

The Effect of Balanced Scorecard on the Financial Performance of Palestinian Banks

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Abstract

This study explored the impact of BSC on the financial performance of Palestinian banks on four standpoints: innovation; growth and learning; the financial point of view; internal business processes; and customers.

The population taken in this study was 14 banks of Palestine. 130 participants were given questionnaires. They included directors, departmental heads, managers, and controllers of finance. The confidence interval was 95% and the test used was Multiple Linear Regression. There were three important variables named financial viewpoint; inside the business procedure viewpoint; and revolution, the perspective of knowledge and development.

It was the most significant outcome of this study that (1) the financial development of the Palestinian banks can be enhanced by the BSC model, (2) the effect of customers' viewpoint in the BSC model is not similar to that of other standpoints. Furthermore, (3) the banks in Palestine use clear measures of strategic performance for measuring performance including conventional financial and non-financial measures and it was noticed that this use of measures doesn't indicate that they utilize them in the supervision of BSC concern. These measures can be classified under the four major classes of perspectives of the BSC model.

The important suggestions are as follows (1) BSC should be executed as a unified system of strategic management in banks. (2) There is a need to give additional attention to strategy and measures included in the BSC's perspective of customers. (3) There is a need to carry out more exploration of the impact of using BSC as a premeditated development tool on the financial work performance of Palestine's banks.

Keywords: Financial performance • Banks of Palestine • Tools for strategic Planning

Introduction

General overview

The policies and practices in the institutes change over time, to develop a better future situation. It takes tactical and administrative methods and tools along with the potential, to quantify outcomes of work based on pre-recognized indicators which are helpful in guiding the process of monitoring and assessment. Adopting strategic tools that consider factors impacting the position and performance of institutions has become very important because significant changes have taken place in the business field which includes markets' globalization by world trade's liberalization, speedy development of technology and an increase in the number of mergers of organizations by acquisition, conglomeration or strategic alliances.

The measurement and evaluation of institutions' performance were confined merely to financial results for decades. Though it was not an indicator of the fulfillment of the vision, mission, and strategic aims of institutions, it has led the institutions to utilize a comprehensible method to measure the working status of financial and non-financial results. Kaplan introduced a novel technique to evaluate performance called Balanced Scorecard (BSC) in early 1990, which emerged as a characteristic technique that considers the balancing of financial outcomes and growth engines and balancing of

technique and strategy. This model comprised four components i.e., (i) financial, (ii) customers, (iii) inside the business procedure and, (iv) knowledge and development [1].

Balanced Scorecard (BSC), is a fair approach of intellectual style that acts as a set tool that enables institutions to take up strategic aims that evaluate operational, strategic, and financial performance based on a unified structure of financial and non-financial standards. The comprehensive information regarding the performance of an institution is given by this balanced approach. As the banking sector of Palestine is considered regulated and controlled, it was chosen for the study. Furthermore, it is also crucial for the economic development in which the performance is considered a significant indicator of the economy's strength and progress. Diversity is expanding in the banking sector in the context of Palestine including both foreign and local banks along with Islamic and commercial ones.

Statement of the problem

There have been some fluctuations in the performance of the banking sector of Palestine in the past 5 years. These include a decline of 9% in the net profit of sector in 2015 compared to that in 2014 as indicated by Association of Banks in Palestine (ABP) but it was also realized that there was 12% growth rate in 2015-16 and 13% in 2016-17 while in 2017-18, it was 5.1 %. The number of Palestinian banks has extended to 14 in the past few years creating a competitive environment in this sector.

This reality gives rise to a fundamental research question. This study focuses on knowing if the banks have adopted clear strategic tools contributing to the enhancement of financial performance within the confines of this unsettled and competitive environment along with the examination of the impact of the use of BSC upon the financial aspect of working of Palestinian banks. Only a few studies are there which address this problem.

Study aims

This study intends to find the impact of BSC on the financial performance

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of banks of Palestine for the following BSC's realms: the growth of finance, learning, internal processing of internal business and customers. Furthermore, it analyzes the association of Balance Score Card (BSC) and the performance of those banks which are working in Palestine.

