Abstract

Previous empirical studies confirm that Balanced Scorecard, a holistic strategic performance measurement tool, has a significant impact on assessing sustainable performance in any organization. The purpose of this research is to examine the applicability of BSC for business performance appraisal in the Bangladeshi banking industry. For this purpose the authors have constructed a BSC based on previous studies in other countries and evaluated the results of the predictors in a leading private commercial bank to show how BSC can improve performance appraisal for achieving long term goal. Using the theories of Kaplan and Norton, and the data made available from the bank’s financial and non-financial data, BSC was derived to measure the performance of the bank during 2010-2015. Industry averages were used to assess if any macroeconomic or industrial condition influenced any results. The study could trigger off reflections among policy makers of banks to start adopting BSC. Implementing BSC becomes a challenge for the lack of industry data, if the bank wants to know its position in the banking sector. Recommendations are then made for researchers and practitioners.

Keywords: Balanced Scorecard, Performance Measurement, Banks.
1.0 INTRODUCTION:

Performance measurement is the most imperative task of a bank's management. The interest in Balanced Scorecard (BSC) (Kaplan, Norton 1992) has been stimulated by drawbacks of traditional financial ratio based performance management by many authors. Singh & Kumar, (2007) viewed financial measures as "being short term oriented and non consistent with current business's environment, considering past performance, focusing on tangible assets, lacking predictive power, reinforcing functional silos, and being irrelevant for all levels in the organizations". In summary, BSC is a comprehensive approach that offers quality in terms of customer, internal process and learning and growth as well as efficiency of financial services. Multinational banks like Standard Chartered Bank do use BSC for performance measurement. However their use is very limited and kind of routine exercise. With the openness of Bangladeshi economy to the world and foreign investors, the banks should start adopting a holistic measurement system like the BSC to provide investors with financial and non-financial performance information. Therefore, a research work is worthy of investigation within the context of the banking sector in Bangladesh to bridge the gap of knowledge in this area, and attract the attention of the authorities in the private commercial banks of Bangladesh to consider the use of the BSC as a strategic performance measurement tool in the banking sector.

2.0 LITERATURE REVIEW:

Poor strategic implementation through reliance on conventional financial ratios to review the banking performance motivated Kaplan and Norton (1992) to recommend the Balanced Scorecard as an instrument to associate performance measures from four different standpoints: Financial, Customer, Internal Processes, and Learning and Growth. Since 1996, the interest in BSC has grown tremendously among academicians and practitioners, and its implementation impressed many organizations around the world (Zaman, 2004). This new movement has gained momentum for performance management process in banks as well. Silk (1998), through a US survey, established that 60% of Fortune 1000 firms have implemented the BSC, while similar survey answered by 140 US bankers, showed that 20% of the organizations use BSC. According to another survey results, 11% of those answering the survey do the preparatory work to implement the BSC; 17% stated that they consider using the BSC. 51% do not think of using the BSC. (Ittner, Larckerand Randall, 2003). A survey conducted in 1998 determined that 9 out of 20 biggest banks in the UK use the BSC (Broady-Preston & Preston, 1999). A global survey, administered in 2002 by "Bain & Company" showed that 62% of the managers implemented the BSC (Rubly, 2003), while the same research done in 1999 determined that 43.9% of the managers do so in the US (Rubly, 2001).

The issue of the key performance indicators (KPIs) for the four perspectives for banks and other financial institutions has been center of research interest among several scholars. The following table summarizes the major indicators for BSC:

<table>
<thead>
<tr>
<th>BSC Perspective</th>
<th>KPIs</th>
<th>Research Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial perspective</td>
<td>Capital Adequacy Ratio, Cash- Deposit Ratio, Credit Deposit Ratio, Net Interest Margin to Total Asset Ratio, Interest Income to Total Asset Ratio, Investment Deposit Ratio, Operating income, Return on Investment (ROI), Revenue Growth, Return on Asset (ROA), Return on Equity(ROE), Net Profit after tax, Earnings per Share (EPS), Economic Value Added (EVA), 30-day loan delinquencies, Net Profit Margin</td>
<td>Evans, (2004); Banker et al, (2004); Lipe &amp; Salterio 2000 (2002); Lu-Ann Bean and Bill D. Jarragin (2002); Wu, Tzeng and Chen, (2009); Dave et al, (2012).</td>
</tr>
</tbody>
</table>
3.0 RESEARCH METHODOLOGY:

3.1 BACKGROUND OF THE STUDY:

The literature states a strong significance of assessing banks’ performance through the BSC approach. Financial and non-financial performance during certain period of time can be measured according to the determined indicators in the BSC and compared to the targeted performance. The data for targeted performance used in the BSC can be determined by comparing to competitors. Performance values goals are required to achieve financial objectives, competition to ensure effectiveness, and meet the needs of customers (Horngren, Datar and Foster, 2003: 449-450).

