CHAPTER ONE
INTRODUCTION

The liberalization and globalization of Indian economy brought substantial changes in the level of competition, business environment, managing strategies and advanced technology front. India, today, is one of the fastest growing economies in the world. It is now Asia’s third largest economy and has made inroads into the global top 10 in terms of GDP. The service sector remained the main engine of the growth contributing more than 55 per cent to the GDP. The transformed banking sector is also one of the important channels for this success. The entry of new generation private sector banks, in the post-1991 period, has induced a new spirit of competition in the banking system. Globalization is both a challenge and an opportunity for Indian banks to gain strength in the domestic market and increase presence in the global market. Indian banking is constantly evolving. It is adopting international benchmarks and best practices of transparency, disclosure and market discipline.

In an era of rapid change, high competition and globalization, the necessity of effectively executing strategy has become crucial. It is on the record that nine out of ten organisations fail to implement their strategies (Anand, 2004). Given this background and the developments of the banking sector, it is interesting to see how the banks have performed and what their parameters of the performance measurement are? There has been growing criticism of financial measures in the performance measurement system in the post-reform era in India as they are historic in nature and lack futuristic outlook. No longer, financial measures of performance measurement system are enough to survive, sustain and grow in the globalized competitive environment; banks have to invest in intangibles. In this backdrop, there is an urgent need to have a measurement system that balances the financial numbers with today’s driver of economic success.

The financial institutions face today a fast paced, dynamic and competitive environment at the global scale. Within such a competitive environment, financial institutions are forced to examine their performance because their survival in dynamic economies of 21st century would depend upon their performance measurement system. Hence, in response, banking companies have been trying to adopt and adjust themselves to improve their performance measurement system in the changing socio-
economic environment.

In an increasingly dynamic and information-driven environment, the quest by business leaders and management researchers for performance measures which reflect competitive strategies, quality improvement and speed and quality of service is at the forefront of managing organization performance. Performance measurement is important for keeping an organisation on track in achieving its objectives (Kaplan and Norton, 1992).

The selection of the most appropriate performance measures is, however, an area with no defining boundaries as there are number of purposes to which performance measurement can be put, although not all performance measurement can be used for all purposes. Even though individual organisations tend to utilize organisation-specific performance measures appropriate to their needs, for many organisations the main performance measures would typically include some combination of financial, market/customer, internal business process, learning and growth, employees, shareholders, social and environmental (Anand et al., 2005).

The performance measurement has relied on financial or accounting-based measures, despite the drawbacks associated with such an approach. Specifically, the use of financial measures alone has serious limitations because of their inherently backward-looking nature, their limited ability to measure operational performance and their tendency to focus on the short-term (Kaplan and Norton, 2001). The reliance on financial measures alone, therefore, to present the true picture of organisational performance, is in itself backward looking, especially when organisations/institutions are confronted with increasing expectations from a variety of stakeholders. As a result, an organisation requires more from its performance measurement system than ever before.

Several researchers have identified that the selection of performance measurement measures should be:

- Driven from strategies and provide a linkage between business unit actions and strategic plans;
- Hierarchical and integrated across business functions;
- Supportive of the organization multidimensional environment (internal or external).
Therefore, the method of monitoring performance should be dynamic in order to adapt to internal and external changes. In response to these recommendations, a number of frameworks that adopt a multidimensional view of performance measurement have been developed, most notable of which has been the Balanced Scorecard (BSC) developed in the early 1990s by Dr. Robert Kaplan (Harvard Business School) and corporate consultant, David Norton. The Balanced Scorecard looked beyond the traditional financial measurement of performance and examined the organisations’ operations from the perspective of customer, learning and growth, internal business processes, employees and above all the financial perspectives also. The Balanced Scorecard addresses the need for multiple measures of performance and provides a strategic framework, which specifically encourages the use of financial and non-financial measures along four perspectives to measure organisations’ performance (Kaplan and Norton, 1996).

In both research and practice, the BSC has received much attention, particularly as a tool for driving business strategy within many organisations, including hospitality, health, manufacturing and banking. According to Kaplan and Norton (1996), "The balanced scorecard translates an organization mission and strategy into a comprehensive set of performance measures and provides the framework for strategic measurement and management".