This study also has an intention to find out those parts and aspects of the financial performance that act like a dependent variable, along with setting the standards for measurement. It also recognizes strategic criteria in BSC domains (financial, growth and learning, internal business processes, customers) which amplify the Palestinian banks' financial performance, when adequately applied [2].

Benefits and importance of the study

The findings of this study are predicted to give worth to differing parties, mainly to banks working within the boundaries of Palestine which will be benefitted from the research outcomes, regarding the effect of the implementation of BSC on the financial performance of Palestinian banks. Second, these banks' management may prefer to apply BSC for improving financial performance. Lastly, the outcomes of this research might be to motivate the banks that are not considering BSC, to use BSC as a part of the procedures involved in planning upcoming events and in increasing the financial growth.

This research also gives more value to the financial literacy of sectors of banking in Palestine and those on international levels. Another central dimension of this study is that it is unique as compared to other studies because there is little or no current evidence regarding the application of BSC in Palestine that takes into account both theoretical outlines and practical relevance [3].

The hypotheses of the study

There are different hypotheses according to the questions addressed in the study.

Main hypothesis: Determining the impact of utilizing BSC as a developmental tool of planning on the Palestinian banks' financial performance. A significant association was statistically found between the use of BSC as a tool of strategic planning and the financial performance of Palestinian banks.

H_0 : Association between the application of BSC along with its four components and the financial performance of Palestinian banks is not significant.

H_1 : Association between the application of BSC along with its four components and the financial performance of Palestinian banks is significant.

Other hypothesis

H_{1-1} : A statistically significant relationship exists between using the financial perspective of BSC and the financial performance of Palestinian banks.

H_{1-2} : A statistically significant relationship exists between using the customer perspective of BSC and the financial performance of Palestinian banks.

H_{1-3} : A statistically significant relationship exists between internal business processes perspective of BSC and financial performance of Palestinian banks.

H_{1-4} : A statistically significant relationship exists between the innovation, learning, and growth perspective of BSC and the financial performance of Palestinian banks [4].

Materials and Methods

The significance of the application of BSC in business organizations and its effect on the performance was studied in previous researches in the dimensions of precision, aptness, and its incorporation within the organization systems along with the extent of explanation that distinguishes them. This chapter contains details about the general concepts on BSC frameworks in

addition to the principles and components that should be provided for BSC. Furthermore, a wide-ranging review of the previous work done on this subject has been done i.e., Palestine banking sector overview.

Conceptual outline

According to the study of Keith & Gering, "a tool that is used for the transference and communication of the strategy of the enterprise to the different units and management levels in addition to the measurement of implantation plans of these units is called BSC model. The utilization of these models ensures the achievement of desired outcomes hence supports the enterprise's strength and competitive status" (Keith & Gering, 2000).

BSC is defined as a system of measuring performance thoroughly from the strategic view that translates the business approach into tactical aims, standards, mark points, and comprehensible preliminary procedural steps according to Norton and Kaplan in 1992.

Several various performance measurements are included in BSC named as an inside business procedure, customers, financial, knowledge, and development perspectives (Kaplan & Norton, 1992). This is a complete set of financial and non-financial measures that are also included in BSC. The financial and non-financial measures, as an element of data evidence system at diverse stages of the administration, provide the basis for the designing of this model.

According to Abdel Aziz (2003), the successful execution of the BSC model requires complete compliance with the following pre-requisites:

- An accurate definition of strategic aims is required because it is the main focus of using the BSC model.
- The successful execution of the model of BSC requires the complete integration of the four perspectives of it, into an integrated system and relies on the utilization of input of the system. Therefore, the system approach should be followed.
- The motivation of choosing balanced measures of performance must exist that is needed to take action in the alteration of surroundings and enterprises facing different pressures like competition extent that focus on the needs of the customer.