The bank in study is United Commercial Bank Ltd as it was the leading private commercial bank for the year 2014 in terms of operating profit. This research aims to contribute to the BSC literature and increase understanding about why the BSC should be developed and applied within the context of the private banking sector in Bangladesh.

3.2 SAMPLE:

The research is an empirical study adopting a case-study approach based on the secondary data. Relevant data was available from the bank websites, and was studied for five years (2010-2014). Data was collected directly from the bank’s annual reports. Comparisons between dissimilar banks are not always meaningful since the ratios reflect the bank’s unique profile i.e. the nature of its activities, the composition of its customer base, and its funding strategies. Therefore the authors compared the ratios of FY 13 and FY14 with industry average of private commercial banks listed in Dhaka Stock Exchange. The ratios have been computed manually from financial data from annual reports of those banks to comprehend if the deviation is a result of total industry fluctuation. The Financial Stability Reports of Bangladesh Bank for the period have also been taken into account to interpret bank’s performance results.

3.3 LIMITATIONS OF THE STUDY:

Several studies have been done in Bangladesh on BSC in recent times. Khan et al (2007) did a perception analysis of BSC in a multi-national corporation in Bangladesh and attempted to establish the fact that the success of knowledge management can be measured by Balanced Scorecard. Khan, Alibi and Maud (2010) studied that the companies that have improved their ROE and ROA had increased their efforts towards characteristics that involve the learning and growth perspective through BSC. Khan, Abebi and Sartorius (2011) studied the problems associated with the adoption of BSC include a cost/benefit perspective and a lack of management support. Masum and Fakir (2014) studied implication of BSC in the textile sectors of Bangladesh. Not many research contemplated on BSC application in commercial banks of Bangladesh.
4.0 FINDINGS AND ANALYSIS:

4.1 FINANCIAL PERSPECTIVE:

Financial viewpoint is the most practical and widely used performance measure which can be appraised through "healthy revenue growth, proper utilization of assets and investment strategy are also necessary for any organization". (Hoque et al, 1997).

4.1.1 INTRA-COMPANY

Generally, a bank with a high Capital Adequacy Ratio (CAR) is considered safe and likely to meet its financial obligations. Minimum CAR required by Bangladesh Bank regulations, as per Basel II standards, is 10% of risk weighted assets. In 2009 the bank’s CAR, i.e. 6.31% was way below the minimum requirement. However, CAR was at steady growth level until 2013, although it dropped a little in 2014. Cash Deposit Ratio (CDR) indicates the amount of money a bank should have available as a percentage of the total amount of money its customers have paid into the bank. UCB’s CDR ranged from lowest in 8.31% in 2013 to highest of 9.51% in 2012. CDR of high value indicates idle money in banks. A high Credit Deposit Ratio indicates more reliance on deposits for lending. However, a very low ratio indicates banks not making full use of their resources. The ratio gives the first indication of the health of a bank. In the case of Bangladeshi banks, a credit-deposit ratio of over 70% indicates pressure on resources as they have to set aside funds to maintain a cash reserve ratio of 6.5% and a statutory liquidity ratio of 19%. In this case UCB has considerably high level of credit deposit ratio which ranged from lowest of 78.92% in 2014 to the highest of 82.81% in 2011. The ratio trend is showing improvement as the ratio is declining from 2011. As for net profit the bank’s performance fluctuated over the time period. It also hit negative growth in 2012 due to provisions and loss from exchange rate and financial scams. However it peaked up in FY13 and FY14. Investment-deposit ratio of the bank has improved over the years. Ratio of interest income to total assets was stable throughout the period ranging from 7.29% to 10.28%. In FY 14 the ratio dropped a little. Net Interest margin ratio is a performance measure that examines how successful a firm’s investment decisions are compared to its debt situations. In the case of UCB it never posted negative value and showed steady results.