On the outset, therefore, the BSC appears to have all the answers for choosing the most appropriate measures of organisation performance, which are governed by the organisation’s strategic orientation and external competitive environment. The success of BSC relies on a transparent and well-defined strategy as the basis for the development of specific and relevant performance measures. Although the BSC, along with many other perspectives, acknowledges that organizations respond to the environment they face in developing their strategy and ultimately performance measurement system (Tapanya, 2004).

From the beginning, it is important to understand why measuring an organisations’ performance is both necessary and vital. An organisation operating without a performance measurement system (PMS) like an aeroplane flying without a compass, a Formula one race car driver guiding his car blindfolded or a chief executive officer (CEO) operating without a strategic plan. The purpose of measuring performance is not only to know how a business is performing but also to enable it to
perform better. The ultimate aim of implementing a performance measurement system (PMS) is to improve the performance of an organisation so that it may better serve its customers, employees, owners and other stakeholders (Johnson, 2007).

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, overview of the various performance measurement systems (PMS) used today by enterprises to drive improvements in overall organisational 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. In short, it enables a business to achieve the desired results and to create shareholder value (Johnson, 2007).

Figure 1.1 provides the framework for designing a performance measurement system. Strategy defines the critical success factors; if these factors are measured and rewarded, people are motivated to achieve them.

**Figure 1.1: Framework for Designing Performance Measurement Systems**

- What Counts, gets measured
- What gets measured, gets done
- What gets done, gets rewarded
- What gets rewarded, really counts
- Strategy

**Source:** This chart was suggested by Craig Schemer
(As quoted by Anthony and Govindarajan, 2007)
Various performance measurement systems are used by various organizations depending upon the nature and type of activities based on financial measures as well as non-financial measures. The major performance measurement systems in use today include: The Balanced Scorecard (BSC), Activity-Based Costing and Activity-Based Management (ABC and ABM), Economic Value Added (EVA), Total Quality Management (TQM), Customer Value Analysis (CVA), Customer Relationship Management (CRM), Performance Prism, Profitability Measures (ROI, ROE, ROA and ROAA), Productivity Measures (per branch and per employee), CAMEL Model (ratios), etc.

1.1 ROLE OF PERFORMANCE MEASURES IN AN ORGANISATION

To function successfully in the present competitive business environment, an organisation depends upon the decision-making ability of its managers, who in turn, depend upon the availability of usable information. Information about performance is important in different ways to the various stakeholders within a business. For example, owners and investors are interested in organisation performance to ensure that their investment decisions are correct, and, if not, to look for alternative investments. Managers look at the performance of an organisation as a way of prioritising the allocation of resources. In a more strategic sense, performance measurement is seen as an important way of keeping an organisation on track in achieving the organisation’s objectives. In other words, it is a monitoring mechanism employed by the organisation for formulation and implementation of business strategy. If measures of performance are to be effective, these need to be performance-driven and linked with organisation strategy. This view is supported by a number of researchers who note that measures of performance need to be based on organisation’s strategic objectives in order to enable the employees to understand and be committed to the achievement of those objectives (Kaplan and Norton, 2001).

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 current and future critical success factors (CSF); if they are improved, the company has implemented its strategy. The success of strategy depends on its soundness. A performance
measurement system is simply a mechanism that improved the likelihood the organisation will implement its strategy successfully (Anthony and Govindarajan, 2007).

In the present globalized, competitive and contemporary environment, a good performance measurement system should be:

- Supportive and consistent with an organisation’s objectives;
- Driven by the customer;
- Appropriate to the internal and external environment;
- Developed by a combined top-down and bottom-up effort;
- Communicated and integrated throughout the organisation;
- Focused more on managing resources and inputs;
- Committed to providing action-oriented feedback;
- Supportive of individual and organizational learning; and
- Oriented to the stakeholders’ expectations.

These types of characteristics will make for better performance measures, but how performance is actually measured is still a ‘black box’ for many organisations, particularly as performance measures used in one organisation may not be appropriate for another organisation facing a different situation or different environment or different set of circumstances. Defining performance for an individual organisation is highly dependent upon the organisation’s business objective and strategy and is, therefore, quite unique. For many organisations, however, the main performance indicators would typically include some combination of indicators across two broad categories: financial measures and non-financial measures (Tapanya, 2004).