Pim explains the Golden principles set for the successful implementation of the BSC model, which are outlined as follows:

- There is a need for providing strength to the senior management for the application of standards of BSC and in the communication of its requirements unmistakably to the whole staff.
- There is a need for recognition of the fact that no uniform model of BSC exists for all organizations. It will be different according to the different environmental factors whether external or internal which influence the organizations.
- There is a need for recognition of the fact that the recognition and comprehension of the strategy of an organization is the initial point in developing a tailored model of BSC. Once these are identified, a set of intrusions should be determined that parallels the recognized approach.
- There is a need for understanding of the effect of performance indicators on the behavior of employees.
- There is a need to recognize the trouble in measuring all the indicators of performance. It is noteworthy that these are both qualitative and quantitative.
- There is a need for the recognition of a confined number of goals and interventions corresponding to the unique and matchless features of each of the organizations.
- It is necessary to identify the correctness and unfussiness of systems of information transfer, from the outset so that there is no transference of wrong information to the system's end users.

Earlier studies and researches

This section will explain the previous research work related to the study with the results and conclusions. All of this work has been done in the different banking sectors of many countries.

A study was conducted by Yilmaz on the sustainability assessment of Banks of Turkey. The qualitative approach was used that encompasses intersected sustainability and dimensions of BSC. TOPSIS method was used to evaluate a model with the use of an effective technique, to resolve decision-making work having multiple dimensions. It was concluded that the detection of sustainability activities was the starting point of sustainability of performance as is seen in the indicators' terms. The highlighted points mentioned in this model have a similarity with the ones in banks. The differentiation of indicators yielded changes in the order of performance [5].

Kerazan studied the BSC impact on the performance of Jordanian companies in 2018. In Jordan, 66 questionnaires were given to the public level financial managers, joint-stock, and industries that are listed on Amman Financial Market. Fifty of them were returned which shows the response rate of 75.75%. The results of the study presented that there was a significant influence of effective frameworks of corporate governance on the performance levels of the company by using BSC. The statistical analysis also showed that there was a huge impact of equity and ownership of property rights on the performance level of the company by using the BSC model. It was recommended by the study that the local, joint-stock, and manufacturing companies should employ an efficient outline of business dominance because of the significant effect of the performance level. Furthermore, there is a need for transparency in disclosing the financial statements and in the utilization of resources that will help in developing apt frameworks of corporate governance and will help to boost the performance levels of employees.

The assessment was done by Dan using the BSC approach for the performance of Indian companies. The questionnaires were distributed to 66 companies; 30 from India, 22 from the health industry, and 14 from the FMCG division. Moreover, information was gathered and put into a table from the Ministry of Company Affairs in India. It was exposed that there exists a potential gap in the logical bordering of BSC where it is implemented randomly. The study also acknowledged the difference between the entity scores for the perspectives of BSC and those of the Likert scale. Through this study, it was suggested that the non-financial indicators should be adopted to gain more competitive benefits.

Another study was conducted by Madhoun about Strategic Planning using a Balanced Scorecard in Gaza. This study aimed at determining the point to which there exists a practice of strategic planning in Gaza and the extent to which there is a utilization of the BSC model in the processes of strategic planning. The suitability of the dimensions of BSC for the workplace was examined and it also presented a suggested scenario for the preparation of the strategic plan by consuming BSC merits. This study yielded many results as follows: there is a utilization of the BSC model (78.4%). It was recommended in the study that it is essential to consider the dimension of knowledge and development for employees at the center and there is a necessity of strengthening all of the BSC components to achieve objectives.

Awad researched to find out the impact of incorporating the BSC in the Bank of Palestine. The study was aimed at showing the impact of associating and amalgamating the system of ABC with the BSC model on the level of growth of Palestinian Banks [6].

This study yielded essential results as follows: an effective complementarity is indicated between the ABC and BSC systems by the utilization of operational and financial information. The integration of both systems has given a unified structure for the system of cost management concept aimed at identifying the cost structure of the Bank while trying to use the techniques of cost reduction to lessen tolerable rates of profit. The exact translation of Palestine's bank strategy is distributed into targets and performance measures according to the dimensions of BSC which are fed from the outcomes of the implemented ABC system, include reducing the structure of cost of each amenity (financial dimension), introducing new amenities (internal operations dimension),

growing satisfaction of customer (customer dimension) and development of the strategic skills in workers (learning and growth dimension). There were more than a few recommendations in this study as follows: there is a need for the development of systems of cost and administrative-accounting in the banks of Palestine to get the requisite statistics, to encourage the affordability in the current environment of the business world. there is a need to conduct more studies that involve integrating the balanced performance measures and tools used in present management accounting and its effect on the performance levels.

