to provide service and customer acquisition are assumed to be the important top five aspects of the customer dimension of the balanced scorecard approach. They are followed by key aspects such as sufficient staff to provide services to customers, best appearance and friendliness of staff, customer profitability, distinctive product/service attributes, increasing market share, offering social/community services, in-time customer services, satisfied customers, and skillful and competence staff. Success in penetrating markets is assumed to be the least aspect of the customer dimension of the balanced scorecard in state-owned banks.

In the case of the joint-venture banks, the results report that the best appearance and friendliness of staff, distinctive product/service attributes, careful staff to provide service, minimum customer complaints, and in-time customer services are assumed to be the important top five aspects of customer dimension of balanced scorecard approach. They are followed by key aspects such as customer retention, brand image, increasing market share, customer profitability, customer acquisition, satisfied customers, offering social/community services, sufficient staff to provide services to customers, and skillful and competent staff. Success in penetrating markets is assumed to be the least aspect of the customer dimension of the balanced scorecard approach in joint-venture banks.

In the case of the private banks, the results show that best appearance and friendliness of staff, brand image, customer retention, careful staff to provide service and minimum customer complaints are assumed to be the important top five aspects of the customer dimension of the balanced scorecard approach. They are followed by key aspects such as increasing market share, customer profitability, distinctive product/service attributes, satisfied customers, offering social/community services, in-time customer services, sufficient staff to provide services to customers, customer acquisition, and skillful and competent staff. Success in penetrating markets is assumed to be the least aspect of the customer dimension of the balanced scorecard in private banks.

Discussion and Conclusion

This study is concerned with evaluating the customer dimension of the balanced scorecard approach in the banking sector. The customer dimension includes best appearance and friendliness of staff, brand image, careful staff to provide service, customer acquisition, customer profitability, customer retention, distinctive product/service attributes, in-time customer services, increasing market share, minimum customer complaints, offering social/community services, satisfied customers, skillful and competence staff, success in penetrating markets, and sufficient staff to provide services to customers (Roya, 2016; Malina & Selto, 2001; Panicker & Seshadri, 2013; Pollanen & Xi, 2018).

According to the findings, the top five elements of the customer dimension of the balancing scorecard technique are believed to be customer retention, brand image, minimum customer complaints, careful staff to provide service and customer acquisition. The important factors that follow them include sufficient staff to provide services to customers, best appearance and friendliness of staff, customer profitability, distinctive product/service attributes,

increasing market share, offering social/community services, in-time customer services, satisfied customers, and skillful and competent staff. However, market penetration success is thought to be the least important factor in the customer dimension of the balanced scorecard. The study's findings support those made by Bawaneh (2019), Pollanen and Xi (2018), Roya (2016), Panicker and Seshadri (2013), Szóka (2012), Purwohedi and Ghozali (2006), Hoque and James (2000), Oliveira et al. (2021), and Song (2022).

In conclusion, in order to be successful, today's financial institutions must gather information from customers, use it to create a plan that will fulfill their demands, and then put that strategy into action by being receptive to their needs and desires. But depending on the types of organizations (such as state-owned banks, private banks, and joint-venture banks) and the customers they intend to serve and draw in, the approaches should differ.

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