

MEASURING PERFORMACE OF “FOREIGN BANK” THROUGH NON-FINANCIAL MEASURES

Author: Dr. Sagar R. Dave

Associate professor, Department of Accountancy

JG College of Commerce,

Ahmedabad

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INTRODUCTION:

As a part of research the detailed case study is taken of ABN AMRO bank this bank is one of the leading foreign bank of India. First, it is a prominent international bank with history going back to the Netherlands of 1824. ABN AMRO ranks the eighth in the Europe and the 12th in the world based on total assets, with more than 3500 branches in 76 countries, a staff of more than 1,00,000 full-time equivalents and total assets of US \$ 504 billion. ABN's Indian assets are estimated to be over Rs.23500 crore, making it the fourth largest foreign bank in India. Second, ABN AMRO (India) has had a long-standing presence in India, having been in Kolkata and Mumbai since 1920. Traditionally known as the “diamond-financing bank”, it has transformed itself from a bank focusing on the corporate business segment into a bank providing a comprehensive range of services across multiple channels. Third, after the merger of ABN and AMRO worldwide, the bank started expanding in a big way in India, 1991 onwards. Currently it has 23 branches across 21 cities, with a focus on the consumer and commercial clients business, and a microfinance programme making it a foreign bank of great interest in India.

REASONS FOR NON FINANCIAL MEASURES:

For banks, studying financial indicators in isolation does not yield a very effective strategy since their performance interlinks financial indicators with other invisible indicators. In fact, financial performance is the translation of many intangible business processes and performance indicators. Subsequently, banks find it difficult to design a comprehensive strategy for long-term growth. This is where more comprehensive techniques such as the BSC can be incorporated. Indian banking sector can also adopt such a technique to overcome the limitations of the existing evaluation methods. (Lipe & Salterio, 1998a, 1998b, 2000) The first step towards this is to recognize appropriate performance drivers. Alignment of these performance drivers ensures effectiveness of the strategy. For an organization like a bank, the customer behaviour is a major indicator of the bank performance. The more is the value creation by a bank among the customers, the better the performance of the bank. This can be realized by the bank's efforts to understand the

customer's requirements, offer products that satisfy customer's requirements, help the customer in the choice of alternative solutions, and effectively differentiate one's own services from the competitors.

VISION STATEMENT OF THE BANK:

Excellence of service to the clients and leadership in the chosen markets, while adhering to its corporate values, are of paramount importance to the long term success of the bank.

MISSION STATEMENT OF THE BANK:

To create maximum economic value for shareholders through a constant relationship focus on the financial services needs of the chosen client segments and a strict adherence to the financial targets.

CORE STRATEGY OF THE BANK

ABN AMRO functions with the strategy to build on its strong position with mid-market clients and to provide clients in this segment with high-quality and innovative products and services from across the Group. In other words, the strategy of the bank is aimed at combining local client intimacy and global product excellence. The bank focuses on consumer, commercial and private banking activities. Its business mix gives a competitive edge in its chosen markets and client segments. The clients are the prime beneficiaries of the relationship banking approach implemented through the Business Units of the bank. Typically, various performance indicators for an organization can be classified into four perspectives. These include financial, customer, internal business process and learning & growth. The balanced scorecard approach, which emphasizes all the four perspectives, can be an efficient technique for long-term strategic planning. This is also the case for service sector organizations like banks.

SWOT ANALYSIS OF BANK

STRENGTHS	WEAKNESS
<ul style="list-style-type: none"> • Large worldwide network • Strong base in the mainland Europe • One stop shop for financial services requirements of customers • Use of superior banking technology • Low borrowing costs • Off-shoring business process to India from other countries • Highly personalized services including doorstep banking • High credit-deposit ratio • Consistently low NPAs • High rate of business per employee 	<ul style="list-style-type: none"> • Very limited presence in India • Much narrower spread of branch network within the economy • Erratic cash-deposit ratio • Declining return on equity • Lesser demand for term loans • Slower growth in credit expansion

<ul style="list-style-type: none"> • Focus on employee training and human resource development 	
<p style="text-align: center;">OPPORTUNITIES</p> <ul style="list-style-type: none"> • Increasing financial integration between India and EU • Low cost of outsourcing and back office operations • Expansion through a subsidiary status • Expansion of microfinance programme • Focus on raising more term deposits • Increase in capital adequacy ratio 	<p style="text-align: center;">THREATS</p> <ul style="list-style-type: none"> • Decreasing return on assets • Decreasing ratio of interest income to total assets • Widespread network of domestic banks • Emergence of competitive private domestic banks • Intense competition from foreign banks

PERSPECTIVES OF THE BANK

The mission statement indicates that financial and customer perspectives bear more weight in the developmental strategy of the bank. The SWOT analysis of the bank supports this notion, whereas technological and internal business process perspectives appear to be a stronghold of the bank.

