Application of Balanced Scorecard to Determine Hatton National Bank’s Performance: A Case Study

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Abstract

The Balanced Scorecard (BSC) is a performance management tool, that enables to make decisions regarding the organization strategies. This instrument is used to assess financial process, customer relationship, internal business process and learning and growth of an organization. The present study was carried out to examine the use of the Balanced Scorecard to measure the performance of the commercial banks in Sri Lanka. At the present time, commercial sector organizations compel to utilize Balanced Scorecard tool to improve their performance with influencing the financial perspectives as well as non-financial aspects. The purpose of this study is to contribute to the understanding of how BSC is developed and applied in evaluating the performance of Hatton National Bank (HNB), a private bank in Sri Lanka. The approach taken is the case study methodology to describe the real world examples of organization and the data was collected from the bank’s financial and non-financial data through the annual report during 2013-2017. The analysis assisted the cause-effect relationships between the non-financial, and the financial dimensions of the BSC and this study explored that the importance of viewing these four perspectives to view the performance of the organization. Further Balanced Scorecard enhances the ability of organization to achieve the strategic objectives of the firm and to keep sustainable development with the involvement of the stakeholders of the organization.

Keywords: Balanced Scorecard, Performance management, Hatton National Bank.

1. Introduction

The Balanced Scorecard was initially emerged as a performance measurement system that gives conceptual frame work for organization to translate an organization strategic objective into a set of performance indicators. That concept is remedy for performance evaluation systems that are only concern about the financial measures to appraisal the performance. Hence, BCS is not just a performance measurement system and it also a strategic management tool, that measure the organization performance reliance on the financial indicators by adding three additional sets of non-financial performance indicators - customer, learning and growth, and internal process perspective.
Nowadays, commercial sector organizations compel to utilize BSC tool to improve their performance with influencing the behavior of employees at all level of the organization and creating value to the customers. Further organizations concern about the effective internal process of the organization and it enables managers to immediately gain an insight into the company’s performance with a balanced view. Within this background, this research paper aims to discover the relationship between balance scorecard and performance of the commercial bank, which is Hatton National Bank (HNB) of Sri Lanka. This research paper explore about the effect of Balance scorecard indicators on Hatton National Bank performance.HNB is a private bank in a Sri Lanka and it founded in 1888 by Mr.R.D and T.Atkin as a small bank(www.hnb.lk). Now it is a fast-growing commercial bank in Sri Lanka with 251 branches and 563 ATMs. Further, this bank gave employment for over 4000 employees and it actively involved in retail banking, corporate banking and international banking.

As a Performance management tool Balance Scorecard gives strategically inside to all the organization to appraise their performance. The HNB bank tries to improve their bank performance to become dynamic, innovative and competitive institution concerning with the Investors, Employees, Customers, Internal Process and Community. Considering HNB objectives, this research paper tries to assess the realism of employing Balance Scorecard as a tool to improve the banks performance management system. For that, present case study concern about the bank strategic imperatives regarding financial plans a line with customers, employees and effective internal process.

This research paper is expected to be a useful paper to identify the application of the concept of BSC for commercial sector organization in Sri Lanka and it enables the top management to have a comprehensive view of bank and take the strategic decisions to achieve future objectives of the institution. The findings of this research paper revealed that the linkage and the importance of the four perspectives of the Balance Scorecard method on the performance of the bank. Hence, this concept is useful tool to practicing managers in Sri Lanka banks as well as in other parties of the world.

2. Literature Review

The main purpose of this study is to appraisal the strategic performance of the commercial bank on application of Balance Scorecard. The Balance Scorecard developed by Kaplan and Norton (1992) through Harvard Business Review article (“The Balanced Scorecard – Measures that Drive Performance”), which provides executives with a comprehensive framework that translates a company’s strategic objectives into a coherent set of performance measures (Kaplan and Norton, 1993).

Haleem and Muraleetharan (2016) explored that the score card is important performance measurement tool for achieve two objectives of the organization such as, convert company strategy into specific goals and to communicate that strategy to all parts of the organization.Hence, researcher point out that the associations between four perspectives in
Balance score card and performance should be examined. The result of that research indicates that the total perspectives have significant relationship with business performance, which means the total perspectives increment directly affected for increment of business performance.

Panicker and Seshadri (2013) founded that The Balanced Scorecard (BSC) plays a pivotal task in evaluating the strategic performance of commercial banks and it is make a way into the imperfection of the traditional single application of financial indicators which measures performance. In this research paper, mainly concern to study the performance evaluation of commercial bank based on the financial aspects as well as non-financial aspects like, customer factors, internal business process and employee learning and growth. Hence, main purpose of this research paper is to identify the relationship of financial and non-financial aspects of the bank and to find out how it affects for the performance of the organization.

The Balance Scorecard comprises four perspectives such as finance, customer relations, internal business process and learning and growth (Kaplan and Norton, 1996). The financial perspective plays dual role like, implementation of the company’s strategic plans and evaluating organization’s profitability. The customer perspective helps the organization to evaluates customer satisfaction with its brand and services. The internal process focuses on the internal operations of the organization, enabling managers to evaluate their business efficiently. The learning and growth perspective identifies the areas of excellence or competencies that an organization has to achieve value creation (Norlaila et al. 2013).

Farooq and Hussain (2011) recognized that, the role balance scorecard and change management play in better performance of organization. However, until recently, researchers have essentially focused their attention on the application of the BSC only in the profit organizations (Dodor et al. 2009). But nowadays most of the government organizations apply BSC as a management tool to appraisal the performance of the institution. However, this concept is critical appraisal method for evaluate the performance of commercial sector organizations and BSC have effective communication of the mission and objectives of the organization by giving the employees a clear and holistic picture of the company’s progress.

3. Methodology of the study

Figure 1
Source: Literature review

Above theoretical framework was planned by considering the relationship between four perspectives of Balance Scorecard model and Performance of the organization.

Table 1.
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<td><strong>SCORE SCALE</strong></td>
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<td>Liquidity Asset ratio</td>
<td>0-5%</td>
<td>6-10%</td>
<td>11-15%</td>
<td>16-20%</td>
<td>21-25%</td>
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<td>Return on equity</td>
<td>0-5%</td>
<td>6-10%</td>
<td>11-15%</td>
<td>16-20%</td>
<td>21-25%</td>
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<tr>
<td>Net Profit (in Rs mn)</td>
<td>0-5%</td>
<td>6-10%</td>
<td>11-15%</td>
<td>16-20%</td>
<td>21-25%</td>
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<td>Return on Investment</td>
<td>1-3%</td>
<td>4-6%</td>
<td>7-9%</td>
<td>10-12%</td>
<td>13-15%</td>
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<td><strong>INTERNAL PROCESS</strong></td>
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<td>Revenue per employee (in Rs 000's)</td>
<td>10-12%</td>
<td>13-15%</td>
<td>16-18%</td>
<td>19-21%</td>
<td>22-24%</td>
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<tr>
<td>Company efficiency ratio</td>
<td>40-42%</td>
<td>43-45%</td>
<td>46-48%</td>
<td>49-51%</td>
<td>52-54%</td>
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<td>credit loan growth</td>
<td>5-10%</td>
<td>11-15%</td>
<td>16-20%</td>
<td>21-25%</td>
<td>26-30%</td>
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<tr>
<td>Assets growth</td>
<td>5-10%</td>
<td>11-15%</td>
<td>16-20%</td>
<td>21-25%</td>
<td>26-30%</td>
<td>20</td>
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<td><strong>CUSTOMERS</strong></td>
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<tr>
<td>Growth in customer saving accounts</td>
<td>5-10%</td>
<td>11-15%</td>
<td>16-20%</td>
<td>21-25%</td>
<td>26-30%</td>
<td>20</td>
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<tr>
<td>Growth in term deposit</td>
<td>0-10%</td>
<td>11-20%</td>
<td>21-30%</td>
<td>31-40%</td>
<td>41-50%</td>
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<tr>
<td>No of ATM</td>
<td>400-450</td>
<td>451-500</td>
<td>501-550</td>
<td>551-600</td>
<td>601-650</td>
<td>10</td>
<td>20</td>
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<td>deposit increase</td>
<td>0-5%</td>
<td>6-10%</td>
<td>11-15%</td>
<td>16-20%</td>
<td>21-25%</td>
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<td><strong>LEARNING AND GROWTH</strong></td>
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<td>Number of Employees</td>
<td>0-4000</td>
<td>4200</td>
<td>4500</td>
<td>4800</td>
<td>5100</td>
<td>40</td>
<td>30</td>
<td>30</td>
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<tr>
<td>Profit per employee &quot;000&quot;</td>
<td>1800</td>
<td>2300</td>
<td>2800</td>
<td>3300</td>
<td>3800</td>
<td>10</td>
<td>20</td>
<td>30</td>
<td>50</td>
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<tr>
<td>No of employee promoted</td>
<td>130-180</td>
<td>181-230</td>
<td>231-280</td>
<td>281-330</td>
<td>331-380</td>
<td>10</td>
<td>10</td>
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<tr>
<td>Investment for employee training</td>
<td>20-25</td>
<td>26-30</td>
<td>31-35</td>
<td>36-40</td>
<td>41-45</td>
<td>10</td>
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<td><strong>Total</strong></td>
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<tr>
<td>Operating efficiency ratio</td>
<td>53%</td>
<td>47.40%</td>
<td>45.90%</td>
<td>46%</td>
<td>51%</td>
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<tr>
<td>Capital Adequacy Ratio</td>
<td>16.52%</td>
<td>14.83%</td>
<td>12%</td>
<td>13.70%</td>
<td>17%</td>
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<tr>
<td>Profit Growth</td>
<td>-7%</td>
<td>28.50%</td>
<td>16%</td>
<td>39.20%</td>
<td>16.40%</td>
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**Data Method and Data**

In this research paper a case study approach adopted by the author and the data was collected from the Comprehensive Income Statement and Financial Position and other relevant details published at bank’s annual reports. Further sustainability report, directors report and other relevant news feeds collected from the bank web site ([www.hnb.lk](http://www.hnb.lk)). Most recent five years information was included in the study as the basis for calculation. Hence, this research study extends to five years starting from 2013 to 2017. The reason for selecting this period was the latest data for investigate the impact of Balanced Scorecard on the performance of the commercial banks.

**Data Analysis and Findings**

Hatton National Bank is one of the best growing bank in the Sri Lanka and it is operating with concerning about the Customers, Employees, Internal Process and the Community. Therefore, author has adopted this bank to measure the effect of balance scorecard on the performance of the bank. The rest of the paper describe regarding the analyzing procedure and findings.

Balance Scorecard is comprised with the four perspectives and author chooses the measures relating to each one of the perspectives with concern the bank objectives. They are present in Figure 1.

After identify the measures for every perspective, this study was identify the Balance Scorecard objectives, measures and targets with the help of the data available about the HNB performance from 2013-2017 (Table 1). Then a performance scale was identified for each measures and 50 score points were divided on the elements of each scale. Accordingly, the total scores developed were 800 (16 measures X 50 Points). Last four columns of the table 1 represent the scores assigned to each from 2013-2017. Further the last row of the Score Scale in Table 1 (Highlighted figures) represents the objectives and measures of BSC required by Hatton National bank.

4. **Findings and Discussion**

In this study, assigned scores were allocate for every measurement scales. Hence, total measured by the BSC was 370, 450, 560, 520, and 540 for the years respectively 2013-2017. It seems that the HNB performance was improving during the first three years of the study and it start to decline in the next two years. Reveals of this study with respect to the four perspectives can describe as follows,
Financial Perspective: Scores achieved on financial perspective indicates the development. Because it improved progressively from 2013 to 2017. This findings revealed that HNB Bank concentrate the Financial perspective as a measurement of performance. As well as bank is more concern about the Liquidity asset ratio and net Profit, because it increases steadily in five-year period. The Bank has strengthened its credit risk management processes and set up a Centre of Aspiration to improve recovery processes with the support of bank liquidity asset ratio.