UCB’s ROA and ROE dropped over the years hitting all time low in 2012. In 2014 both the ratios peaked up. ROA gives an idea of how efficient management is at using its assets to generate profit. ROE measures a corporation’s profitability by revealing how much profit a company generates with the money that shareholders have invested. ROE began on high note in FY10. However it fell and fluctuated over the years. This is because bank’s capital has increased substantially from FY10 to FY11 with owner’s equity at 7,814,632,323 to 15,963,171,945 respectively. FY 12 was not a good year for the bank, as discussed earlier resulting in lowest ROE and ROA for the period.

![Figure 2: Financial perspective (Intra-company)](image-url)
4.1.2 INDUSTRY AVERAGE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CAPITAL ADEQUANCY RATIO</td>
<td>11.4%</td>
<td>11.52%</td>
<td>10.56%</td>
<td>11.53%</td>
</tr>
<tr>
<td>CASH DEPOSIT RATIO</td>
<td>9.30%</td>
<td>8.97%</td>
<td>8.71%</td>
<td>8.26%</td>
</tr>
<tr>
<td>CREDIT-DEPOSIT RATIO</td>
<td>80.99%</td>
<td>78.64%</td>
<td>78.92%</td>
<td>79.86%</td>
</tr>
<tr>
<td>GROWTH RATE OF NET PROFIT</td>
<td></td>
<td></td>
<td>46%</td>
<td>40.20%</td>
</tr>
<tr>
<td>INVESTMENT- DEPOSIT RATIO</td>
<td>22.54%</td>
<td>22.79%</td>
<td>20.98%</td>
<td>19.25%</td>
</tr>
<tr>
<td>RATIO OF INTEREST INCOME TO TOTAL ASSETS</td>
<td>8.00%</td>
<td>8.89%</td>
<td>8.40%</td>
<td>10.16%</td>
</tr>
<tr>
<td>RATIO OF NET INTEREST MARGIN TO TOTAL ASSETS</td>
<td>2.07%</td>
<td>1.96%</td>
<td>2.98%</td>
<td>3.13%</td>
</tr>
<tr>
<td>ROE</td>
<td>12.65%</td>
<td>12.25%</td>
<td>17.07%</td>
<td>15.85%</td>
</tr>
<tr>
<td>ROA</td>
<td>1.12%</td>
<td>1.02%</td>
<td>1.49%</td>
<td>1.41%</td>
</tr>
</tbody>
</table>

Figure 3: Financial perspective (Industry Average)

According to Financial Stability Report 2014 of Bangladesh Bank, "CAR recorded a minor decline in FY 2014 with 91% of the scheduled banks maintaining their CAR at 10% or higher in line with Pillar I of the Basel II capital framework." CAR declined for UCB in FY14 in comparison with FY 13 as other banks did. Nevertheless the bank maintained the minimum CAR requirement under Basel II.

Cash-deposit ratio and credit-deposit ratio have been below the industry average in both the years. It is a good indicator as it means the bank has invested more money than other banks. The overall banking sector showed very high level of credit deposit ratio. A very high ratio is considered alarming because in addition to indicating pressure on resources, it may also hint at capital adequacy issues, forcing banks to raise more capital.

As per BB Financial Stability Report, "CAR, ROA and ROE declined in FY12, partly due to creating additional provisions as a result of the fresh stricter credit loss provision guideline adopted in 2012 by BB. In FY13, loans and advances decreased because of reduced business assurance and dominance of surplus liquidity in the banking industry. Net profit increased in FY13 compared with that in FY12."

This explains UCB's appalling performance in terms of CAR, ROA and ROE hitting the lowest in FY12. In terms of ROE and ROA, UCB posted an impressive performance than the rest of the industry. The decrease in NIM, as per BB report, may be the result of higher classified loans. UCB's performance in both net interest margin ratio were way above the industry ratio, depicting bank's funding on interest bearing asset more than other banks. However the ratio has dropped in 2014.

4.2 CUSTOMER PERSPECTIVE:

The customer perspective should reveal how a bank differentiates itself from the competitors by retaining, attracting, and sustaining relationships with its targeted customers. Unsatisfied customers will quickly switch to other banks resulting in declining deposits with outflow of funds that could otherwise be given out as loans to generate interest income.