1.1.1 Financial Measures

Various financial performance measures are intended to evaluate the effectiveness and efficiency by which organisations use financial and physical capital to create value for shareholders. They also provide detailed financial information to present and potential investors, and other interested users through the various
components of quarterly, half-yearly and annual reports, including balance-sheets, profit and loss statements, cash flow statements, etc.

A variety of financial accounting measures of performance are used in order to provide such information. Some of the more popular measures include: Earnings, Cash Flow, Return on Investment (ROI), Return on Assets (ROA), Return on Equity (ROE), Return on Capital Employed (ROCE), Earnings Per Share (EPS), Price/Earnings Ratio (P/E ratio), Return on Sales etc. Moreover, financial accounting measures based performance measurement systems like Profitability ratios, Activity-Based Costing and Activity-Based Management (ABC-ABM), Economic Value Added (EVA), Productivity ratios and other ratios etc. were most commonly used (Tapanya, 2004). All these are explained briefly as follows:

**Return on Investment (ROI)** is calculated when an accounting measure of income is divided by an accounting measure of investment, with a positive ROI indicating that the return on a particular investment exceeds the firm’s cost of financing (Income/Investment).

**Return on Assets (ROA)** is a profitability ratio calculated by dividing earnings before interest and taxes by total assets and is an indicator of a firm’s overall financial health. A firm with a higher ROA is able to raise money more easily and cheaply in securities markets because it offers prospects for a better return on investment.

**Return on Equity (ROE)** is a profitability ratio of net profits divided by equity and provides shareholders with a comparative indicator of the return on their investment in the firm.

**Return on Capital Employed (ROCE)** is based on pre-tax profits plus interest (EBIT), divided by capital employed. Other measures focus more on company sales, including return on sales and overall overhead/sales ratio. It is a good indicator of organisations’ overall profitability and efficiency.

**Price/Earning Ratio (P/E Ratio)** Measures relating to earnings per share and the price/earning ratio (P/E ratio) relate directly to the firm’s share price. The price/earning ratio for a firm stock is the market share price divided by the firm’s earning per share. It will vary with the market’s assessment of the risk involved.
Productivity Measure is another technique based on financial measures which includes business, profit, expenses and income etc. per branch/unit and per employee.

Economic Value Added (EVA) is an overall measure of organizational performance. EVA is both a specific performance measure and the basis for a larger performance measurement framework. It is a financial performance metric that is most directly linked to the creation of shareholder value over time. It is net operating profit less an appropriate charge for the opportunity cost of all capital invested in an enterprise. EVA is designed to give managers better information and motivation to make decisions that will create the greatest shareholder wealth. Since EVA is a single metric, it is complementary to the BSC and can be included in a BSC framework (for example, as a financial perspectives measure). Also, because it is a pure financial model, EVA does not serve as a vehicle for articulating a strategy. When coupled with the BSC, the tradeoffs between short-term productivity improvements and long-term growth goals can be managed (Johnson, 2007).

Activity-Based Costing (ABC) was developed to provide better insight into how overhead costs should be allocated to individual products or customers. Businesses that do not use ABC typically only make simple adjustments to allocate overhead costs that do not accurately fit elsewhere. Businesses that use ABC link expense related to resources supplied to the company to the activities performed within the company. Through the use of ABC, expenses are allocated from resources to activities and then to products, services and customer.

Activity-Based Management (ABM) is a discipline that focuses on the management of activities to maximise the profit from each activity and to improve the value received by customer. The discipline includes cost-driver analysis, and performance measurement. ABM draws on ABC as its major source of information.

Limitations of Financial Measures

Despite their apparent objectivity, financial indicators suffer from number of limitations, which need to be acknowledged. Perhaps most notable is that financial measures are backward looking and do not reflect the long-term and future consequences of managerial action. In a changing world it may well be wrong to assume that past results will be repeated as conditions change. Ideally, financial
accounting information is intended to report objectively the economic events of the firm. In reality, however, financial statements are management assertions within information required by law, institutional best practice and any additional information which the company wishes to supply, thereby introducing considerable potential for subjectivity (Tapanya, 2004).

An important goal of a business organisation is to maximise shareholders’ returns. However, maximising short-term profitability does not necessarily ensure optimum shareholder return since shareholder value represents the net present value of expected future earnings. At the same time, the need for ongoing feedback and management control require organisations to measure and evaluate business performance at least once a year.

