



# A Study of the Implementation of Internal Process Perspective of Balance Scorecard in Private Banks

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## Abstract

A professor at Harvard University named Robert Kaplan and a consultant from the Boston David Norton developed a new performance Measurement system - *Balance Scorecard*. Both of them did research study on many companies with the objective of exploring new methods of performance measurement (Kaplan and Norton, 1990). The focus for the study was that performance based on financial measures was unproductive for the modern business. These companies also believe that only financial measures in performance measurement system do not create value. There are various alternatives available but the best alternative is Balance scorecard, featuring performance measures financial and non-financial - customer issues, internal business processes, and employee activities. Both the private and public sectors banks have used this concept and implemented it to improve performance. Many organizations believe that Balance Scorecard is a performance measurement system which includes both financial and non-financial parameters, whereas Kaplan and Norton claim that a Balance Scorecard is linked with vision and mission of the organization and not only collection of performance measures. The current study was undertaken after taking a note of the existing literature and finding the research gaps and intended to study and identify the practices under balanced scorecard specific to banking industry and more specifically to the private sector banks. The present study studied, identified and explored the Internal process perspective of balance scorecard practices in private sector banks. The undertaken quantitative research was exploratory cum descriptive cum diagnostic in its nature. The survey sample consisted of 200 bank executives from middle and top management of 10 private sector banks having retail operations in India. Secondary as well as primary sources were used for the data collection and standard statistical tools were used for the analysis. The findings revealed that all the practices of customer perspective of balanced scorecard are significantly implemented to the private sector banks in specific and the whole banking sector in general.

**Keywords:** Balance Scorecard, Management tool, Internal Process Perspective ,Retail Banking

## 1.

### Introduction

The Balanced Scorecard is defined as a particular set of financial and non-financial measures from an organization's vision, mission and strategy. The selected measures for the Scorecard also help managers in communicating to employees and external stakeholders the outcomes and performance indicators of each dimension by which the organization will accomplish its vision, mission and strategy. The Balanced Scorecard is a both strategic management tool and performance measurement tool. The BSC helps the organizations in bridging the gap between strategies and action and that's why BSC is defined as strategic tool. In a single framework BSC includes financial and non-financial indicators from every perspective that is used systematically in business to align their activities to the vision and strategy of the organization. For any business the biggest challenge is to satisfy the needs of customers by innovation so the business can retain them. Balance scorecard helps in achieving customers' satisfaction through innovation can improve the revenue of the organization and also it helps organizations to focus on strategic areas. Therefore organizations should build up and scrutinize sound strategies relevant to organization's success. (Kaplan and Norton, 1996).

**The Internal Business Process Perspective:** The success of business depends upon the internal business processes and therefore this perspective focuses on the excellent internal business process. For the organization success and fulfilling customer's expectations, organizations must classify the key business processes so that it should be excellent. These key business processes have to be monitored to ensure that results are satisfactory. The internal processes perspective focuses on the efficiency of internal processes and procedures. The company should have a clear picture of what it intends to deliver to its shareholders and customers and should accomplish to deliver the value to customers and achieving the productivity improvements for financial success. The process perspective identifies the four processes innovation, operating, customer management and regulatory and social processes in which the organization must excel to achieve its customer and financial objectives.

### A. Private Sector Banks

Banking in India has been conquered by public sector banks since 1969 as Indian Government has nationalized all major Banks. But in 1990s India has started liberalization of banking industry and private sector Banks comes into picture. They have grown faster & bigger because of latest technology has been used, providing new innovations and monetary tools and techniques. The private sector banks are divided into two old and new. As the old private sector banks have been existed prior to the nationalization in 1969 therefore they are not nationalized because they are either too small or giving specialized services. The new private sector banks are those who got their banking license since the liberalization in the 1990s.

