

The Implementation of Balanced Scorecard in Jordanian Islamic Banks

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Abstract

Balanced Scorecard (BSC) has always played an effective role in improving entities' performance. Therefore, it was widely adopted in entities in developed and developing countries. As a relatively new form of banks in the banking sector, exploring the extent of implementation of the BSC perspectives in Islamic banks in developing countries, and its impact on their performance will shed the light on the weaknesses and strengths in the strategic planning systems in these banks. Accordingly, these banks could improve their strategic planning systems. To attain that, two integrated questionnaires were designed and distributed to 355 employees and clients in 3 Jordanian Islamic banks (JIBs). The results showed that the extent of implementation of the BSC perspectives in JIBs ranged between 55% - 93%. In addition, the results showed that there is a significance positive relationship between the BSC and the financial performance (ROA/ROE) of JIBs. Accordingly, the researcher recommended JIBs to increase their interest in implementing the BSC perspectives and to create an effective alignment between all perspectives of the BSC.

Keywords: Balanced Scorecard (BSC), Actor–network theory (ANT), Jordanian Islamic banks (JIBs), financial performance, Return on Assets (ROA), Return on Equity (ROE)

1. Introduction

One of the most famous tools of strategic planning in management accounting is the balanced scorecard (BSC), which has won the attention of researchers and managers since its development in 1996 by Kaplan and Norton (Kalender and Vayvay, 2016). Although this tool was presented and studied for more than 20 years, attention to the aspects of implementing this tool and its effects on the performance of various business sectors, especially entities with special characteristics, still takes a lot of space in the field of scientific research (Yancy, 2017).

In the early of 1960's, the first form of Islamic banking practice appeared in Egypt. Then, Islamic banks began to spread in some Arab countries such as Saudi Arabia, UAE, Sudan and Jordan (Roy, 1991). Since their appearance, Islamic banks have been characterized with a set of characteristics that affected their banking operations, such as being a non-interest banking (Nomran et al., 2018). In addition, as a new form of banks, Islamic banks have faced intense competition with conventional banks (Zopounidis et al., 2017). In spite of this, Islamic banks have proven their effectiveness and efficiency in performing banking operations in various circumstances, especially during the global financial crisis in 2008 that had major negative consequences for most of conventional banks in the world (Chazi et al., 2018; Zopounidis et al., 2017). Based on the foregoing, most recent studies indicated that Islamic banking systems, which are characterized by Shariah compliance (Note 1), are able to avoid most of the financial risks surrounding the banking business (Mollah et al., 2017). Despite the benefits of Shariah compliance in Islamic banks, it significantly limits the areas of work in which these banks are allowed to engage (Akguc and Al Rahahleh, 2018). Therefore, it is believed that Islamic banks implement effective strategic planning tools enable them to perform banking operations effectively despite the limits and restrictions surrounding their operations.

The emergence of BSC in the business fields in 1996 came (relatively) with the emergence and expansion of Islamic banks in the world. Given that studies indicated that the performance of Islamic banks is better than conventional banks in terms of the return on resources (Johnes et al., 2014; Ramlan and Adnan, 2016), it is possible that Islamic banks invest effective strategic planning tools enable them to use their resources in the best way. In this vein, many studies have demonstrated the efficiency and effectiveness of implementing the BSC in improving the performance

of entities (Din çer et al., 2017; Supino et al., 2019; Zandieh et al., 2019).

Jordan, as a developing country with a Muslim majority, was one of the first countries in which Islamic banks appeared (Note 2). Over time, there was a slight increase in the number of Islamic banks in Jordan, as they reached to 4 banks in 2019 (Note 3). In contrast, conventional banks appeared in Jordan decades before Islamic banks, and their number reached to 20 banks in 2019. Therefore, Jordanian Islamic banks (JIBs) have faced tough challenge and intense competition with conventional banks. As a result, in order to face these challenges and competition, JIBs undoubtedly have invested effective strategic planning tools to grow and achieve their goals.

1.1 Questions of Study

Based on the aforementioned, and since Jordan represent an example for the first developing countries in which Islamic banks appeared, the following questions arise:

QS1. Do JIBs use the BSC's perspectives as a strategic planning tool to measure the various aspects of performance?

QS2. What is the extent of implementing the BSCs' perspectives in the JIBs?

QS3. Does Shariah compliance that applied in JIBs affect the effectiveness and efficiency of the BSC perspectives that used to achieve the strategic goals of these banks?