However, relying solely on financial measures is not adequate for the following reasons:

- First, they are backward looking and wedded to past.
- Second, it may encourage short-term actions that are not in the organisation’s long-term interests.
- Third, business managers may not undertake useful long-term action to obtain short-term profits.
- Fourth, tight financial control may motivate managers to manipulate data.

In a nutshell, relying on financial measures alone is insufficient to ensure strategy will be executed successfully (Anthony and Govindarajan, 2007).

Acknowledgement of these limitations has led to believe that the financial accounting measures should be expanded to incorporate the valuation of the organisations’ intangible and intellectual assets, such as high-quality products and services, motivated and skilled employees, responsive and predictable internal processes, and satisfied and loyal customers in order to reflect the assets and capabilities that are critical for success in today's and tomorrow's competitive environment. These types of performance measures can be categorised as non-financial.
1.1.2 Non-financial Measures

Financial or accounting measures are only one source of information available to decision-makers. In this age of information, many organisations are beginning to place more emphasis on non-financial measures, such as customer satisfaction, innovation and creativity measures, on-time delivery, market share, procedures/processes, product/service quality etc. The emergence of non-financial measures is important to monitor organisations’ performance. It reflects that much of management is focused on intermediate outcomes, such as customer satisfaction or quality that are best captured by non-financial performance measures. Others suggest that non-financial measures are superior to short-term financial measures as indicators of progress towards achieving long-term goals (Kaplan and Norton, 2001). Perhaps the most compelling reason for an increase in reliance on non-financial measures to track performance rests on the current, fast changing technological environment and the need for organisations’ to leverage key capabilities in order to achieve competitive advantage.

Given these issues, reliance on purely non-financial indicators of performance alone is not the norm. Rather, in order to gain access to the benefits that both types of measures can provide, multiple measures of performance are widely encouraged.

1.1.3 Multiple Measures of Performance

It is increasingly recommended that managers (and researchers) expand performance measurement systems to include non-financial information, such as intangibles and quality data whilst retaining the traditional financial performance information as no one single measure provides consistent evidence of the correlation between all stakeholders’ satisfaction and organisation performance (Kaplan and Norton, 1992).

The emphasis on utilizing both financial and non-financial measures has led to the development of approaches using multiple measures of performance, such as Benchmarking, Quality Management {(Total Quality Management (TQM) and The European Foundation for Quality Management (EFQM)}, Customer Value Analysis/
Customer Relationship Management (CVA/CRM), Performance Prism, the Balanced Scorecard (BSC), to name a few (Johnson, 2007).

**Benchmarking** can be seen as the systematic comparison of elements of the performance of the company against that of other companies. Benchmarking can be internal or external. Internal benchmarking compares the internal workings of one department or process within the organisation to another, while external benchmarking compares a firm to its peers, chief competitors, or other organisations. But, benchmarking is generally based on comparisons of quantitative data that may cover a wide range of financial and non-financial measures, such as return on investment, customer satisfaction and quality performance. Quantitative analysis alone, however, often leads to incomplete analysis in the absence of qualitative analysis that explains the importance or relevance of the measures used.

**Quality Management** Over the past few decades, many organisations have adopted various quality programmes, such as Total Quality Management (TQM), Six Sigma, and European Foundation Quality Management (EFQM). Such programmes aim to assist organisations to improve quality of the manufacturing and services offerings. A central tenet for all of these programmes is business performance measurement. Although, quality programmes focus a firm on continuous improvement, they are not well suited to measuring relative performance among different enterprises in different industries (Tapanya, 2004).

**a) Total Quality Management (TQM)**, as stated by TQM specialists, involved four important elements, which revolutionized quality in the market place. First, the upper management had to make a commitment to quality and ensure that quality was emphasized throughout the organisation. Second, all levels and all functions were to receive quality training at some specified level of expertise. Third, quality improvement was to be a continuous process. Finally, the customer was to be the most important concern in the quality loop. This emphasis on quality at all levels meant a change in focus from only financially driven measures to examining factors that influence these measures.

In both the TQM and benchmarking management techniques, there are references to: continuous systematic improvement, meeting customer needs, performance standards, understanding organisations' best practices, concurrent
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engineering, and measure of targets. For organisations that used the TQM programme, benchmarking criteria have become a key element of that programme.

b) **The European Foundation for Quality Management (EFQM)** was launched in 1991. The philosophy underlying the EFQM model is that customer satisfaction, employee satisfaction and the beneficial impact on society are achieved through leadership. The EFQM model seeks to drive policy and strategy, employee management, resources and processes, leading to excellence in business results. Organizations using the EFQM model accept its underlying premise that performance measurement is important and multidimensional performance measures must be continuously refined and improved (Gupta et al., 2004).