**Old private sector banks in India:** Nedungadi Bank, City union Bank, Karur Vysya Bank, Catholic Syrian Bank, Tamilnadu Mercantile Bank, Naintal Bank, Karnataka Bank, Lakshmi Vilas Bank, Dhanlaxmi Bank, South Indian Bank, ING Vysya Bank. Federal bank, J and K Bank and RBL bank.

**New private sector banks in India:** In the era liberalization the private sector banks came into operation with the introduction of economic reforms and financial sector reforms. Banking Regulation Act has allowed the entry of new private sector banks but with certain conditions:

- The promoters' holdings should not be less than 25% of the paid up capital and net worth should not be less than Rs. 200 crores.
- Shares of the private sector banks should be issued to public within three years of operation and the net worth should be increased to 300 crores.

The new private sector Banks in India are: Axis bank, HDFC bank, ICICI Bank, Yes Bank, Indusind Bank, Kotak Mahindra Bank, DCB Bank, IDFC and Bandhan Bank. The strengths of new private sector banks in India are dedicated Manpower, efficiency is maintained at the highest level, less number of NPAs, complied with CAR requirements and fully computerized and tech savvy. (RBI, 2013)

## B. Foreign Banks

Those banks which are registered or incorporated outside India are known as foreign banks. The globalization and liberalization of Indian economy have encouraged the opening of foreign banks. Foreign banks have opened their various branches for financing foreign trade and to cater the needs of trade-finance. They are experts in conducting foreign trade and contributing significantly in financing cross border trade. The top foreign banks in India are: Bank of Bahrain and Kuwait, HSBC, Citi Bank, Bank of America, DBS Bank, Barclays Bank, Standard Chartered Bank, Deutsche Bank and American Express. Foreign banks perform functions like: To provide financial help for power generation, telecommunications and mining in India; To provide latest technology in presenting information; To help foreign and Indian companies enter into joint ventures and collaborations and to help Indian companies by bringing FIIs. All the public sector banks (SBI & its Associates, Nationalized Banks), private sector banks (old & new) and foreign Banks are also called Commercial Banks in India. The functions of Commercial Banks are Accepting deposits from individual and corporate, advancing loans to individuals, corporate, RBI, other financial institutions, borrowing money from financial institutions, RBI and other banks and also give other services like Debit card, credit card, magic card, current, savings Account, Demat account, merchant banking services etc. (Rajput and Gupta, 2011).

## 2. Review of Literature

Panicker and Seshadri (2013) suggest that the performance management system Balance Scorecard includes non-financial indicators like Customer Perspective. The measures under this perspective are Customer satisfaction, Customer Complaints, sales from new product etc. The author has collected data from 2009-2012 of Standard Chartered bank (SCB) on Customer Complaints redressed, Growth in saving Accounts, term Deposit and Demand Deposit and Consumer Banking Net Promoter Score. On the basis of collected data the score assignment is prepared. The SCB score on customer perspective is very bad. Both saving account and current deposit account has not attain good score but consumer banking net promoter score has shown growth.

Satish and Rao (2010) has stated that organization has to improve the internal business processes then only customer will be satisfied and that will have positive impact on financial performance. The internal business perspective goal is to ensure the best services should be given to customers. The ratios under internal business perspective are implementation of Credit policy; Fund cost, development of human Resource and technological capacity. The internal business perspective of Balance scorecard represents to excel in the set of processes that meet the requirements of customer.

Dave and Dave (2012) proposes that in the contemporary 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 key to long term to success in today's world. In the past share of intangible assets has been doubled. The indicators of business perspective are Business per employee, Profit per employee, Wage bill to income ratio, wage bill to total expenses ratio and wage bill to intermediation cost. The graph chart of SBI shows decreasing ratios of wage rate and increasing rate of Business and profit per employee.

