Awareness Regarding Contemporary Performance Measures for Measuring Performance of Indian Banking Sector

*Dr. Sanjeev Kumar

*Associate Professor and Head PG Department of Commerce, A .S College, Khanna

Abstract

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. There is an emerging requirement to focus on the performance measurement tools. During the last two decades the focus of businesses has got increased on performance measurement. Business organizations have understood that for competing in continuously changing environment, it is necessary to monitor and understand firm performances and must have awareness about it. 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. The aim of this research paper is to explore the awareness level of contemporary performance measurement tools and practices in the context of Indian banking sector. Balanced Scorecard (BSC) has been used for this concept as a measurement tool which meets the demands of global and contemporary banking environment.

Introduction

In an increasingly dynamic and information-driven environment, the quest by business leaders and management researchers for performance measures which reflect competitive productive strategies, quality improvement and speed of service is at the forefront of managing organization performance. 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).

The goal of Performance Measurement System (PMS) is to implement strategy. In setting up such a system upper level management selects measures that best represent the company's strategy. These measures can be seen as a current and future critical success factors (CSF); if they are improved, the company has implemented its strategy. The strategy's success depends on its soundness. A performance measurement system is simply a mechanism that improved the likelihood the organization will implement its strategy successfully (Anthony and Govindarajan, 2007).

The paper deals with the various performance measures used by the banks for measuring and managing performance, awareness 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.

Kaplan and Norton (1992), in their paper, "The Balanced Scorecard: Measures that Drive Performance" 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),** in his research article titled, "The Balance on the Balanced Scorecard: A Critical Analysis of Some of its Assumptions", first 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). **Gupta et al. (2004),** in their article titled, "Balanced Scorecard – An Emerging International Performance Measure", revealed that measuring organizational performance has been an important area and it has undergone continuous development **Kochhar and Anand (2004),** while participating in the seminar on "Balanced Scorecard in Indian banks", organized by IBA – cedar consulting, Ms Chanda Kochhar, Executive Director, ICICI Bank gave her key-note presentation. **Chakraborty (2007),** in his article titled, "Balanced Scorecard – "A Comprehensive Guide to Performance Evaluation" described the Balanced Scorecard as a management system. It is a mirror, which shows how an organization's mission and vision can be decomposed into strategic components that are actionable, specific and measurable.

Research Objective, Scope and Methodology

The study has been conceived to understand the awareness of contemporary performance measures to measure the performance in this competitive environment. To examine the awareness 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 awareness levels about performance measurement systems amongst public and private sector bankers in India.

Results and Discussion

Opinion of Bankers Regarding Awareness Level about Various Performance Measurement Systems (PMS)

The awareness level of bankers about various performance measurement systems (PMS) used by their banks was judged from the response given by them on a five-point likert scale ranging from to large extent, to some extent, to little extent, very little extent and not aware. Bankers were asked to give their views regarding various performance measurement systems (PMS) based on financial and non-financial measures. Under financial measures, they were asked about awareness of various performance measurement systems like Return on Investment (ROI), CAMEL framework (CAMEL stands for Capital Adequacy, Asset Quality, Management Efficiency, Earning and Liquidity), and Productivity measures, while under non-financial measures, they were asked about awareness of different perspectives like customer perspective, internal business process perspective and learning and growth perspective. The response of bankers pertaining to different performance measurement systems is shown in Table 1.

Table 1

Bankers' Awareness Level about Various Performance Measurement Systems (PMS)

N=200

Performance Measurement Systems	To Large Extent	To Some Extent	To Little Extent	Very Little Extent	Not Aware	WAS
Financial Measures						
ROI	135 (67.50)	48 (24.00)	11 (5.50)	04 (2.00)	02 (1.00)	4.55
CAMEL Framework	76 (38.00)	66 (33.00)	22 (11.00)	18 (9.0)	18 (9.00)	3.82
Productivity	136 (68.00)	42 (21.00)	15 (7.50)	5 (2.50)	2 (1.00)	4.53
Non-financial Measures						
Customer Perspective	162 (81.00)	32 (16.00)	2 (1.00)	3 (1.50)	1 (0.50)	4.76
Internal Business Process Perspective	129 (64.50)	55 (27.50)	13 (6.50)	2 (1.00)	1 (0.50)	4.55
Learning and Growth (Innovation)Perspective	120 (60.00)	67 (33.50)	9 (4.50)	3 (1.50)	1 (0.50)	4.51

Note: The figures given in parentheses show the percentages.