**CVA AND CRM**

Customer Value Analysis (CVA) and Customer Relationship Management (CRM) techniques are enabling business to improve performance, to measure that improvement, and to focus a firm on the value of its customer. Moreover, CVA and CRM technologies are providing organisations with better data integration and, hence, better measurement regarding customers. However, one of the most popular approaches which asserts the need for multiple performance indicators is the Balanced Scorecard (Kaplan and Norton, 1992). Proponents of the BSC note that the BSC framework includes the customer as one of four perspectives, while CVA and CRM techniques fail to account for important non customer aspects of a business. It is being said that, CVA and CRM are often used by BSC practitioners to drive improvements in the customer perspective of the BSC. In other words, the benefits of CVA and CRM technologies are increasingly used in a BSC framework evaluation (Johnson, 2007).

**Performance Prism**

Many alternative and "customized" frameworks continue to be developed based on the breakthrough BSC framework developed by Kaplan and Norton in 1992. The "Performance Prism" is an example of one such "customized" BSC framework.

In the "Performance Prism," companies view their organisations from five perspectives rather than the four traditional perspectives of the BSC. These five perspectives are:-

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• Stakeholders’ Satisfaction: Who are the key stakeholders and what do they want and need?
• Strategies: What strategies do we have to put in place to satisfy the wants and needs of these key stakeholders?
• Processes: What critical processes do we require if we are to execute these strategies?
• Capabilities: What capabilities do we need to operate and enhance these processes?
• Stakeholder Contribution: What contributions do we require from our stakeholders if we are to maintain and develop these capabilities?

The "Performance Prism" is relatively new, having been developed by a major consulting firm and the Canfield School of Management in 2000. Its first significant implementation was in 2001, and it illustrates the flexibility of the BSC framework to be adapted and applied to the various needs of business (Johnson, 2007).

1.2 THE BALANCED SCORECARD (BSC) FRAMEWORK

The BSC provides a framework, which encourages the use of both financial and non-financial measures of performance, allowing the organisation to pinpoint its strategic objectives via balancing four perspectives - financial, customers, internal business processes, and learning and growth - to measure firm performance. The effectiveness of the balanced scorecard is based on its ability to translate a firm's mission and strategy into a comprehensive set of performance measures. The balanced scorecard (BSC) framework is a system that measures both current performance of the firm and drivers of future performance. The balanced scorecard approach involves identifying the key components of operations, setting goals for them, and then finding ways to measure progress toward achieving those goals. Taken together, the measures provide a holistic view of what is happening both inside and outside the organisation or at the operational level, thus, allowing each constituent of the organisation to see how their activities contribute to attainment of the organisation’s overall mission ((Kaplan and Norton, 1992).

The BSC framework is based on the premise that those properties of the financial accounting system such as conservatism, transaction emphasis, and Rupees
base unit of measurement, prevent it from measuring the key activities of the company adequately. Rather, Kaplan and Norton (1992) suggest supplementing the traditional financial measurement system with non-financial measures of customer relations, internal business processes, and organisation learning and growth contributed toward the organisation’s pursuit of its objectives. Figure 1.2 identifies relationships and premises of the BSC.

Within the BSC framework, four perspectives - financial, customer, processes and learning and growth - represent the views of essential stakeholders in any business, i.e., customers, employees and shareholders. Although the selection of relevant performance measures will depend upon the specific situation facing each organisation, the BSC is perhaps most groundbreaking in stressing the necessity of both financial and non-financial measures and putting them on a more or less equal footing.

1.2.1 The Four BSC Pillars

Within the BSC framework, four categories of measures are identified in order to achieve balance between the financial and non-financial, between internal and external, and between current performance and future performance (Kaplan and Norton, 1992). These are:

Financial perspective, as reflected in financial measures, is the most traditional and still most commonly used measurement tool. Financial measures are valuable in conveying the readily measurable economic consequences of action already taken. Financial measures are typically focused on profitability-related measures, such as return on investment, return on assets, return on equity, productivity measures and various ratios etc.