Al-Najjar and Kalaf (2012) states that internal process should be excellent so that organisation can achieve financial success. The objectives of Internal Business perspective are Increase Innovations, Improve operational Capabilities and Efficiency. The data is collected of LLB bank on measures like Productivity Growth, Growth of Banking Services, credit Growth, Growth in software applications and Front office Employees. For the year 2006-2009, the total score in Growth of banking services is 0.74 in the year 2008 and 2009, front line employees and productivity growth also decreases. Therefore bank does not show any improvement in internal business perspective

### **Research Methodology**

The universe of the presented study was the set of major private sector banks originating from Indian or foreign nations, but have retail operations in India. The survey population included the respondents from top and middle management (executive level) of these operating private sector banks that have their regional or head office in NCR and it comprise of Shinhan, HDFC, Yes Bank, Citibank, IndusInd, ICICI, Axis, RBL, HSBC and Kotak Mahindra bank to analyze the importance of balanced scorecard practices and also to study the extent of their implementation in these organizations.

### **Objectives of the Study**

To study the importance of Internal process perspective of balance scorecard practices in private sector banks.

### **Hypotheses Formulation**

H0 - There is no significant difference in perception of bank executives regarding importance of practices related to Internal process perspective under balanced scorecard approach in private sector banks.

### Internal Consistency Analysis

The Cronbach's  $\alpha$ -value with a range between 0.787 and 0.834, for all the variables explains the internal consistency with a value of more than 0.70 for all the items. Consequently, no items were removed from the list and considering the results, were accepted for inclusion in the final instrument being a reliable measure.

## Section D: Implementation of Balanced Scorecard practices under Internal Business Process Perspective

The fourth section of the first part of this chapter is concerned with the tabulation (Table 5.12 to 5.16) and description of inferences in regard to the implementation of balanced scorecard practices under 'internal business process perspective' based on the analysis of collected data. For the purpose of analysis statistical tools including frequencies (in percentage), mean, chi-square, analysis of variance (ANOVA) and Duncan's post hoc analysis were used to draw inferences and conclusions.

**Table 5.12: Frequencies, Mean and Standard Deviation on Implementation of Balanced Scorecard Practices under Internal Business Process Perspective (N = 200)**

Sl. No.	Statements	Frequencies (in Percentage)					Mean	SD	X <sup>2</sup> Value	Sig.
		HI	I	N	S	HS				
<b>A</b>	<b>Innovation Process</b>									
1	In our organization we focus on future customer needs	1.5	0.0	5.0	3.0	63.5	4.54	.729	196.7 <sup>b</sup>	.000*
2	Our organization actively manage the product portfolio for superior innovation	0.0	3.5	8.5	45.0	43.0	4.28	.763	116.6 <sup>b</sup>	.000*
3	In our organization every employee makes focused development efforts to bring new products & services	0.0	0.0	14.5	45.5	40.0	4.26	.695	32.8 <sup>a</sup>	.000*
4	We perform applied research to exploit technology for the next generation products and services	0.0	1.5	10.0	57.0	31.5	4.19	.666	147.4 <sup>b</sup>	.000*
5	Everybody make use of facilities for enhancing the brand	0.0	1.0	8.0	6.5	30.5	4.21	.620	172.4 <sup>b</sup>	.000*
6	We strategically redefine customer experience to meet the needs of customers	0.0	0.0	8.0	51.5	40.5	4.33	.617	61.3 <sup>a</sup>	.000*
7	Our organization has mapped the core processes from customer perspective	0.0	0.5	6.0	54.5	39.0	4.32	.608	162.2 <sup>b</sup>	.000*
<b>B</b>	<b>Operation Process</b>									
8	We always redesign end-to-end processes based on desired client experience	0.5	0.0	10.5	30.0	59.0	4.47	.722	159.3 <sup>b</sup>	.000*