QS4. What is the impact of full or partial implementation of the BSC on the financial performance of JIBs?

1.2 Aims of Study

Answering the previous questions helps in shedding the light on the faults, strengths and weaknesses of implementing the BSCs' perspectives, as a strategic planning tool, in JIBs. Accordingly, JIBs (and Islamic banks in other countries) can be warned for the reasons of being unable to achieve their strategic goals. In addition, they can be guided to the way for improving their implementation of strategic planning tools and their financial performance.

2. Theoretical Framework

The philosophy of developing the BSC is based on the presence of four main integrated perspectives serve as measures of strategic performance that entities aim to achieve (Kaplan and Atkinson, 2015). The four perspectives are: firstly, the financial perspective, which focuses on the financial goals of entities such as return on assets, return on equity and profitability (Les ákov á and Dubcov á 2016; Yancy, 2017). Secondly, the customer perspective, which relates to aspects related to customers, such as the quality of services, their satisfaction, and their loyalty (Zahoor and Sahaf, 2018). Thirdly, internal operations perspective, which is related to the aspects of developing administrative systems, enhancing the cooperation among departments, increasing creativity and innovation, etc. (Dimitropoulos et al., 2017; Hansen and Schaltegger, 2018). Finally, the learning and growth perspective which determines the capabilities that entities must work on in order to achieve the best levels of performance in internal operations (Al-Zwyalif, 2017). Figure 1 shows the BSC perspectives.



Figure 1. Balanced Scorecard Perspectives

In the context of describing the interrelationships between the BSC perspectives, Actor–network theory (ANT) indicated that all elements in the social and natural worlds exists in constantly shifting networks of relationships (Müller and Schurr, 2016). Based on that, hitting the strategic targets of entities require them to create a balance

between all elements that surround their entities and operations (Kaplan and Atkinson, 2015). Conversely, if there is any disregard for any aspect that surround the entity and its operations, this may lead to an imbalance in the network of mutual relationships between elements, which will be reflected on the fail in the achievement of the desired strategic goals. Thus, the ANT theory supports the balanced scorecard philosophy, which is based on the fact that the four perspectives are related to mutual relationships that affect each other (Cooper et al., 2017).

Practically, studies indicate that any entity seeks to achieve distinct levels of performance, especially new entities with special characteristics, must balance the financial, operational, and psychological (or social) aspects of its business environment where these aspects affect each other (Antonsen, 2014; Kalender and Vayvay, 2016). In this vein, Lesáková and Dubcová (2016) found that the main reason of using the BSC by the Slovak Republic corporations is the essential role of BSC in improving the performance measurement and evaluation of business processes. Similarly, Hamdy (2018) found that applying the BSC influences significantly the performance and competitiveness of Egyptian banks. Furthermore, Cooper et al. (2017) indicated that creating the appropriate combination of business perspectives related to the BSC and continuously monitoring their balance enable entities to maintain control over all perspectives of performance. Many other studies have found similar findings which supported the aforementioned results, such as (Malagueño et al., 2018; Shen et al., 2016; Singh et al., 2018).

According to the aforementioned, and based on the results that indicated to the efficiency and effectiveness of Islamic banks performance in spite of their novelty and Shariah restrictions, it is probably that Islamic banks use effective strategic planning tools take into account part or all perspectives of the BSC (Permana, 2017). In this context, Waemustafa (2013) pointed out that the reason for the emergence of Islamic banks is the need of Islamic community for banks that provide banking products and services that compatible with Islamic rules. Therefore, in order to achieve the distinguished financial performance enjoyed by Islamic banks in light of their novelty, they have undoubtedly attracted a large number of clients and gained their loyalty and satisfaction by providing a variety of banking products and services that are compatible with the Shariah regulations. This gives an indication that Islamic banks implement one or more of BSC's perspectives. In this vein, Amin and Isa (2008) found that Islamic banking customers in Malaysia were satisfied with service quality provided by their banks, which was a reason for improving the performance of these banks.

To enhance the previous discussion, the researcher found that the message of the Jordan Islamic Bank focused on three main aspects, first, commitment to providing banking services based on compliance with the rules and principles of the glorious Islamic Sharia in all their activities to serve the community as a whole. To achieve this, the bank focused on two main aspects: commitment to equally serve the interests of all related parties including shareholders, depositors, and employees, as well as commitment to apply the latest innovative products in the banking technology to meet the expectations and needs of customers and to maintain a competitive edge. By reviewing the message of the Jordan Islamic bank from the perspectives of the BSC, the bank's message can be classified into the four perspectives of the balanced scorecard as shown in Figure 2.