These measures are necessary for any organisation trying to measure performance for number of reasons. First, reporting of financial measures is expected and governed under law. Second, reporting of certain types of financial measures of organisation performance is required by institutional bodies. For instance, in the case of India, there are different bodies that are involved in accounting: The Government, The Institute of Chartered Accountants of India (ICAI) which formulates accounting
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standards, and the capital market or Security Exchange and Board of India (SEBI) authorities, which specify listing regulations and monitor corporate compliance with accepted standards and practice. Third, reporting of financial measures is expected from all stakeholders.

**Customer perspective** typically includes several measures derived from the desired successful outcomes of a well-formulated and implemented strategy. These core measures may include overall indicators, such as customer satisfaction, customer complaints, customers’ retention, introduction of new products, and on-time delivery, customer profitability, market penetration, multiple delivery channels etc. Measures related to customers include results from customer surveys (feedback), business from repeat customers, and customer profitability.

**Internal business** process measures relate specifically to the operational processes of the organisations. Internal business process measures represent the perspective of the operations management within the BSC model. The internal process perspective is based on the notion that to satisfy customers and earn a financial return, the organisation must be efficient and effective at what it does. The internal process measures are typically based on the objective of most efficiently and effectively producing products or services that meet customer needs. For example, such measures may include service time, response time, confidentiality of customer data, cost of non-conformance, and lead-time reduction, cross-sell products, corporate social responsibility, etc.

**Learning and growth measures** represent the employees as part of the four pillars used to measure performance with the BSC framework. The innovation and learning perspective is all about developing the capabilities and processes needed for the future. In the banking industry, for example, for a business to succeed not only must it effectively carry out daily transactions but it must also continually improve in terms of the value and cost of its offerings. This innovation process can be measured in a variety of ways. These may include the speed of transactions, or the number of people involved in a particular transaction, etc. Again, the choice depends on what is critical for the success of each particular business. Such measures include IT usage, training and development, new product and services development, intellectual capital formation, strategic alliance and partnership etc. Acknowledging that performance measures relating to learning and growth are the most difficult to select, Kaplan and
Norton (1996) suggest measures of employee capabilities, information systems capabilities, and employee motivation and empowerment as examples.

1.2.2 Application of the BSC

Today, organisations are competing in dynamic, complex and globalized environment. An accurate understanding of their objectives and the methods for quickly achieving those objectives is vital. The balanced scorecard converts an organization’s vision, mission and strategy into a comprehensive set of performance and action measures that provide the basis for strategic measurement and management system. The implementation of the balanced scorecard is an innovative way to create strategic awareness in the organizations.

The Balanced Scorecard has successful application across the globe in diverse organisations. Several organisations have implemented the balanced scorecard as an effective instrument of measuring organizational performance. Globally, the scorecard was created to develop a comprehensive system of performance measurement, which not only serves as a device to guide strategy formulation, implementation and effective communication but also tracks the business for proper control and evaluation and to serve.

About 50 per cent of Fortune 1,000 companies in North America and about 40 per cent of those in Europe use the Balanced Scorecard tool, while thirty per cent of Australia's top 1000 companies are reported to use BSC (Karunakar, 2006, McCunn, 1998).

In India, many organisations (both manufacturing and service) have implemented the balanced scorecard as a new performance measurement and management system. Some of the Indian companies which experienced the implementation of balanced scorecard framework are: Godrej-GE Appliances Limited, Goodlass Nerolac Paints Limited, Philips Electronics, Infosys Technologies, Tata Consultancy Services (TCS), ICICI Bank, Castrol India Ltd., Godrej, RPG, Bharti Telecom, Dr. Reddy Labs, Taj Group, Batliboi, India Hotels, HDFC, TATA Motors and Airtel etc. (Pandey, 2005; Karunakar, 2006; Batra, 2006).

1.3 NEED AND SIGNIFICANCE OF THE STUDY
In recent years, there has been a considerable widening and deepening of the Indian financial system, of which banking is a significant component. With greater liberalization, the financial system has come to play a much larger role in the allocation of resources than in the past and its role in future can be expected to much larger than at present. Given the significance of the Indian banking system in the allocation of resources, one cannot afford to underplay the importance of a strong and resilient banking system.

