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An Empirical Study of the Balanced Scorecard Model:
Evidence from Bangladesh

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ABSTRACT

Today, the effective use of the Balance Scorecard (BSC) model can bring in a holistic approach to performance measurement and break the traditional use of financial indicators alone to measure the performance of any service-sector organization. As such, the aim of this paper is to examine the underlying hypotheses of the BSC model and how they can be used for performance evaluation by focusing on the banking sector of Bangladesh. Results indicate a positive correlation among the BSC perspectives at a statistically significant level and in a sequential way for the selected banks. Findings of the study particularly highlights that banks which have experienced improvements in their selected financial indicators like ROA, ROE, etc had evidently increased their efforts towards the characteristics under the learning and growth, internal business process and customer perspectives. These findings thus clearly have a number of important implications for bank managers in the context of Bangladesh.

KEYWORDS

Balance Scorecard, Bangladesh, Banks, Competition, Financial Indicators, Performance Evaluation, Performance Measurement, Service-sector

INTRODUCTION

Across the global market, traditional measures of financial performance have mostly dominated the performance measurement system of many organizations. However, with the introduction of globalization, organizations have been forced to consider non-traditional measures as well (Ghalayini and Noble, 1996). A closer look at the financial markets further emphasizes how the rapid development of commercial institutions like banks have intensified competition because of which the traditional measures of performance is currently inadequate (Cao et al., 2012). Moreover, the operating environment and nature of business operations in the banking sector have become increasingly future-oriented (Ibrahim, 2015). As such, it has become imperative to apply forward-looking accounting information including non-financial measures in the performance measurement systems in order to meet the banking needs of strategic development (Joshi, 2001; Zhang and Li, 2009).

Performance measurement has always been an integral part of management accounting (Emmanuel and Otley, 1995) but with the passage of time, a holistic approach to the concept of performance has been undertaken in the form of the Balance Scorecard (BSC) model (Dave and Dave, 2012). The balanced scorecard is a generally accepted management accounting tool which encompasses non-financial performance measurements along with the financial performance measurements, so that the performance of an institution is measured in a multi-dimensional way and can increasingly focus on the institution’s strategies (Kaplan and Norton, 1992; Lipe and Salterio, 2002; Davis and

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Albright, 2004; Khan et al., 2010; Ozturk and Coskun, 2014). The BSC model highlights the cause-and-effect relationship between the four perspectives of learning and growth, internal business processes, customer and financial, along with the fact that the financial perspective is the end point where efforts of other perspectives should be directed at (Aidemark, 2001; Khan et al., 2010). These underlying hypotheses can actually provide bank managers with an opportunity to realize how an action classified in one perspective can influence the other dimensions of performance through a domino effect and can ultimately lead to improvements in the bank's financial performance (Hoque and James, 2000; Khan et al., 2010).

Within Bangladesh, there has been considerable exploration of the application of BSC in various manufacturing firms. Many empirical studies like Ishtiaque et al. (2007), Mosarraf and Ahmed (2008), Khan and Halabi (2009), Khan et al. (2010) and Khan et al. (2011) reported the use of BSC model as a strategic performance measurement tool in industries like pharmaceutical, engineering, tannery, food and allied, cement, ceramics, textile, etc. Although financial measures were found to be dominating in the manufacturing sector, a good number of companies were also adopting non-financial measures through the BSC model. Findings of Morium (2002) further suggested that the BSC model can be an effective tool for long-term strategic planning in the banking industry of Bangladesh. However, there is a paucity of research that highlights how the casual linkages of the BSC model can be applied and worked among the banks.

The present study fills into the void of the performance measurement literature by aiming to examine the suggested interconnection of the four performance dimensions of BSC through empirical evidence in the banking sector of Bangladesh. This is a unique study in this area since to the best of the author's knowledge there has been no other study which studies BSC model in empirical terms in the setting of the banking sector of Bangladesh. To pursue this purpose, data was collected through survey questionnaires and this was further supported by the analysis of the published annual reports of selected leading local and foreign banks currently operating in Bangladesh. Findings of this research will provide further insights into understanding the cause-and-effect relationship between financial and non-financial measures in the context of the banking sector. This study can also assist bank managers to address the shortcomings in their current performance measurement systems and to identify mechanisms that can link their long-term strategic objectives with their short-term actions.

LITERATURE REVIEW

This study argues that it is necessary to examine the underlying hypotheses of the BSC model and how they can be used for performance measurement of banks in the context of Bangladesh. As such, the theoretical background of the BSC model, followed by a short review of the model's use and acceptance and its application in the banking sector has been discussed in this section of the paper.

An Overview of the BSC Model

An important turning point for performance management in the early 1990s has been the introduction of balanced scorecard (BSC). Since its inception, BSC has been recognized as an effective performance measurement tool in both private and non-profit organizations on the global front (Kaplan and Norton, 2001; Lawrie and Gobbold, 2004; Khan et al., 2010). This innovative, multi-dimensional performance model was developed by Kaplan and Norton (1992) for the purpose of organizational performance evaluation and control. Over time, the BSC model has been applied as a dynamic method of measuring performance and as a means to adapt to both internal and external changes, thereby serving as a technique for long-term strategic planning for an organization (Ibrahim, 2015).