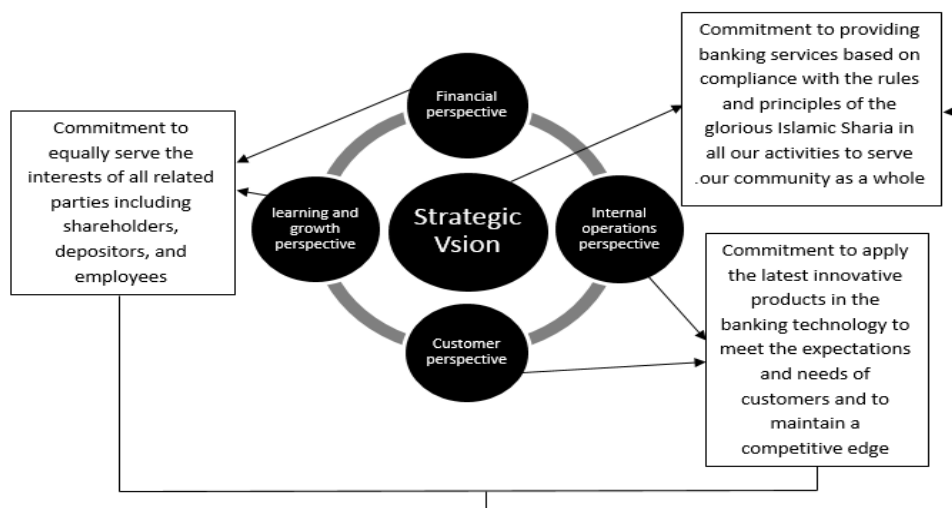


Figure 2. Classification of Jordan Islamic Bank message based on the balanced scorecard perspectives. Source: Jordan Islamic Bank Website

2.1 Research Hypotheses

Based on the aforementioned discussion, the research presents the following hypotheses

H.1. JIBs implement the perspectives of the BSC, partially or completely, to achieve its strategic goals.

H.2. There is a positive relationship between the implementation of the BSC perspectives, partially or completely, and the financial performance of JIBs.

H.3. There is a positive relationship between the implementation of the BSC perspectives and Islamic Shariah compliance perspective.

Relying on the previous hypotheses, figure 3 presents the model of study.

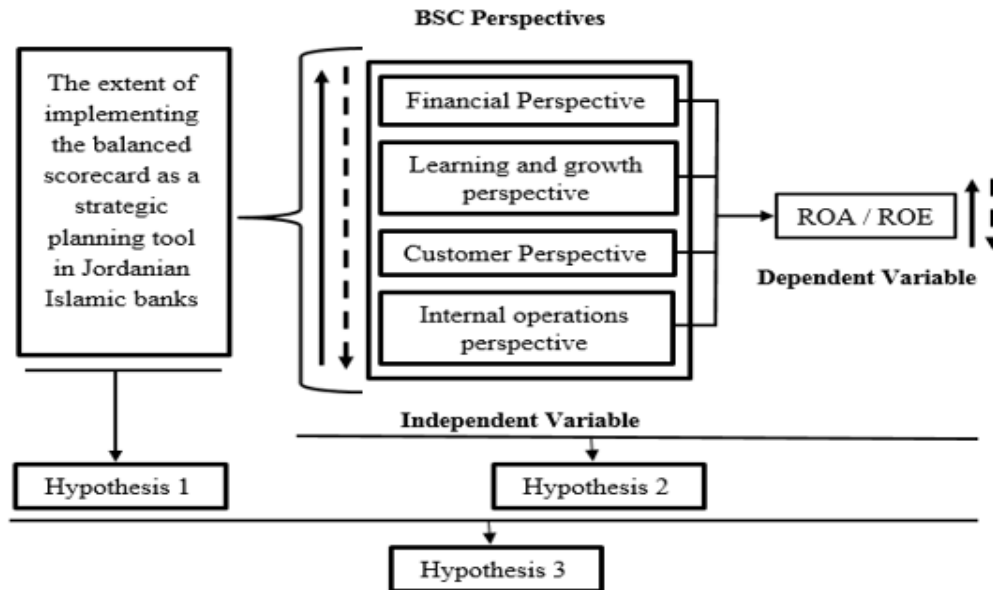


Figure 3. Model of study

3. Methodology of Study

To implement the current study, quantitative approach was adopted to collect and analyze data. Accordingly, individual customers and employees of JIBs were targeted.