The wind of Liberalization, Privatization and Globalization (LPG) has opened new vistas in the banking industry in the generation of intensely competitive environment. The players are competing like never before. Yesterdays stars are no longer stars, new stars are emerging on the scene. The banks are performing better than others to keep ahead in race. The information age environment requires new capabilities for competitive success. The ability of the organisation to mobilise and exploit its intangibles has become more decisive than investing in and managing of physical resources.

To enhance the role of banking sector in the Indian economy, the increasing levels of deregulation and the increasing levels of competition have placed numerous demands on banks. Operating in the demanding environment has exposed banks to various challenges like Competition, Customer Service, Technology, Basel-II implication, improving Risk Management Systems, implementation of new Accounting Standards, Transparency and Disclosure and Corporate Governance.

It is rightly said that anything which can be measured can be controlled. Measuring organisational 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 method of measuring it (Gupta et al., 2004).

Traditional financial ratios have worked as important tools of measuring organisational performance in the bygone years. It has, however been felt that the leading indicators of business performance cannot be found in financial data alone. The structural changes and emerging trends associated with the new open environment have rendered the traditional (financial) performance measures like ROI, ROE, Residual Income, EVA and CAMEL Framework etc. which concentrate only on financial performance (ignoring the non-financial aspect) ineffective. Managements have been
trying to change their organisation's/institution’s performance measurement system to track non-financial measures in the process.

In the light of above developments and apparent challenges in the Indian banking industry, it is interesting to see how the banks have performed and what their parameters of the performance measurement are? True performance can be measured only by using financial and non-financial key performance indicators (KPIs) or key result indicators (KRIs). There is a need to examine whether the Indian banking sector is responding to these important developments in the area of performance measurement systems or not? The present study titled, “Performance Measurement Systems in Indian Banking Sector” is an attempt in this direction.

1.4 OBJECTIVES OF THE STUDY

The present study is conceived with the following objectives:

• To study the impact of economic liberalization on the performance of Indian banking sector.

• To examine the awareness level and the opinion of the bank managements regarding existing and new performance measurement systems in place in the Indian banking sector.

• To capture the extent of usage of balanced scorecard as a performance measurement system in the Indian banking sector.

• To evaluate the emphasis on new performance measurement systems focusing on financial measures on the performance of Indian banks in CAMEL framework.

• To give suggestions for designing of performance scorecard to achieve a balance between financial and non-financial performance measures and also amongst all stakeholders in the Indian banking sector.

1.5 CHAPTER SCHEME

The study has been divided into the following chapters:
Chapter One: Introduction

The chapter being is introductory in nature present the scenario in which Indian banking sector is operating and throws light on the various Performance Measurement Systems. The need, significance, objectives and the chapter scheme of the study have also been delineated in this chapter.

Chapter Two: Review of Literature

In this chapter, an attempt has been made to provide an overview of various aspects and issues of this study through a justified and in-depth review of existing literature.

Chapter Three: Research Methodology

The research design, scope of the study, sample and sampling design, hypotheses of the study, data collection and data analysis, various statistical tools employed and limitations of the study have been discussed in this chapter.

Chapter Four: Indian Banking Sector’s Performance in the Post-liberalization Period

This chapter visualizes the impact of economic liberalization on the performance of Indian banking sector during the last decade. The impact of banking sector reforms on the Indian banking sector has also been examined.

Chapter Five: Performance Management Systems in Indian Banking Sector: Bankers’ Perspective

The existing and contemporary performance measurement systems prevalent in the banking sector have been analysed. Further, the type of performance measures used, the strategic focus, value drivers, KPIs both financial and non-financial, and problems of selected banks in the implementation of performance scorecard based on primary data collected from the three-tier system of management have been studied.

Chapter Six: Performance Measurement System in Indian Banking Sector in CAMEL Framework

The performance of three banks each, from both the public (viz. SBI, PNB, and Canara Bank) and private (viz. HDFC Bank, ICICI Bank, and Axis Bank) sectors in CAMEL analytic framework based on their analysis of Capital Adequacy, Asset Quality, Management Quality, Earnings position and Liquidity, and Actual CAMEL
ranking for the period, i.e., 2004-05 to 2008-09 has been evaluated.

Chapter Seven: Summary, Conclusions and Suggestions

This chapter concludes with the summary of the whole discussion; draws conclusions; and highlights the suggestions emerged from the study. Further, it provides the implications of the study for the bank management, policy-makers and the government. Scope for future research has also been delineated.
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