Abdul conducted a Study on Balanced Scorecard as a tool of Performance Measurement. This study was aimed at introducing the techniques of BSC in developing a system of performance assessment combining the financial and non-financial standards, making the fundamental BSC idea and its development clear. The results yielded from this study were as follows: a modern strategic tool to measure the performance completely including both financial and non-financial measurements and encompassing the significant dimensions of performance is BSC; BSC is used to transform the strategy of the organization into actions considering the past, present and future dimensions. It was recommended that there is a need of using the card to assess the balanced performance in organizations providing public service e.g. hospitals and government organizations and businesses; there is a need of using BSC in both sectors either private or public considering the nature and situations of each of them; there is a need for an efficient, computerized system of information to increase the efficiency of this technology.

Overview of palestine banking sector

After signing the Paris protocol Agreement related to trade deal between the National Authority (PA) of Palestinian and Israel, the Palestinian Monetary Authority (PMA) was developed in 1994 which was held responsible for the implementation of monetary policies and regulation of banking sector in Palestine.

Fourteen banks are currently working in Palestine among which local banks are 7 in number and the rest are foreign banks including 6 banks from Jordan and 1 from Egypt. All of them are divided into two classes: eleven are included in commercial banks and three banks are considered Islamic banks. The sector hired staff which is 7,209 in number, from 351 offices or branches of banks at the ending of 2018.

The financial status of Palestinian banks can be guessed by the number of its total assets which account for USD 16.2 billion (EO 2018). The largest share (at approximately 52%) of its total assets is made by direct facilities i.e., loans. These have reached about USD 14.3 billion for the complete liabilities deprived of the impartiality of banks; the deposits of customers constitute a huge portion (92%) of these liabilities without bank equity. The total equity has reached up to USD 1.9 billion (EO 2018).

Theoretical framework

This chapter includes methodology portion, Performa, sample, and the sample size which will be able to explain the research queries and would analyze the hypotheses of research regarding the BSC and its impact on the financial aspect of the performance of banks.

Methodology

This study evaluates the potential impact of executing the model of BSC, on the enhancement of the financial aspect of the performance of Palestinian banks. It uses the applied method of research, ensuring the utilization of strategic measures of performance of Palestinian banks, even if the BSC model and its dimensions are not used by these banks. In the research, various research processes are used including literature available, journals, and older studies that examined the BSC model. The data gathered is then used for developing a theoretical framework, identifying the variables, and formulating hypotheses. Furthermore, a questionnaire was designed specifically for this purpose established to gather the data evidence that covers most of the research's variables.

The sampling technique used and population

The research population is composed of all 14 Palestinian banks as shown for the study. As the sample size taken was small, the complete consensus method was used in these banks, which refers to the use of a sample as the complete population. First, the questionnaire was designed and then distributed among 130 number of respondents including the manager of the branch, director, and departmental head and controller of finance. The response rate extended up to 94.6% which means that 123 questionnaires were filled by the respondents [7].

Techniques of data collection

The questionnaire was used to collect data and consisted of two components. First of them comprises six questions dealing with the universal knowledge about the respondent, including his or her academic capabilities, specialization, the title of the job, job experience, lessons of training that are completed, and the type of bank they work in. The second component of the questionnaire consisted of 44 questions related to the tactical measures that should be available to promote the financial performance of the Palestinian banks. The Likert scale is used in correcting the paragraphs of questionnaires in the second part [8].

Research design

The study relied on the model of research including four major variables that influence the financial aspect of performance. These variables are listed below:

- Measures of performance from the finance point of view.
- The measure of performance from the customer's view.
- Measures of performance related to the side of internal business processes.
- The measure of performance related to the learning side and growth side.

The model can be written as an equation based on what is identified. This equation is used to forecast the dependent variable's value after the determination of independent variable coefficients' values by utilizing the model of multiple regression.

$$Y = \beta_0 \pm \beta_1(\text{FS}) \pm \beta_2(\text{CS}) \pm \beta_3(\text{IBPS}) \pm \beta_4(\text{GLS}) \pm \epsilon_i$$

Since:

Y=Palestinian banks' financial performance

FS=Measures of performance in the financial aspect.

