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## Investigating causal linkages in the balanced scorecard: an Indian perspective

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## Abstract

**Purpose** – Kaplan and Norton (1996b) claimed that there exists a sequential dependency between the four balanced scorecard perspectives (learning and growth, internal business processes, customer, and financial). Although theoretically supported by various researchers, the said claim has, somehow, attracted limited empirical attention. Therefore, the purpose of this paper is to investigate whether empirical evidence will support the theoretically grounded interrelations between the four balanced scorecard perspectives.

**Design/methodology/approach** – For this study, a total of 13 key performance indicators were identified and then clustered into the four perspectives of balanced scorecard, followed by the development of causal linkages. Data related to these indicators were collected from 1,001 employees and 985 customers of two Indian retail banks and then tested for hypothesized relationships using structural equation modeling. All the constructs were measured using scales developed in previous research works.

**Findings** – The results indicate that employee learning and growth positively influence the internal business processes which in turn influence the customer perspective. Finally, the customer perspective has a significant positive influence on the financial performance. Further, it was also revealed that internal business processes mediate the relationship between employee learning and growth and customer perspective. Also, the relationship between internal business processes and financial performance is significantly mediated by customer perspective.

**Originality/value** – Majority of the previous research on causal linkages of balanced scorecard has been theoretical in nature. Whatever little empirical research is available in this regard is limited to developed nations. In a developing nation like India, these linkages have seldom been examined in the past. The study has been conducted to plug this gap in the literature and, resultantly, provide further insights into the interrelations of the balanced scorecard perspectives.

Keywords Balanced scorecard, Indian banking, Causal relationships

Paper type Research paper

## Introduction and rationale

Toward the latter half of 1980s, various authors highlighted the limitations of financial indicators for measuring organizational performance. They argued that financial indicators are historical in character (Dixon *et al.*, 1990); do not provide sufficient indication for future performance (Kennerley and Neely, 2003); encourage short-termism (Hayes and Abernathy, 1980); are more internally than externally focused, with little regard for customers or competitors (Neely *et al.*, 1995; Kaplan and Norton, 1992); lack strategic focus (Skinner, 1974); and often inhibit innovation (Richardson and Gordon, 1980).

These limitations required the concerned quarters to remedy the inadequacies of traditional performance measurement systems (Kaplan and Norton, 1992). Hence, a significant number of studies were undertaken by academicians and practitioners alike that led to the development of a wide spectrum of management theories. Lean management, six sigma, performance prism, just-in-time, and balanced scorecard are the most popular among them. However, Paranjape *et al.* (2006) state that balanced scorecard has been the most widely accepted and least criticized performance measurement system. Few years earlier,



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