9	Our organization implement straight-through digital processing to avoid manual processing	0.0	1.5	11.5	46.0	41.0	4.27	.719	114.5 <sup>b</sup>	.000*
10	In our organization we standardize processes and supporting platforms to drive digitization of client experience	0.0	0.5	12.5	41.5	45.5	4.32	.707	115.9 <sup>b</sup>	.000*
11	We use digital media to create better front-end client interactions (paperless statements, tablet interfaces)	0.0	0.0	9.0	62.0	29.0	4.20	.585	85.9 <sup>a</sup>	.000*
12	We all take responsibility to integrate and align process-centric IT operations capabilities	0.0	2.0	8.5	45.0	44.5	4.32	.714	126.5 <sup>b</sup>	.000*
13	We introduce robust payment mechanism like NEFT,RTGS	1.0	2.0	11.5	31.5	54.0	4.36	.838	204.5 <sup>c</sup>	.000*
14	We always give quick resolution of customer complaints related to cards, insurance, fund management, accounts, loans etc.	0.0	1.0	8.0	40.5	50.5	4.41	.681	140.4 <sup>b</sup>	.000*
15	We introduce of advance technology into accounting systems eased data entry, extraction and controlling.	0.5	2.0	11.5	47.5	38.5	4.22	.763	187.5 <sup>c</sup>	.000*
16	We adhere to a metrics-driven culture with key performance indicators (KPIs)	0.0	0.5	11.5	48.0	40.0	4.28	.679	122.9 <sup>b</sup>	.000*
17	In our organization we have to shared-services or utility models to maximize scale and reduce costs within regional banks	0.5	1.0	14.0	48.5	36.0	4.19	.744	184.5 <sup>c</sup>	.000*
18	Our organization we maintain e-CRM applications which have all the data related to customers profile	0.0	3.5	9.0	50.5	37.0	4.21	.747	121.0 <sup>b</sup>	.000*
<b>C Customer Management Process</b>										
19	Our employees work to understand the customer segments	0.5	1.0	6.5	43.0	49.0	4.39	.700	229.3 <sup>c</sup>	.000*
20	In our organization we screen the unprofitable customers	0.0	0.0	5.5	53.5	41.0	4.36	.584	74.4 <sup>a</sup>	.000*
21	We target high net worth customers in our organization	0.0	0.5	10.5	36.5	52.5	4.41	.696	135.9 <sup>b</sup>	.000*
22	In our organization everybody manage the brand	0.0	0.0	11.5	51.0	37.5	4.26	.652	48.3 <sup>a</sup>	.000*
23	In our organization we provide post sales value to customer	0.5	4.0	9.0	43.0	43.5	4.25	.819	183.8 <sup>c</sup>	.000*
<b>D Regulatory and Social Process</b>										
24	We in the organization improve health and safety performance	0.0	1.0	7.0	45.5	46.5	4.38	.661	142.6 <sup>b</sup>	.000*
25	We tries to improve employment practices	0.0	0.5	10.0	51.5	38.0	4.27	.655	135.7 <sup>b</sup>	.000*
26	We enhance communities in our organization	0.5	1.0	12.0	48.0	38.5	4.23	.735	193.1 <sup>c</sup>	.000*

\* Significant at 0.01 level

Among the practices under innovation process, the practice 'In our organization we focus on future customer needs' has highest mean score (4.54) and 'we perform applied research to exploit existing technology for the next generation products and services' has lowest mean score (4.19). The practices 'we always redesign end-to-end processes based on desired client experience' has highest mean score (4.47) and 'in our organization we have to shared-services or utility models to maximize scale and reduce costs within regional banks' has lowest mean score (4.19) under operation process. Among the practices under customer Management process, the practice 'we target high net worth customers in our organization' has highest mean score (4.41) and 'in our organization we provide post sales value to customer' has lowest mean score (4.25). Under Regulatory and social processes, the practice 'we in the organization improve health and safety performance' has highest mean score (4.38) and 'we enhances communities in our organization' has lowest mean score (4.23).