3.1 Data Collection Method

To collect data, two integrated questionnaires were developed, each of which is linked to two perspectives from the four perspectives of the BSC. In this context, the first questionnaire included 26 questions focused on the customer perspective (12 questions), and the internal operations perspective (14 questions). As for the second questionnaire, 28 questions were included, all of which focused on three main perspectives: First: the knowledge about the BSC and its implementation (5 questions). Second, the financial perspective (10 questions), and the learning and growth perspective (13 questions). The questionnaires' questions were measured using a five-point Likert scale ranging from strongly agree, agree, neutral, disagree, and strongly disagree. As for the development of questionnaires, the researcher used and deduced the performance measures that used by (Dinçer et al., 2017; Lesáková and Dubcová 2016; Sainaghi et al., 2019).

3.2 Population, Sample and Targeted Respondents

As mentioned earlier, the JIBs were targeted in the current study. Therefore, it is worth noting that the Jordanian banking market contains 3 local Islamic banks and 1 foreign Islamic bank. Accordingly, the study population for the current research is limited to 3 JIBs (local banks), which are: Islamic International Arab Bank, Jordan Islamic Bank, Safwa Islamic Bank (Note 4).

The sample included 12 branches with 4 branches for each bank. These branches are located in the largest two cities

in terms of population in Jordan, namely: Amman and Zarqa. The reason for choosing these two cities is the availability of all services and the concentration of most banking activities in these two cities, which makes the task of satisfying customers not easy and requires effective strategic planning from banks. Table 2 shows the total amount of branches for each bank of JIBs.

As for the targeted respondents, they were represented in the clients and employees of JIBs. The reason for selecting clients is because they relate to the customer perspective and the internal operations perspective in the BSC, as the effectiveness and efficiency of internal operations in JIBs affect significantly the customer satisfaction and loyalty. While selecting employees is because they are relate to the financial perspective in terms of the ROA and ROE of banks and the rewards granted to employees, and the learning and growth perspective in terms of the training courses and promotions offered to them.

3.3 Data Analysis

To collect and analyze data, 105 questionnaires were distributed to 105 employees in 12 branches of Jordanian Islamic banks (that mentioned previously) in the cities of Amman and Zarqa. From 105 questionnaires of employees, 93 questionnaires were retrieved, and 4 questionnaires were excluded because they were invalid for analysis. In addition, 250 questionnaires were distributed to 250 clients of JIBs in the cities of Amman and Zarqa, 221 questionnaires were retrieved, and 18 questionnaires were excluded because they were invalid for analysis. Thus, the number of employee questionnaires subject to analysis was 89, while the number of client questionnaires subject to analysis was 203.

3.4 Descriptive and Normality Tests

Before proceeding to the main analysis of the research hypotheses, the reliability of questionnaires were tested. Accordingly, Cronbach alpha was measured for the two questionnaires (Clients and employee questionnaires). Based on the results in Table 3, which shows the results of Cronbach alpha test for the two questionnaires, the reliability of the two questionnaires is acceptable (Pallant, 2007).

Table 3. Cronbach Alpha results for the clients and employee questionnaires

Questionnaire	Cronbach's Alpha	N of Items
Clients Questionnaire	0.74	203
Employee Questionnaire	0.81	89

Further, the descriptive statistics and normality of variables was tested in Table 4. The descriptive statistics were used to test the first hypothesis of the current study that seeks to define the extent of implementing the BSC in JIBs. In addition, the normality test was performed using the descriptive statistics, Skewness, and Kurtosis measures before running a regression.