4.2.1 INTRA COMPANY:

Growth rate of total credit is an indicator of whether a financial institution is growing its overall loan portfolio. If a bank has higher than average loan growth, it means that the bank has targeted attractive markets, or has a low-cost capital base and charges less for loans than its competitors. On the contrary, a higher than average loan growth can also mean that a bank is pricing its money cheaply, loosening its credit standards, or giving new borrowers incentives to move their loans. Growth rate of total credit of UCB shows a steady declining percentage from 51.66% in 2010 to 9.25% in 2013. Although it has increased slightly in 2014, as a whole it is not satisfactory for the ultimate well-being of the bank.
Growth in Total Deposit evaluates the success and effectiveness of a bank's activities and special offers in increasing. The data regarding growth in total deposit of UCB is showing unexpected dwindling from 45.47% in 2010 to 8.42% in 2013. In recent years, UCB has struggled to grow their deposits, as low interest rates have made bank deposits a less desirable option for investment.

Ratio of deposits to total liabilities assesses a bank's liquidity. A low ratio denotes not having enough liquidity to cover any unforeseen fund requirements. UCB is experiencing a steady state position regarding ratio of deposits to total liabilities.

4.2.2 INDUSTRY AVERAGE:
From the intra company comparison implies that there is still ample scope for the bank to improve its performance as far as the customer perspective is concerned. However, it should also be kept in mind that the bank has a very large scale of operations.

4.3 INTERNAL BUSINESS PROCESS PERSPECTIVE:
The efficiency of the internal processes of an organization can affect the way the company delivers service to their customers. A bank with good internal processes is able to quickly respond to customer queries, customers' needs through new product development with short speed-to-market time frames.

4.3.1 INTRA COMPANY
Ratio of wage bill to total income indicates the social obligation of the banks from the view point of the payment made to their employees as salary, allowances and other benefits out of their total income. The higher the ratio the better the social responsibility in this regard and vice-versa. The ratio has shown a downward trend in general for UCB as shown in Table 7 which is signaling a negative sign for the concerned bank. However it has peaked up in 2014. Deposit per employee for UCB is gradually increasing year by year from 4.13 in 2010 to 5.74 in 2014. It means that the bank is selling more of its products and services. Ratio of wage bill to total expense measures the amount of expenses the company incurs in generating wage bills for the employees of the company. UCB with a lower ratio means that the bank is more efficient and reflecting their commitment to both cost containment and revenue growth and improving shareholder value. Non-Performing Loan (NPL) is getting worse over the years. It is a worrying sign for the management, indicating that more attention is needed for loan sanction and processing.

4.3.2 INDUSTRY AVERAGE:
As per BB financial stability report 2012, "The NPLs to total loans ratio increased moderately in FY12 from FY11 with more than two thirds of total NPLs being Bad/Loss which was alarming for the banking sector. Although the ratio of bad loans to total classified loans ratio decreased moderately in FY12 with respect to FY11, a significant amount of inferior quality asset still exists within the banking sector."

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Industry Performance</th>
<th>UCB Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth rate of total credit</td>
<td>16.31%</td>
<td>17.14%</td>
</tr>
<tr>
<td>Growth in total deposit</td>
<td>12.68%</td>
<td>14.48%</td>
</tr>
<tr>
<td>Ratio of deposits to total liabilities</td>
<td>86.84%</td>
<td>86.64%</td>
</tr>
</tbody>
</table>

Figure 5: Customer perspective (Industry Average)

Figure 6: Internal process perspective (Intra-company)

Figure 7: Internal process perspective (Intra-company)
BB financial stability report 2013 says, "BB relaxed the standard for loan rescheduling in 2013, with an expiry date of 30 June 2014 for political turmoil resulting in relatively impressive performance of the banking sector in". As per BB financial stability report 2014, "The concentration of NPLs has declined marginally representing an optimistic indication for the industry." UCB’s appalling performance in NPL cannot be justified by industry performance.

In 2013 UCB showed awful NPL results, while the industry as a whole peaked up. Although BB report indicates NPL is a real problem in the sector, UCB has reasons to ponder upon this matter to sustain its financial performance in long run. Deposit per employee is a little bit higher than the average of all commercial banks, although the difference is not significant. At the same time, the banks spends more on its wage bill out of both the total expenses as well as its intermediation cost which means that the concerned bank is spending more on its human resources as compared to the other resources. Overall the performance of UCB in internal business processes has been mixed.