The opinion of bankers regarding awareness of various performance measurement systems is shown in the above table. Under financial measures, majority of the bankers expressed awareness with regard to Return on Investment (91.50%), Productivity measures (89.00%) and CAMEL framework (71.00%), while under non-financial measures the response with regard to various performance measurement systems was customer perspective (97.00%) followed by learning and growth perspective (93.50%) and internal business process perspective (92.00%). However, only few bankers were unaware about Return on Investment (3.00%), Productivity measures (3.50%), customer perspective, and learning and growth perspective (2.00% each) and internal business process perspective (1.50%). It is interesting to note that 18 per cent bankers were not aware about CAMEL framework as a performance measurement system.

Further, weighted average scores (WAS) have been calculated for all the bankers by assigning weights as 5, 4, 3, 2 and 1 to large extent, to some extent, to little extent, very little extent and not aware respectively. The weighted average scores make it clear that bankers were much aware about financial as well as non-financial measures based performance measurement systems. Among financial measures, bankers were more aware about Return on Investment (4.55) as compared to productivity measures (4.53) and CAMEL framework (3.82). Similarly among non-financial measures, bankers were more aware about customer perspective (4.76) followed by internal business process perspective (4.55), and learning and growth perspective (4.51). The weighted average scores highlight that the awareness regarding customer perspective is the highest (WAS 4.76) followed by Return on investment and internal business process perspective (4.55 each), and Learning and growth perspective (4.51).

It is observed that competitive environment forced the banks to sensitize their managers with regard to non-financial performance measures, such as Customer perspective, internal business process perspective and Learning and innovation perspective. Further, the bankers were found to be relatively lesser aware about CAMEL framework.

Table 2

Weighted Average Scores Corresponding to Awareness Level about Performance Measurement Systems (PMS)

(Bank-wise Distribution)

Performance Measurement Systems	Public Sector Banks				Private Sector Banks				WAS	p-values
	SBI	PNB	CB	Total	ICICI	AXIS	HDFC	Total		
Financial Measures										
ROI	4.86	4.66	4.87	4.79	4.46	4.37	4.11	4.31	4.55	0.000*
Camel Framework	4.54	4.26	4.27	4.36	3.69	2.93	3.17	3.28	3.82	0.000*
Productivity	4.83	4.83	4.77	4.81	4.69	4.07	3.94	4.24	4.53	0.000*
Non-financial Measures										
Customer Perspective	4.74	4.80	5.00	4.84	4.74	4.77	4.51	4.67	4.76	0.061
Internal Business process Perspective	4.57	4.51	4.73	4.60	4.60	4.53	4.34	4.49	4.55	0.167
Learning and Growth Perspective	4.51	4.43	4.70	4.54	4.71	4.40	4.31	4.48	4.51	0.856

* Significant at 5 per cent level of significance.

Weighted average scores corresponding to awareness level of performance measurement systems (PMS) of selected banks are shown in Table 2. The table reveals that bankers from public sector banks were more aware with respect to all the listed performance measurement systems as compared to private sector banks as shown by their respective weighted average score. Among selected public sector banks, bankers from SBI were more aware about CAMEL framework (4.54) and Productivity measures (4.83), whereas bankers from Canara Bank were more aware about Customer perspective (5.00), Return on Investment (4.87), internal business process perspective (4.73), and Learning and growth perspective (4.70). However, bankers from PNB were more aware about Productivity measures(4.83).On the other hand, in the case of selected private sector banks, bankers from ICICI Bank were more aware about all the performance measurement systems as compared to the Axis Bank and HDFC Bank.

It is worth mentioning that public sector banks were more aware about various performance measurement systems under financial measures as compared to private sector banks as shown by their weighted average scores corresponding to private sector banks. Under non-financial measures both the banks were equally aware about various performance measurement systems used by their banks for measuring and managing their performance.