Table 4. Descriptive statistics and normality tests of variables

Variable	Mean	Std. Dev.	Min	Median	Max	Skewness	Kurtosis
BSC	3.98	0.40	2.75	3.40	4.65	-0.02	-0.21
FinPer	4.65	0.23	3	4.15	5	0.15	0.34
IntOpePer	3.97	0.72	1	3.20	4	-0.07	0.18
CusPer	4.55	0.38	2	4	4	0.01	0.14
Lea&GroPer	2.75	0.19	1	2.25	4	0.42	-0.59
ROA	4.10	0.67	1.87	3.29	5	0.37	-1.49
ROE	3.92	0.32	2.20	3	4.73	0.04	0.83
ShaCom	4.55	0.51	3.15	4.10	5	-0.90	1

Keys: (BSC) Balanced Scorecard – (FinPer) Financial Perspective – (IntOpePer) Internal Operations Perspective – (CusPer) Customer Perspective – (Lea&GroPer) Learning and Growth Perspective - (ROA) Return on Assets – (ROE) Return on Equity - (ShaCom) Shariah Compliance

Based on the description of Park (2008) regarding to the normality distribution, the results in table 4 shows that the data for the variables are normally distributed. Moreover, the heteroscedasticity was also tested before running the regression. According to the standardised residuals, the regression is homoscedastic, which is mean that there is no problem of heteroscedasticity.

3.5 Multivariate Regression Analysis

To test the relationships between variables, two regression models were performed. The first regression model represents the relationship between the implementation of the BSC and the ROA & ROE for the JIBs, which is as follow:

$$FP = a_0 + a_1 BSC + e_i$$

Where:

FP = Financial Performance (ROA / ROE) BSC = The Balanced Scorecard

a₀, a₁ = The constants of the equation e_i = The error term

The second regression model represents the relationship between the Shariah compliance and the implementation of the BSC in JIBs, which is as follow:

$$BSC = b_0 + b_1 ShaCom + \epsilon_i$$

Where:

BSC = The Balanced Scorecard ShaCom = Shariah Compliance

b₀, b₁ = The constants of the equation ε_i = The error term

The results of testing the first regression model, which explores the relationship between the BSC and the financial performance (ROAL ROE) of JIBs, are showed in table 5. In addition, Table 6 shows the results of testing the second regression model that explores the relationship between the Shariah compliance and the implementation of the BSC in JIBs.

Table 5. The relationship between the BSC and financial performance (ROA / ROE) of the JIBs

	ROA	ROE
Variables	Coefficient Estimate	Coefficient Estimate
Independent Variables		
Constant	0.36 (0.000)	0.81 (0.001)
BSC	0.12** (0.000)	0.28** (0.001)
R Square	0.71	0.61
Adj. R Square	0.69	0.58
F-value	22.31	11.89
Sig. Level	0.000	0.001
P-value (Sig. Level) is reported in parentheses.		
* Indicates p value is significant at level 0.05, ** Indicates p value is significant at level 0.01.		
Keys: (ROA) Return on Assets.	(ROE) Return on Equity.	(BSC) Balanced Scorecard

Table 6. The relationship between the Shariah compliance and the implementation of the BSC in JIBs

BSC	
Variables	Coefficient Estimate
Independent Variables	
Constant	0.31 (0.003)
ShaCom	0.01 (0.376)
R Square	0.40
Adj. R Square	0.36
F-value	7.70
Sig. Level	0.000
P-value (Sig. Level) is reported in parentheses.	
* Indicates p value is significant at level 0.05, ** Indicates p value is significant at level 0.01.	
Keys: (BSC) Balanced Scorecard.	(ShaCom) Shariah Compliance.

4. Results

In pursuit of the objectives of the current study, three main hypotheses were presented. The first hypothesis was, JIBs implement the perspectives of the BSC, partially or completely, to achieve their strategic goals. In order to test this hypothesis, the descriptive statistical analysis were performed. According to the results in table 4, the mean of implementing the BSC in the JIBs is 3.98 out of 5, while the minimum implementation is 2.75, and the maximum implementation is 4.65. In this regard, the results showed that, JIBs focus extensively on the financial perspective and the perspective of customers, as the statistical averages of the financial perspective and the perspective of customers were 4.65 and 4.55 respectively. On the other hand, the results showed that there is a lack in the focus of JIBs on the internal operations perspective and the learning and growth perspective, as the statistical averages of the internal operations perspective and the learning and growth perspective were 3.97 and 2.75 respectively.

While the second hypothesis of the present study supposed that, there is a positive relationship between the implementation of the BSC perspectives, partially or completely, and the financial performance of JIBs. According to the results in table 5, the BSC has a significant positive relationship with both ROA and ROE at the significance levels of 0.01. These results were derived from the coefficient results between ROA and BSC, as well as between ROE and BSC, as the coefficient result between ROE and BSC was 0.12 on the significant level 0.01, while it was between ROE and BSC 0.28 on the significant level 0.01.