Internal Business Process Perspective: This perspective does not reveal the significant improvement. During the first three years bank efficiency ratio increase but last two years it declined due to the increment of the bank operating expenses. Credit loan growth and Asset growth also increase during the first three years of the study and declined within last two years. Overall performance represents that Hatton National bank performance was negatively affected in this perspective. However, revenue per employee showing significant improvement from 2013 to 2017 due to revenue going up continuously and number of employee declined compared to the 2013/2014.

Customer Perspective: The HNB scores on the customer perspective were preferable to some extent. The bank significantly builds up the ATM’s year by year to facilitate their customers. The bank has valuable insight to deliver the value to their employees and for that, they provide comprehensive range of products relevant to the customers need and fit for the purpose. Hence, they launched SME export credit to facilitate SME to cater the export oriented SME. Further, bank launched HNB Mobile App and the Customer Digital Engagement Centre to give value to their customers. However, the growth in customer savings and term deposit start to declined after the 2014. It may be due to the highly inflation of the economy with the increment of indirect taxes, prices of imports and food supply issues. Hence, customers unable to save significant amount of money after spend their money for daily routines.

Learning and Growth Perspective: When comparing with the other three perspectives learning and growth perspective represent the improvement. According to the scale of profit per employee steadily increase within these five years. It exposed that the company has given various employee benefits and employee has reacted for those thing by give more dedication for achieve bank objectives. Further, HNB continuously increase the investment for employee training and increase the number of employees promoted per year. The bank main objective towards the employee is improve the ability to attract, improve and retain talented people with the happy and as a bright team. For that, they recently developed Knowledge Hub enabled employees to serve customers better, enhancing both the employee and customer experience. These findings revealed that the bank definitely give value to its employees and give sustainable value to its stakeholders.

As shown in the below of the table, HNB’s own capital adequacy ratios improved constantly up to 17% due to the improvement of funding structure and retained earnings. These findings
explored that HNB’s shareholders able to give full trust and confidence on bank future. Profit growth was supported by the high interest rates and growth in fee based income with successful implementation of strategies to increase market share in banking services. Consequently, HNB’s operating efficiency ratio also increased with the support of dynamic branch network that enabled strong growth in bank performance in a competitive market.

Hence, researcher find out that, there is development in company profitability and efficiency with the improvement of the financial and non-financial aspects of the BSC. Considering the findings of the research paper, it revealed that the importance of viewing of these four perspectives to measure the performance of the commercial bank. Hence, researcher suggests that, HNB bank can achieve their strategic objectives, if they concern four perspectives of Balance Scorecard to measure their bank performance.

5. Conclusion

This research work based on the Balanced Scorecard model and the evaluation of performance of the commercial banks in order to achieve the strategic objectives. This model provides guidelines to organization when they consider this model as method of performance evaluation. This paper constructed a BSC model with 16 measures, which were used to measure the performance of the Hatton National Bank and through that, understand the application and affection of the BSC approach to performance of the commercial banks of Sri Lanka. However, HNB does not use BSC as a performance tool. But they use performance indicators to evaluate their performance and to motivate their team members and to enhance the shareholders and customers expectations.

The findings from Hatton National Bank show that importance of viewing performance from other perspectives in addition to the financial perspective. According to the findings of this study revealed that company operating efficiency ratio incessantly increase with the increment of performance measures under the Financial perspective, customer perspective and learning and growth perspective. However, in this case, internal Process perspective does not reveal the significant affect with the improvement of operating efficiency of the bank.

Nevertheless, considering all other dimensions and results, it explored that the importance of viewing these four perspectives to view the performance of the organization to enhance the ability of organization to achieve the strategic objectives of the organization and to keep sustainable development with the involvement of the stakeholders of the organization.
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