**Table 5.13: Summary Table of One Way Analysis of Variance (ANOVA) for Implementation of Balanced Scorecard Practices under Internal Business Process Perspective**

Sl. No.	Component (Internal Business Process Perspective)		Sum of Squares	df	Mean Square	F	Sig.
1	Innovation Process	Between Groups	2.264	9	.252	.999	.442
		Within Groups	47.834	190	.252		
		Total	50.098	199			
2	Operation Process	Between Groups	3.685	9	.409	1.791	.072***
		Within Groups	43.441	190	.229		
		Total	47.127	199			
3	Customer Management Process	Between Groups	4.360	9	.484	2.116	.030**
		Within Groups	43.502	190	.229		
		Total	47.862	199			
4	Regulatory and Social Process	Between Groups	10.881	9	1.209	4.038	.000*
		Within Groups	56.883	190	.299		
		Total	67.764	199			

\* Significant at 0.05 level; \*\* Significant at 0.05 level; \*\*\* Significant at 0.10 level

Further, to analyze the differences among the responses of the bank executives of sampled private sector banks on the implementation of the aspects under 'Internal Business process perspective', analysis of variance (ANOVA) was used.

With highly significant f-value between groups, on aspect of 'operation process' (f-value at 1.791, and p value at .072), aspect of 'Customer Management Process (f - value at 2.116 and p value at .030) and aspect of Regulatory and social process (f - value at 4.038, and p value at .000) it may be concluded that there are significant differences in perception of the bank executives belonging to various sampled private sector banks regarding implementation of balanced scorecard practices under 'Internal Business Perspective' on the stated aspects (Table 5.13). But the aspect of 'innovation process' has low f value .999 along with insignificant p value .442 concluded that there is no significant difference between the perception of sampled private banks on this aspect Based on the analysis of variance (ANOVA) results, the aspects of 'operation process', 'Customer Management process' and 'Regulatory and social process' were further investigated using the Duncan's post hoc analysis.

**Table 5.14: Summary Table of Duncan's Range Test for Sampled Organizations on Implementation of Balanced Scorecard Practices in regard to Operation Process under Internal Business Process Perspective**

Sl. No.	Name of the Bank	N	Subset for alpha = 0.05	
			1	2
1	Citibank	20	3.9955	
2	Shinhan Bank	20	4.2000	4.2000
3	Yes Bank	20	4.2409	4.2409
4	ICICI Bank	20	4.2545	4.2545
5	HDFC Bank	20	4.2818	4.2818
6	IndusInd Bank	20	4.3000	4.3000
7	Kotak Mahindra Bank	20	4.3364	4.3364
8	RBL Bank	20		4.3500
9	HSBC	20		4.4364
10	Axis Bank	20		4.5318

Means for groups in homogeneous subsets are displayed.

Harmonic Mean Sample Size = 20

It was observed that two major subsets emerged on the basis of differences on the aspect of 'Operation Process'. 'Citibank' with significantly low mean scores fall under one subset with other remaining banks forming one more subsets but with list of common banks under them except the 'RBL Bank', 'HSBC Bank' and 'Axis Bank' (Table 5.14). Thus it may be concluded that executives of 'RBL Bank', 'HSBC Bank' and 'Axis Bank', have rated Operation Process the most important for implementation as compared to the other banks.

**Table 5.15: Summary Table of Duncan's Range Test for Sampled Organizations on Implementation of Balanced Scorecard Practices in regard to Customer Management Process under Internal Business Process Perspective**

Sl. No.	Name of the Bank	N	Subset for alpha = 0.05		
			1	2	3
1	Citibank	20	4.0300		
2	Yes Bank	20	4.1300	4.1300	
3	ICICI Bank	20	4.3200	4.3200	4.3200
4	IndusInd Bank	20	4.3200	4.3200	4.3200
5	Shinhan Bank	20	4.3300	4.3300	4.3300
6	HDFC Bank	20	4.3300	4.3300	4.3300
7	HSBC	20		4.3800	4.3800
8	RBL Bank	20		4.4600	4.4600
9	Axis Bank	20			4.5100
10	Kotak Mahindra Bank	20			4.5200

Means for groups in homogeneous subsets are displayed.