MAIN OBJECTIVES OF THE BANK

The bank operates in three principal customer segments – consumer, commercial and private banking activities, with the objectives mentioned below:

- Maximize the value of each of the above stated businesses as well as the synergies between them
- Develop its operations in India as a subsidiary
- Increasingly focus on off-shoring business processes to tap the human resources and reduce the cost of operations in other countries

INTANGIBLE ASPECTS IN PERFORMANCE EVALUATION OF ABN AMRO:

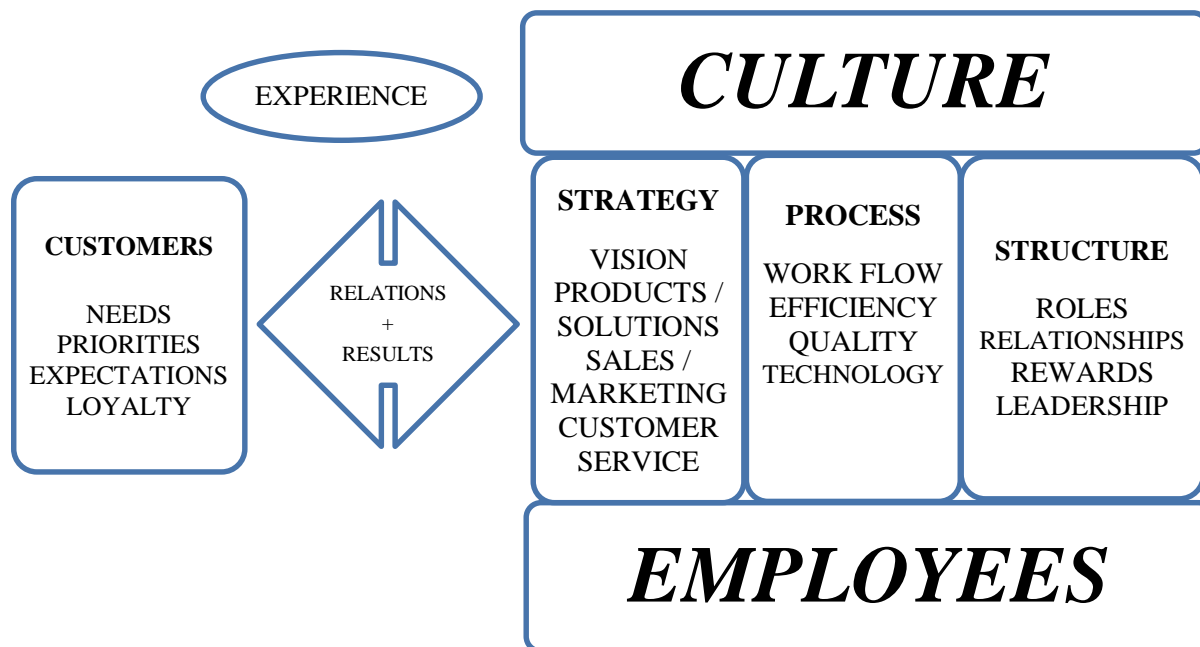
In the contemporary economic environment, factors like employee knowledge, relationship with the customers and the culture of innovation and changes define success for an organization. Thus, the intangible assets are the key to long-term success in today's world. The power of intangibles manifest in

the valuations is quite visible in modern organizations. In the past two decades, the share of intangible assets has virtually doubled from 38 per cent. Following this, Kaplan and Norton (1992) recommended broadening the scope of the performance evaluation measures to include four areas of an organizational functioning. Apparently the BSC system addresses the shortcomings in financially oriented performance measurement systems. It also provides a number of mechanisms for linking long-term strategic objectives with short-term actions:

- Consensus on firm's vision & strategy
- Communication of the firm's strategy throughout the organization
- Allocate resources to & set priorities for long-term strategic objectives
- Monitoring & modification of strategies to prevent an organizational downturn
- Integration of the lagging indicators, with the leading indicators

A simple *Performance Driver Model* as designed by Knight (2005) and given in diagram 2, with a focus on the culture, strategy, process, structure and people can be useful.