The estimated p-values using Mann-Whitney U-test with regard to all the performance measurement systems reveal that there is significant difference between public and private sector banks as far as awareness about various performance measurement systems under financial measures is concerned (p-values < 0.05). Under non-financial measures, there was no significant difference between public and private sector banks regarding awareness about

various performance measurement systems. It is interesting to note that all the public sector banks (PSBs) accorded greater importance to CAMEL framework as the performance measurement system as compared to private sector banks as shown by their weighted average scores.

The null hypothesis is that there is no significant difference in the awareness level about various performance measurement systems under financial and non-financial measures amongst public and private sector banks in India. The null hypothesis stands accepted as far as awareness level of various performance measurement systems under non-financial measures is concerned. But the null hypothesis stands rejected regarding various performance measurement systems under financial measures.

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 and managing their performance, but there is a need to strike a balance between financial and non-financial measures. Bankers from both public and private sector banks were found to be quite aware about various performance measurement systems based on financial as well as non- financial measures. The bankers from public sector banks were more aware about various performance measurement systems under financial measures as compared to private sector banks. However, under non-financial measures, respondent bankers from both the sectors were equally aware about various performance measurement systems used by their banks for measuring their performance. Regarding other performance measurement systems under financial and non- financial measures, all the bankers were equally aware about the various performance measurement systems under financial and non-financial categories for measuring and managing their overall performance except CAMEL framework where bankers from public sector banks were only found to be aware.

References

• Anthony, N. R.; and Govindarajan, V. (2007), *Management Control System*, Tata McGraw-Hill, 12th Edition, pp. 460-475.

• Brinda, J.; and Dubey, A. K. (2007), "Performance of Public Sector Banks: An Econometric Analysis", *The Indian Banker*, Vol.2, No.12, pp. 26-34.

• Chakraborty, Rajesh (2006), *The Financial Sector in India: Emerging Issues*, Oxford University Press, New Delhi.

• Gupta, S.; and Verma, R. (2008), "Changing Paradigm in Indian Banking", *Professional Banker*, May, pp.21-25.

• Hamsalakshmi, R.; and Manicham, M. (2005), "Financial Performance Analysis of Selected Banks", *Finance India*, Vol.19, No.3, September.

• ICFAI (2004), *Indian Banking System: The Changing Scene*, ICFAI University Press, Hyderabad.

• Ittner, C. D.; and Lareker, D.F. (1998), "Innovations in Performance Measurement: Trends and Research Implications", *Journal of Management Accounting Research*, No.10, pp.205-225.

• Joshi and Joshi. (2002), *Managing Indian Banks - The Challenges Ahead*, Second Edition, Response Books A Division of Sage Publications, New Delhi.

• Johnson, C. Christian (2007), "Introduction to Balanced Scorecard and Performance Measurement Systems", http://www.adb.org/Documents/Books/Balanced Scorecard/chap1.pdf, pp.1-13.

• Kaplan, R.; and Norton, D. (1992), "The Balanced Scorecard: Measures that drive performance", *Harvard Business Review*, January - February, pp.71-79.

• Kochhar, C.; and Anand, S. (2004), "IBA-Cedar Consulting Joint Seminar on Balanced Scorecard", Dec.17, Mumbai.

• Mohan, R. (2005), "Financial Sector Reforms: Policies and Performance Analysis", *EPW*, Special issue on Money, Banking and Finance, March, pp.1106-1121.

• Pai, D. T. (2009), "Indian Banking Systems: Sound on Global Benchmarks", *The Indian Banker*, Vol.4, No.2, pp.28-29.

• Ramudu, J.; and Rao, D. (2006), "A Fundamental Analysis of Indian Banking Industry", *The ICFAI Journal of Bank Management*, Vol.5, No.4, pp.68-79.

• Rangarajan, C. (2007), "The Indian Banking System - Challenges Ahead", First R.K. Talwar Memorial Lecture held on July 31.

• Rao, Nageswara and Pahuja, Yashpal (2005), *Indian Banking: Emerging Issues*, The ICFAI University Press.

• Sekhar, S. D. (2007), "Trends in Growth and Development: Nationalised Banks in India", *The Indian Banker*, Vol.11, No.10, pp. 28-32.

• Singla, H. (2008), "Financial Performance of Banks in India", *The ICFAI Journal of Bank Management*, Vol.7, No.1, February, pp.50-62.