4.4 LEARNING AND GROWTH PERSPECTIVE:

This perspective involves continuous improvement, product and service innovation and empowered work force. Performance in this aspect can be measured through percentage of revenue from new product development, rate of improvement index, staff attitude survey, number of employee suggestions and revenue per employee (Norton and Kaplan, 1993). However information related to training, R&D and new product development was not available both for UCB and the industry.

4.4.1 INTRA-COMPANY

The authors measured growth performance in terms of number of branches and ATMs, deposit, profit and business per employee. Business per employee is the most common efficiency indicator used by banks. The ratio has shown an upward trend (in absolute terms) in general as shown in the following table which is signaling a positive sign for the concerned bank.
4.4.2 INDUSTRY AVERAGE:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Industry Performance</th>
<th>UCB Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td>NUMBER OF ATMS</td>
<td>9.24 per 100000</td>
<td>6.18 per 100000</td>
</tr>
<tr>
<td></td>
<td>adult</td>
<td>adult</td>
</tr>
<tr>
<td>BUSINESS PER EMPLOYEE</td>
<td>4.71</td>
<td>4.15</td>
</tr>
<tr>
<td>PROFIT PER EMPLOYEE</td>
<td>0.21</td>
<td>0.19</td>
</tr>
</tbody>
</table>

Looking at the industry average of ATM growth was 49% for all banks, UCB's growth rate showed dismal results. Both business and profit per employee were above the industry averages and both ratios improved. This is a fair indication of performance improvement in learning and growth perspective.

4.5 NEED FOR APPLICATION OF THE BALANCED SCORECARD IN BANKING SECTOR:

The case-study clearly shows that UCB did fairly well in terms of financial perspective. But if non-financial aspects are taken into consideration, there is room for improvement in terms of NPL and ratio of wage bill to total income especially. Huge percentage of NPLs is a disturbing sign for UCB and the banking sector as a whole with potential negative impact on financial ratios in long term. Several other significant non-financial aspects could not be assessed for the lack of accessible information and records. In essence the commercial banks are widespread, multi-function financial enterprises which operate financial assets and financial services for making profit. Financial innovation would be difficult to produce differentiation, so service relationship is the direction the bank wants to lead to (Zhang and Li, 2009). The BSC can deliver in this regard as it takes sustainable growth into account, which enables banks to have an elevated level of adaptability to change.

5.0 RECOMMENDATION AND RESEARCH IMPLICATIONS:

The findings of this study have numerous implications for the authorities of Bangladesh Bank and policy makers in the financial sector in terms of the inclusion of the BSC for the sustainable growth of the banking sector in Bangladesh. For the development of effective BSC measurement the commercial banks should convert its long-term strategies into a chain of objectives and KPIs. Bank managers are required to re-evaluate the strategies to adapt to changes. The author expects Bangladesh Bank to play a key role in encouraging banks for development and measurement of its non-financial performance. BB should focus more on publishing study reports and industry data on customer, internal process and growth perspective. This will enable the private banks getting easy access to non-financial data of the industry and assess their performance with the industry benchmark.

6.0 SCOPE FOR FUTURE RESEARCH

Further research regarding Islamic, foreign, nationalized and other private banks operating in Bangladesh is necessary in this domain. It should focus on studying the contingent factors that facilitate or impede the implementation of the BSC such as, customer orientation, banking culture, governance structure, intellectual capital development, working environment, and ICT advancement. At the same time, additional studies are needed to identify the applicable key performance indicators of the BSC for the banking sector in Bangladesh.

7.0 CONCLUSION

The banking industry in Bangladesh has been experiencing dynamic changes with both operational and technological developments demanding the banks to reassess their business strategies. Financial globalization, cut-throat rivalry, and banking reforms from conventional lending culture to on and off-balance sheet activities together with an increased association in stock markets are gaining more significance than never before. BSC is the answer for the sustainability of financial and non-financial ratios through long-term and short-term strategy implementation with enhancement in external and internal process and managerial performance. Consequently for betterment of stakeholders, financial sector analysts, and bank managers BSC should find its way into the new age Bangladeshi banks.

"Money often costs too much." -Ralph Waldo Emerson
REFERENCES:


