USAGE OF CONTEMPORARY PERFORMANCE MEASURES FOR MEASURING PERFORMANCE OF INDIAN BANKS

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ABSTRACT

There is an emerging requirement to focus on the performance measurement tools and their usage. To overcome the challenges of an increasingly complex and dynamic competitive environment, organizations are rethinking their performance measurement systems. Each day improvements in the systems and businesses are taking place, new techniques and methods are being developed to measure the performance from different aspects. During the last two decades the focus of businesses has got increased on performance measurement. Measurement has been recognized as a crucial element to improve business performance. The earlier focus of performance measurement was on financial perspective which is gradually changing to non-financial perspectives. Effective performance measurement features identified include linking operations to strategic goals, and taking financial as well as non financial perspective of performance. Traditional performance measurement systems, meanwhile, typically stress the short term, focusing on past achievements while largely ignoring the drivers of future performance. Information about performance measurement is critical to the effective functioning of any organization. The aim of this research paper is to explore the usage of contemporary performance measurement tools in the context of Indian banking sector. Specific frameworks, which can be utilized by the banks to measure performance in this way, are also considered with a particular focus on the Balanced Scorecard (BSC) as a measurement tool which meets the demands of global and contemporary banking environment.

INTRODUCTION

The selection of the most appropriate performance measures is, however, an area with no defining boundaries as there are a number of purposes to which performance measurement can be put, although not all performance measurements can be used for all purposes (Tapanya, 2004). If the performance measurement is right, the data generated will tell the user where the business is, how it is doing, and where it is going. In short, it is a report card for a business that provides users with information on what is working well and what is not. With this in mind, we overview the various performance measurement systems (PMS) used today by enterprises to drive improvements in overall organizational performance with reference to banking sector in India. A performance measurement system (PMS) enables an organization to plan, measure, and control its performance according to a pre-defined strategy (Johnson, 2007).

Information about performance measurement and management is critical to the effective functioning of any organization. However, what constitutes good performance and what constitutes good measures of performance are continuously being debated. For instance, do financial performance indicators provide the necessary information for operating within environments that are classified as global, turbulent and competitive, given that they are backward looking and historical in nature. Is it important to utilize non-financial information for organizations that are facing changes with the changing economic environment? In addition, why there is a need for organizations' to focus on both traditional financial and non-financial indicators of performance in order to meet organizational objectives, irrespective of competitive environment. Specific frameworks, which can be utilized by organizations to measure performance in this way, are also considered with a particular focus on the Balanced Scorecard (BSC) as a measurement tool which meets the demands of contemporary organization (Kaplan, 1992).

The paper deals with the various performance measures used by the banks for measuring performance and usage level about various performance measurement systems.

Review of Literature

Measuring organizational performance has been an important area and it has undergone continuous development and modification. Since the inception of the concept, management experts as well as academicians have been trying to develop advanced methods of measuring it. On account of its growing importance, the subject has intrigued many scholars, economic theorists, financial analysts and many others to probe into the various facets of performance measures as well as performance measurement systems. A number of studies have been conducted in India and abroad to study various performance measures for measuring performance of the banking sector.

Authors name	Their opinion about the usage level
Kaplan and Norton (1992)	Revealed that what you measure is what you get. They realized that no single measure can provide a clear performance target and focused attention on critical areas of the business.
Norreklit (2000)	Examined the extent to which there is cause and effect relationship among the four areas of measurement suggested (the financial, customer, internal-business processes and learning & growth perspectives).
Anand (2004)	Revealed that the balanced scorecard will benefit the organization in more than one way.
Tapanya (2004)	Examines various performance measurement systems based on financial and non-financial measures.
Johnson (2007)	Highlighted various performance measurement systems in his paper. The author said that from the beginning, it is important to understand why measuring an organization's performance is both necessary and vital.

Research Objective, Scope and Methodology

The study has been conceived to understand usages of contemporary performance measures to measure the performance in this competitive environment. To examine the usages of existing and new performance measures in place in the Indian banking sector, mainly primary data has been used and has been gathered through a structured questionnaire. The questionnaire has been administered in such a manner that covers the entire hierarchy of the banks i.e. top level management of the banks which are responsible for formulating the bank's mission, vision and strategies (i.e. CMD, MD, Board Members, vice president, GM etc.), middle level management which are responsible for communicating bank's strategy down to operating people (i.e. Regional / Zonal/ Circle / Divisional managers, principal of training college etc.) and covering branch level management which are responsible for implementing the bank's strategy to achieve the bank's mission and vision (i.e. Chief Manager / Branch Manager including officer's rank people etc.).

For this purpose, a sample of six banks consisting of top three public sector banks on the basis of size (assets) of each bank i.e. SBI and its associates SBOP, PNB and Canara bank and top three private sector banks on the basis of size (assets) of each bank i.e. ICICI bank, HDFC bank and AXIS bank has been taken.

For the collection of data, it was planned to give representation to entire state of Punjab covering all the major districts and Chandigarh (UT) being capital and regional, zonal, training and circle offices of all the selected banks. For collection of data, a sample of 200 bankers selecting equal number (100 each) from both public sector and private sector banks has been drawn. The analysis of collected data has been done by using simple frequencies, percentages, averages, Weighted Average Scores (WAS), Mann-Whitney test (U-test), etc.

Hypothesis of the Study

Ho,1**:** There is no significant difference in the perception of public and private sector bankers with regard to alignment of individual objectives with the organizational objectives.

Ho, 2: There is no significant difference in the perception of public and private sector bankers in terms of contribution of various intangibles assets to the value creation for the banks.

Results and Discussion

Bankers' Opinion Regarding Various Performance Measures Used by the Banks for Measuring and Managing Overall Performance of the Banks

An endeavor has been made to examine the opinion of bankers regarding various financial and non-financial performance measures used by the banks to measure their overall performance. They were asked to give their response about different measures of performance for measuring and managing overall performance of the banks like financial measures, non-financial measures and both financial and non-financial measures.

Table 1 presents that almost all the bankers (98.00%) reported that their banks were using both financial and non-financial measures for managing the overall performance. In the case of public sector banks vast majority of bankers (97.00%) revealed that their banks used both financial as well as non-financial measures, while the remaining only 3 per cent bankers stated that their banks measured and managed the overall performance on the basis of financial measures only.

Table 1

Opinion of Bankers Regarding Performance Measures used by the Bank for Measuring and Managing Overall Performance of the Bank

N= 200

Measures	Public sector Banks	Private Sector Banks	Total
Financial Measures	3 (3.00)	1 (1.00)	4 (2.00)
Non-financial Measures	0 (0)	0 (0)	0 (0)
Both Financial and Non- financial Measures	97 (97.00)	99 (99.00)	196 (98.00)
Total	**100 (100.00)**	**100 (100.0)**	**200 (100.0)**

Note: The figures given in parentheses denote the percentage of response.

In the case of private sector banks, majority of the bankers (99.00%) revealed that their banks used both financial and non-financial measures of performance for measuring and managing their overall performance. None of the bankers from both the public and private sector banks stated that their banks measured and managed their overall performance based on non-financial measures only.

It brings out that as far as the emphasis on financial and non-financial measures is concerned, both public as well as private sector banks need to realize the importance of striking a balance between financial as well as non-financial performance measures.

Bankers' Opinion Regarding Aligning of Individual Objectives with Organizational Objectives

Every top management tries to align individual objectives with the organizational objectives so that it can successfully implement its strategy to achieve organizational objectives. Bankers were asked to give their opinion about how successfully top management was able to align individual objectives with organizational objectives.

Table 2

Bankers' Opinion Showing Successfulness of Top Management to Align Individual Objectives with the Organizational Objectives

N=200

Factors	To Large Extent	To Some Extent	To Little Extent	Very Little Extent	Not at All	WAS
Alignment of Individual Objectives with the Organizational Objectives	92 (46.00)	82 (41.00)	18 (9.00)	8 (4.00)	0 (0.00)	4.29

Note: The figures given in parentheses denote the percentages.

Table 2 explains that all the bankers were aware about alignment of individual objectives with organizational objectives. As many as 87.00 per cent bankers opined that the top management was successful to align individual objectives with organizational objectives to a reasonable extent, while the remaining 13.00 per cent bankers believed that management was able to align individual objectives with organizational objectives to a little extent. There was none to respond that the top management failed to align individual objectives with organizational objectives. The overall weighted average score indicates that bank management had successfully aligned individual objectives with organizational objectives.

Table 3

Weighted Average Scores Corresponding to Alignment of Individual Objectives with Organizational Objectives

(Bank-wise Distribution)

Factors	Public Sector Banks				Private Sector Banks				WAS	p-value
	SBI	PNB	CB	Total	ICICI	AXIS	HDFC	Total		
Alignment of Individual Objectives with Organization Objectives	4.31	4.29	4.43	4.34	4.20	4.27	4.26	4.24	4.29	0.503

Note: The p-value in the above table is not significant at 5 per cent level of significance.

The weighted average scores of the selected banks were calculated to ascertain which select bank's management was able to align individual objectives with the organizational objectives so that it could successfully implement its strategy. Table 3 shows that both the banks' management was able to align individual objectives with organizational objectives. Among the selected public sector banks, Canara Bank (4.43) was more successful as compared to other banks. In the case of private sector banks, the managements of Axis Bank (4.27) and HDFC Bank (4.26) were more successful in aligning individual objectives with organizational objectives. The extent of agreement among managers of Canara Bank, SBI, Axis Bank and HDFC Bank for meaningful alignment of individual objectives with organizational objectives is the greatest.

The estimated p-values using Mann-Whitney U-test also support the claim that no significant difference was reported among public and private sector banks as far as alignment of individual objectives with organizational objectives is concerned. The managements of banks from both the sectors were able to execute their business strategy for achieving the overall objectives of their banks.

The null hypothesis is that there is no significant difference in the perception of bankers from both the public and private sector banks with regard to alignment of individual objectives with the organizational objectives. The null hypothesis is, thus, accepted as far as alignment of individual objectives with organizational objectives is concerned.

Bankers' Opinion Regarding Contribution of Various Intangible Assets

To examine the importance of contribution of various intangible assets to the value creation for the banks, the bankers were asked to indicate their opinion on a five point-likert scale (ranging from Most important, Important, Neither important nor unimportant, Unimportant, and Most Unimportant) regarding importance of various intangible assets, such as customer service, customer relationship, customer loyalty, production innovation, technology, committed and trained staff, strong work culture and brand image in the value creation for the bank. In this respect, the responses of bankers have been presented in Table 4.

Table 4

Opinion of Bankers Regarding Contribution of Various Intangible Assets for the Value Creation of the Bank

N=200

Intangible Assets	Most Important	Important	Neither Important Nor Unimportant	Unimportant	Most Unimportant	WAS
Customer Service	180 (90.0)	18 (9.0)	1 (0.5)	0 (0)	1 (0.5)	4.88
Customer Relationship	163 (81.5)	33 (16.5)	3 (1.5)	1 (0.5)	0 (0)	4.79
Customer Loyalty	129 (64.5)	66 (33.0)	3 (1.5)	2 (1.0)	0 (0)	4.61
Product Innovation	102 (51.0)	95 (47.5)	1 (0.5)	2 (1.0)	0 (0)	4.49
Technology	121 (60.5)	74 (37.0)	3 (1.5)	2 (1.0)	0 (0)	4.57
Committed and Trained Staff	143 (71.5)	49 (24.5)	6 (3.0)	2 (1.0)	0 (0)	4.67
Strong Work Culture	139 (69.5)	59 (29.5)	1 (0.5)	1 (0.5)	0 (0)	4.68
Brand Image	125 (62.5)	65 (32.5)	8 (4.0)	2 (1.0)	0 (0)	4.53

Note: The figures given in parentheses represent the percentages.

The table reveals that vast majority of bankers considered the contribution of customer service and strong work culture (99.00% each), customer relationship and product innovation (98.00% each), customer loyalty (97.50%), committed and trained staff (96.00%) and brand image (95.00%) important for value creation of the bank. On the basis of weighted average scores, bankers considered all the intangible assets as important for value creation of the bank. Among the various intangibles, the weighted average score of customer service (4.88) is the highest followed by customer relationship (4.79), strong work culture (4.68), committed and trained staff (4.67), customer loyalty (4.61), technology (4.57), brand image (4.53) and product innovation (4.49).