DIAGRAM 2: PERFORMANCE DRIVER MODEL



However, banks tend to focus upon financial aspects alone and concentrate on return on equity (ROE) or marketing of products with the volume and growth of credit and deposits as the central objective. The risk-adjusted capital adequacy guidelines, poor profitability over long-term, and conceptual and practical failure of the measures such as asset growth, often lead bank management to focus on ROE as the ultimate

performance scorecard. (Karr, 2005) Such framework brings about many changes in performance measurement as well as in the management processes used to plan, operate and control the bank; but it does not present the entire picture of bank performance measurement and evaluation. A more comprehensive alternative is the CAMEL, i.e., Capital adequacy, Assets quality, Management, Earning quality and Liquidity. It includes financial performance indicators as well as managerial aspects of organizational performance. It has been implemented as an improvement over annual financial inspection introduced by the RBI in 1992. As the Indian banks comply with the Basle II Accord from March 2007, and get ready for integration with the global financial markets after 2009, they need to rethink on the lines of capital requirements, supervisory review and market discipline. (Tandon, 2006) This may lead to further improvements and adoption of more modern systems such as the BSC, which incorporate the correlation between technology and customer relationship management as well as the correlation between technology and human resources.

How can indicators other than the net profit and the growth rate in it, point towards the performance of a bank? Especially, when measurement of intangible indicators appears to be difficult? However, several seemingly financial indicators also point towards the performance of intangible assets of a bank. For instance, growth rate of deposits is a significant indicator of customer confidence in the bank. Similarly, growth rate of credit / advances is a significant indicator of customer preference for the services of a specific bank. The significance of such ratios and indicators is recognized by the Reserve Bank of India, and that is the reason behind the definition of many such ratios for the commercial banks in India. However, not many banks make an attempt to analyze the underpinnings of such ratios and utilize the trend observations to evaluate their own performance. Majority of the banks use growth rate of the net profits as the sole indicator of the health of their organization. Of course this has changed lately, especially after implementation of Basel norms regarding the capital adequacy. Since 2006, when the Basel Accord I was implemented by the RBI for Indian commercial banks, the banks have started utilizing capital adequacy ratio as another major indicator of the financial health of the organization. Many more financial indicators can be utilized for the purpose. Moreover, customer behavior can also be analyzed by using certain apparently financial indicators, as mentioned above. Performance of a bank like ABN AMRO can be

evaluated in a much more effective manner by using such indicators. This helps in understanding questions like:

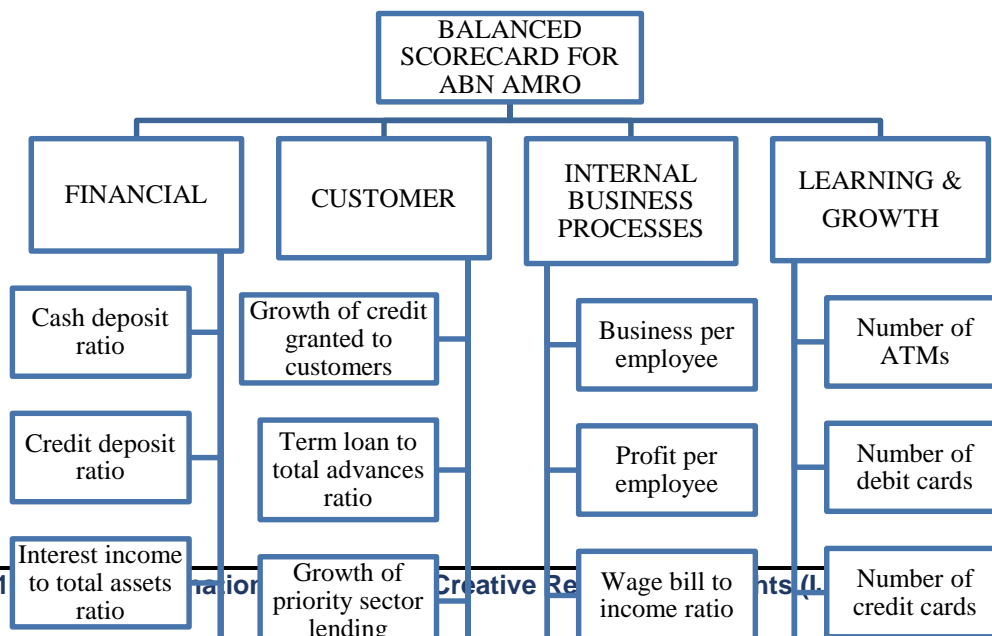
- Why does a bank report certain type of financial position, e.g., low/high growth in profit?
- Why has a bank been able to achieve sufficient capital adequacy norms?
- Why does a bank seem to focus more on satisfying customers, at the cost of profits?
- Why does a bank continue to operate in apparently non-profit making products?

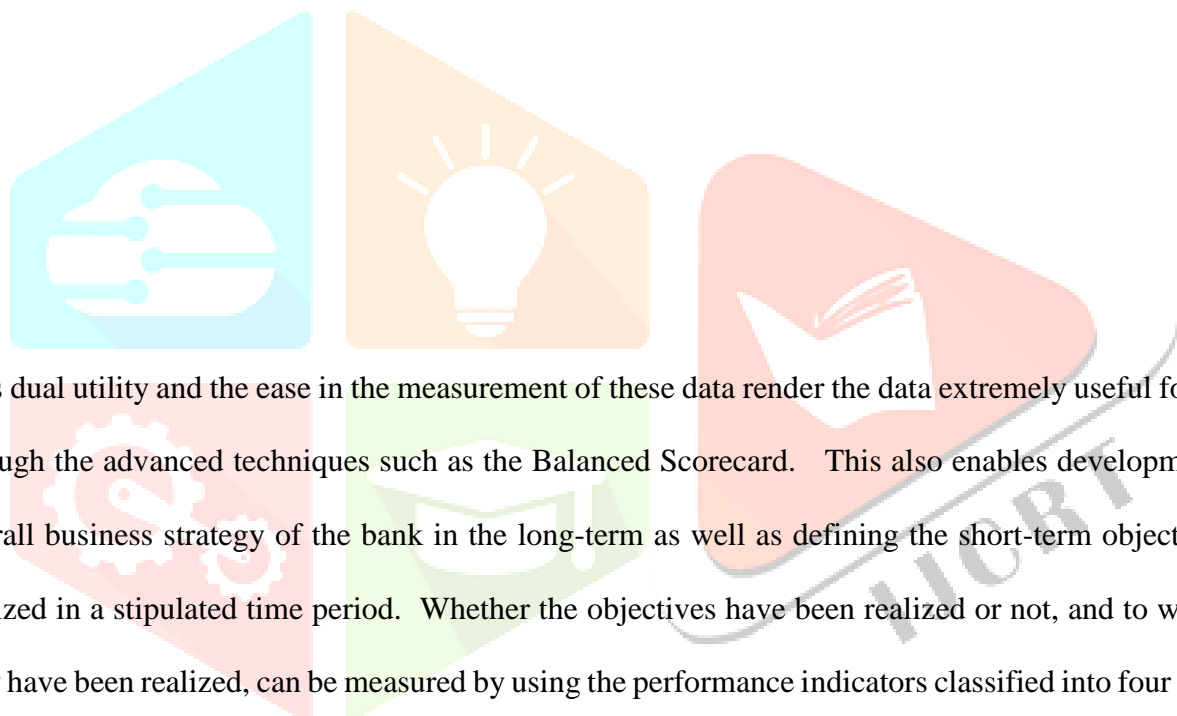
... And so on

DEVELOPING FRAME WORK LIKE BALANCED SCORECARD MODEL CAN HELP ABN AMRO:

Answering the questions mentioned in the earlier section, a model Balanced Scorecard is designed, using the data collected by the Reserve Bank of India. These data series appear to reflect only the financial performance of a banking organization at a first glance. But a more careful analysis reveals that the same data reflect non-financial performance of the bank. If the strategy can be framed by the bank considering following model, it will surely will generate better results for the ABN AMRO. This is far better method for measuring performance of the bank. The below mentioned MODEL is segregating certain indicators for measuring performance in a better way, indicators are mainly divided in four parts, and each measures shown below is measuring non financial progress of the bank. Thus it is allowing ABN AMRO to know how they have progressed as an bank in overall aspects

DIAGRAM 3: BSC FOR ABN AMROS





This dual utility and the ease in the measurement of these data render the data extremely useful for analysis through the advanced techniques such as the Balanced Scorecard. This also enables development of the overall business strategy of the bank in the long-term as well as defining the short-term objectives to be realized in a stipulated time period. Whether the objectives have been realized or not, and to what extent they have been realized, can be measured by using the performance indicators classified into four categories as per the four perspectives of the BSC. Comparing the past performance with the predefined objectives of the bank helps in knowing whether the growth strategy of the bank has been successful or not, and which new initiatives are required to realize the objectives in the future.

CONCLUSION:

Analysis of the Balanced Scorecard for ABN AMRO bank shows that constructing a BSC performance system brings to the fore the strategic thinking of the banking organization, and links the role and responsibilities of the people within it. This is essential since financial performance alone does not give a clear picture of how the bank has progressed. Including other performance indicators in the analysis brings a refreshing change in the way tasks are performed as new policies and procedures are developed and

implemented in a bank. This leads to a conclusion that BSC is more advanced and efficient tool for performance evaluation and strategic management in a bank – be it a nationalized bank, a private bank or a foreign bank operating in the country. A comparative analysis of the conventional performance indicators, which mainly include financial indicators, on one hand and performance indicators included in the BSC on the other, is needed to prove this point.

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