The last hypothesis of the present study supposed that, there is a positive relationship between the implementation of the BSC perspectives and Islamic Shariah compliance perspective. Based on the results in table 6, there is no significant relationship between the Shariah compliance and the BSC, as the significant level of the estimated relationship between Shariah compliance and the BSC was 0.376.

5. Discussion and Conclusions

The results in table 4 showed that there is no full implementation of the BSC perspectives in the JIBs. In addition, they indicate that the extent of implementation of the BSC perspectives ranges from 2.75 to 4.65 out of 5. In more detail, the results show that the mean of the financial perspective dimensions in JIBs is 4.65, while the mean of customer perspective dimensions is 4.55; both of these results are close to 5. On the other hand, the mean of the dimensions of internal operations perspective is 3.97 and the mean of the dimensions of learning and growth perspective is 2.75, both of these results are close to neutral scale. These results indicate that JIBs give their attention to the financial and customer perspectives in the BSC perspectives, while they ignore to some extent the importance and effect of the internal operations perspective and learning and growth perspective. In this vein, Dimitropoulos et al. (2017) indicated that there is a lack of the full implementation of the BSC perspectives in most sectors. Even more, this indicates that the implementation of the BSC perspectives in the JIBs is unconsciously. This result supports Lesáková and Dubcová (2016) findings' that found that many entities implement the BSC perspectives unconsciously. Despite that, it seems that all JIBs agree on the importance of most BSC perspectives in influencing

performance, which encourage them to take care of these perspectives. Accordingly, this result imply that JIBs should expand their interest and focus to include the dimensions of the internal operations perspective and the learning and growth perspective in order to achieve the optimum balance of the components of the BSC.

Regarding the relationship between the implementation of BSC and the performance of JIBs, The results indicated that there is a significant relationship between them, which is mean that the JIBs that implement more perspectives of the BSC have better performance. Many previous studies found similar results in different sectors such as (Al-Zwyalif, 2017; Cooper et al., 2017; Hamdy, 2018). This result imply that JIBs are able to improve their financial performance, specifically ROA and ROE, by adopting the four perspectives of the BSC and creating the optimum balance between these perspectives.

Finally, finding that there is no significant relationship between Shariah compliance and the implementation of BSC imply that the Shariah compliance do not influence the implementation of BSC in the JIBs. In addition, it indicates that the BSC is effective in improving the performance of entities regardless of their specificity.

6. Recommendations of Study

The results of the current study showed that there is a lack of the full implementation of the BSC perspectives in the JIBs. In addition, the findings proved that there is a positive effect of the BSC perspectives on the financial performance of the JIBs. Accordingly, the researcher recommends increasing the implementation of the BSC perspectives in the JIBs, which may contribute in improving the performance of these banks.

7. Limitation of Study and Suggestions for Future Studies

It should be noted that there were some limitations that surrounded the current study. These limitation are: limiting the research to JIBs, and therefore it is not possible to generalize the results of the current study to the conventional banks in Jordan, as well as it is not possible to generalize the results of the current study to various Islamic banks in other countries in the world. Accordingly, there is an opportunity for researchers to carry out similar future studies that target the other types of banks in Jordan, and other Islamic banks in other countries.

In addition, the collection of the current study sample was limited to two major cities in Jordan, namely Amman and Zarqa. Therefore, there is a need to confirm the results of the current study by including the rest of the cities of Jordan in any similar studies. Based on that, other similar studies are encouraged to expand the sample to involve all the cities in Jordan.

Finally, the analysis of the present study data was limited to the quantitative method, which limits the researcher's ability to interpret the study results in a theoretical and objective manner that clarifies all aspects of implementing BSC in Jordanian Islamic banks. Therefore, future studies could use more extensive investigation methods in collecting and analyzing data such as interviews, observation, or doing an extensive research for one bank as a case study to explore the possibility of implementing the BSC in a fully and efficient manner.

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Notes

Note 1. Shariah-compliant, means (the suitability of all entities operations, whether investment or operational, with the requirements of Islamic law and principles of the Islamic religion). Source, (Halim, Sukor, & Bacha, 2017).

Note 2. The first Islamic bank in Jordan was - Jordan Islamic Bank (JIB) -, which is established in 1978. Source: <https://www.jordanislamicbank.com/en/content/bank-establishment>.

Note 3. Source: Central Bank of Jordan - Banking Sector Guide—<https://www.cbj.gov.jo/Pages/viewpage.aspx?pageID=141>

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