Table 5

Weighted Average Scores Corresponding to Contribution of Various Intangible Assets to the Value Creation for the Banks

(Bank-wise Distribution)

Intangible Assets	Public Sector Banks				Private Sector Banks				WAS	p-values
	SBI	PNB	CB	Total	ICICI	AXIS	HDFC	Total		
Customer Service	4.94	4.91	4.93	4.93	4.97	4.87	4.66	4.83	4.88	0.149
Customer Relationship	4.86	4.86	4.87	4.86	4.83	4.73	4.60	4.72	4.79	0.083
Customer Loyalty	4.69	4.60	4.70	4.66	4.63	4.50	4.54	4.56	4.61	0.383
Product Innovation	4.51	4.54	4.57	4.54	4.43	4.33	4.51	4.43	4.49	0.301
Technology	4.71	4.60	4.67	4.66	4.43	4.57	4.46	4.48	4.57	0.069
Committed and Trained Staff	4.77	4.57	4.67	4.67	4.66	4.67	4.66	4.66	4.67	0.939
Strong Work Culture	4.77	4.77	4.73	4.76	4.43	4.67	4.71	4.60	4.68	0.023*
Brand Image	4.51	4.57	4.57	4.55	4.43	4.70	4.63	4.58	4.57	0.740

* Significant at 5 per cent level of significance.

Bank-wise analysis is shown in Table 5. The table reveals that bankers from public sector banks gave more importance to the intangibles, such as customer service (4.93), customer relationship (4.86), strong work culture (4.76), committed and trained staff (4.67), technology and customer loyalty (4.66 each) and product innovation (4.54) as compared to private sector banks except brand image (4.58). Among the selected public sector banks, SBI accorded importance to intangible assets like customer service (4.94), committed and trained staff and strong work culture (4.77 each) and technology (4.71) whereas Canara Bank considered customer relationship (4.87), customer loyalty (4.70), and product innovation and brand image (4.57 each) as most important intangible assets to value creation for the bank . None of the intangibles is considered important by the bankers from PNB as compared to SBI and Canara Bank. Similarly, among the selected private sector banks, ICICI Bank accorded importance to intangible assets like customer service (4.97), customer relationship (4.83) and customer loyalty (4.63) followed by Axis Bank which considered brand image (4.70), committed and trained staff (4.67) and technology (4.57) as most important intangible assets. However, the bankers from HDFC Bank accorded importance to intangible like strong work culture (4.71) and product innovation (4.51).

The estimated p-values using Mann-Whitney U-test show that all the intangible assets are equally important for the banks from both the public and private sectors as far as value creation for the banks is concerned except strong-work culture (p-value<0.05). It is interesting to note that due to competition from private sector banks, the work culture of public sector banks had improved a lot in the recent past.

The null hypothesis is that there is no significant difference in the perception of bankers belonging to both the public and private sector banks in terms of contribution of various intangible assets in the value creation for the banks. The null hypothesis is accepted for contribution of all the intangible assets amongst the perception of public and private sector bankers. But the null hypothesis is rejected only in respect of strong work culture perception amongst public and private sector bankers.

Conclusion and Suggestions

The survey result concludes that both the financial and non-financial measures were considered important by public sector and private sector banks for measuring their performance, but there is a need to strike a balance between financial and non- financial measures. Bankers from both the public and private sector banks were of the opinion that their top management was able to align individual objectives with the organizational objectives to a large extent. The bankers' opinion brings out that the managements of both the public and private sector banks tried to achieve goal congruence. The contribution of various intangible assets, such as customer service, customer relationship, customer loyalty, product innovation, technology, committed and trained staff, strong work culture and brand image were considered important by the banks from both the sectors for their value creation. Further, weighted average scores reflect that bankers from public sector banks have considered the contribution of these assets more important as compared to private sector banks except brand image. There is a significant difference among public and private sector banks with regard to importance of strong work culture.

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