CS=Measures of performance in the customer's aspect.

IBPS=Measures of performance in the internal business processes aspect.

GLS=Measures of performance in the growth and learning aspect.

β_0 =It shows constant factors.

β = It represents the slope of the independent variable

Validity and reliability issues

An assembly of specialists and professors was hired for the evaluation of the validity of the questionnaire and to determine the questionnaire's validity as a tool of measurement before the questionnaire is used in gathering data. All of this is done to approach a high stage of results' generalization. In arbitrators' opinion, the modifications were made in the questionnaire and a preliminary survey of the sample was done involving the distribution of a questionnaire to an appropriate sample making 20% of the total sample, before distributing the study sample. The understanding of the respondents regarding the questions and indications was examined along with the study of the answers and their association with the measures and dimensions. The standards being used in the questionnaire were also simplified and clarified to get the highest possible degree of credibility.

By using the test of internal consistency and by calculating the extraction reliability coefficient (Cronbach's alpha) reliability of the questionnaire was checked and this was done to every section and the whole questionnaire. The reliability co-efficient of the whole questionnaire came out to be 0.871 which is considered as good, in the researchers' opinion. The table given below shows that the coefficient of reliability of all sections is satisfactory and can meet the aims of the study.

By determining the Pearson correlation between each of the sections of the questionnaire and by calculating the total degree, the structural validity of the questionnaire was checked. It was shown by the results that all of the correlations were statistically significant and the p-values came out to be equal to 0.05. All of these results show that the internal consistency among the paragraphs of the questionnaire and the tool used to measure the desired variable is high.

Analysis of Data and findings of the Study

Preliminary statistics

Test of data normality: The problem of data normality of the dependent variable is dealt with in this section based on gathered observations. SPSS was used for data analysis by applying the K-Smirnov Normality test. According to the study of Keller in 2005, if the p-value comes out to be greater than , the data distribution is normal. Table 1 provides the basis for the fact that by the K-Smirnov Test, the data sig. comes out to be approximately zero which means that data is not distributed normally. It enables us to say that to construe the association among the variables, the Pearson correlation test would not be enough, as one criterion to apply is the data normality.

Test of multicollinearity: When there are a few independent variables that are inter-linked or extremely associated, a situation called Multicollinearity arises. To find out the degree of association among independent variables, the degree of correlation co-efficient was tested where there is no significant correlation. Using the test of Variable Inflation Factor (VIF), the correlation coefficient was found to confirm the stability of the correlation coefficient. In Table 2, it is shown that no value is there to indicate the Multicollinearity issue. This is why the results related to the multiple regression model were not because of the interrelation of independent variables. All of it shows the results' reliability of regression analysis.

Descriptive statistics

An overall view of the elements of the variables of the study. It includes the meaning, maximum and minimum values, standard deviation based on a full sample for every category of study's variables after the processing of data.

An overall view of dependent variables and a complete set of measurement tools used to measure them.

Analysis in terms of multiple regression

Using F-Fisher distribution, the analysis of multiple regression was completed to see the appropriateness of it as an analysis framework. Five percent is the percentage used in the judgment. Following this, anyone hypothesis among those given below would be discarded:

H_0 : The model is not appropriate, i.e., there is no correlation between independent variables and the dependent variable.

H_1 : The model is appropriate, i.e., there is a correlation between independent variables and the dependent variable.

Where the foundation of the conclusion will be relying upon the findings of statistical analysis given as follows:

- If (Sig.F) is greater than 5%, then H_0 will be accepted.
- If (Sig.F) is smaller than 5%, then H_1 will be accepted.

In Tables, it is shown that the Sig. value is equal to 0.000 i.e., lesser than 5% which indicates that H_1 is accepted and H_0 is rejected. It can also mean

Table 1. Tests of normality.

	Tests of Normality					
	Kolmogorov-Smirnova			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Financial	0.277	123	0	0.825	123	0
Customer	0.228	123	0	0.887	123	0
Inside Business Procedure	0.293	123	0	0.826	123	0
Revolution Learning development	0.262	123	0	0.849	123	0

Table 2. Descriptive statistics.