Harmonic Mean Sample Size = 20

It was observed that three major subsets emerged on the basis of differences on the aspect of 'Customer Management Process'. 'Citibank' and 'Yes bank' with significantly low mean scores fall under one subset with other remaining banks forming two more subsets but with list of common banks under them except the 'Kotak Mahindra Bank' and 'Axis Bank' (Table 5.15). Thus it may be concluded that executives of 'Kotak Mahindra Bank' and 'Axis Bank', have rated this aspect the most important for implementation as compared to the other banks.



**Table 5.16: Summary Table of Duncan's Range Test for Sampled Organizations on Implementation of Balanced Scorecard Practices in regard to Regulatory and Social Process under Internal Business Process Perspective**

Sl. No.	Name of the Bank	N	Subset for alpha = 0.05		
			1	2	3
1	Citibank	20	4.0167		
2	Yes Bank	20	4.0333		
3	ICICI Bank	20	4.0667		
4	HDFC Bank	20	4.1167		
5	RBL Bank	20	4.2500	4.2500	
6	Shinhan Bank	20	4.2833	4.2833	4.2833
7	IndusInd Bank	20	4.3000	4.3000	4.3000
8	HSBC	20		4.6000	4.6000
9	Kotak Mahindra Bank	20		4.6000	4.6000
10	Axis Bank	20			4.6500

Means for groups in homogeneous subsets are displayed.

Harmonic Mean Sample Size = 20

It was observed that three major subsets emerged on the basis of differences on the aspect of 'Regulatory and Social Process'. 'Citibank', 'Yes bank', 'ICICI bank' and 'HDFC bank' with significantly low mean scores fall under one subset with other remaining banks forming two more subsets but with list of common banks under them except the 'Axis Bank' (Table 5.16). Thus it may be concluded that executives of 'Axis Bank', have rated this aspect the most important for implementation as compared to the other banks.

Based on the results and inferences from 'Section – D', the null hypothesis  $H_{02.3}$  may be rejected as there are significant differences in perception of the bank executives belonging to different banks on implementation of balanced scorecard practices under 'internal business process perspective' in their respective banks. Moreover, based on the results in Table 5.12 and results of further analysis tabulated in subsequent tables it may also be concluded that overall most of these practices under the various aspects of 'internal business process perspective have been implemented by the private sector banks.

## Conclusion

All the practices under all the aspects including 'innovation processes', 'operations processes', 'customer management processes' and 'regulatory and social processes' were found to be implemented to at least some significant extent by all the banks according to the perception of the bank executives of various private sector banks under the 'internal business process' perspective of balanced scorecard.

The practices pertaining to 'regulatory and social processes' were found most implemented followed by 'innovation processes', 'operations processes' and 'customer management processes' under the 'internal business processes perspective'.

Out of the four aspects under 'internal business process perspective', it was observed that only three had significant differences in terms of their implementation at the sampled banks, and differences in regard to aspect of 'innovation process' were found to be insignificant.

On the aspect of 'operation process', the differences were noted to be significant and 'Axis bank' with highest score have implemented these practices the most followed by 'HSBC' and 'RBL bank. However 'Citibank' with comparatively lower scores stood on the other end adjoined by 'Shinhan bank' and 'Yes bank'.

In regard to the 'customer management process' also 'Citibank' and 'Yes bank' stood last in implementation of these practices whereas 'Kotak Mahindra bank' followed by 'Axis bank', RBL bank' and 'HSBC' have well implemented these practices under 'internal business process perspective'.

Most of the banks have implemented most of the practices under 'regulatory and social process', though 'Axis bank' followed by 'Kotak Mahindra bank' and 'HSBC' lead the list with 'ICICI bank', 'Yes bank' and 'Citibank' at the end of the list.

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