	N	Minimum	Maximum	Mean	Std. Deviation
Financial performance	123	3.62	4.77	4.0269	0.13647
Financial Perspective	123	3.6	4.9	4.0325	0.16471
Customer Perspective	123	3.63	4.63	4.0173	0.15378
Inside Business Procedure	123	3.71	4.86	4.0348	0.16086
Revolution Learning and development Perspective	123	3.67	4.67	4.0176	0.14909
Valid N (listwise)	123				

that the multiple regression model can be utilized to analyze the data: The result of BSC application on the enhancement of the financial performance of Palestinian banks is statistically significant.

Results of Regression

Based on the p-value, the association among the dependent and independent variables. It is worth recalling that a 95% confidence interval was used when the regression was conducted. By this, any independent variable having the Sig. a value less than 0.05 is regarded significant and the one which is more than this value is not considered significant.

The potency of association among all of the variables and financial aspects of performance is indicated in Table 2. The correlation coefficient R comes out to be 0.795 which indicates that there is a strong association because it is greater than 0.75. the correlation of determination, R², comes out to be 0.633 which after adjustment (62%) shows that 62% of the discrepancy in the financial aspect of performance is found out by three important variables (financial perspective; revolution, learning, and development perspective and inside business procedure perspective). Based on F-test sig. value in the ANOVA table, this resulted in values that appear to support the explanatory model.

At the start of this study, the development of a hypothesized model was done to incorporate four variables that were found important in determining the financial aspect of performance by the other researchers, as follows.

$$Y = \beta_0 \pm \beta_1(\text{FS}) \pm \beta_2(\text{CS}) \pm \beta_3(\text{IBPS}) \pm \beta_4(\text{GLS}) \pm e_i$$

After data analysis, the results obtained based on coefficients are shown in Table model summary as follows:

$$\text{Financial Performance} = 0.66 + (0.221 * \text{Finance}) - (0.54 * \text{Customer}) + (0.374 * \text{Internal Business Process}) + (0.295 * \text{Innovation Learning and Growth})$$

This model has shown the optimistic effect of all the perspectives of the BSC model except the customers' perspective which has a pessimistic effect.

Based on preceding data analysis and the acceptance or refusal of the null hypotheses, the results of the hypothesis test are summarized.

Conclusion

The financial performance of Palestinian banks can be improved by the BSC model.

The banks working in Palestine use tactical measures including the strategy of financial and non-financial aspects while measuring performance

levels of banks. Using these measures in gauging performance does not denote that they apply them underneath the BSC model title. These measures are divided into four major perspectives named financial, customers, inside the business procedure and revolution, learning, and development.

- In Palestinian banks, the customer perspective of the model of BSC does not seem to have any effect.
- Palestinian banks utilize and apply the financial measures, objectives, and indicators to evaluate financial performance which is of high significance. The most significant measures that are used include Return on Investment (ROI), Net Profit Margin, and Return on Asset (ROA).
- Palestinian banks utilize and apply the perspective of internal business process measures, objectives, and indicators to evaluate the financial aspect of performance which is of moderate worth. The most significant indicators in this perspective are 'recognize/create' market and 'productivity by-product.'
- Palestinian banks apply and utilize the perspective of learning, innovation and growth measures, indicators, and objectives to evaluate financial performance which is also having high significance. The most significant indicators in this perspective are 'satisfaction of the employee, better capabilities of employees, and the number of courses of training that the employees attended'.
- Palestinian banks apply and utilize customer measures, objectives, and indicators to evaluate financial performance which is of low significance.

Recommendation

BSC should be applied in the Palestinian banks as an integrated system, as a source of decision making, for strategic management, as it has many benefits in enhancing the competitive status and the financial working of banks.

This BSC model can be used for evaluating performance levels as it helps organize processes of administration and emphasizes applying the institutional strategy. Training courses should be conducted for the employees working in the bank regarding the BSC model and its application. The Palestinian banks have to pay more attention to the measurements and strategy included in the BSC's perspective of the customer. The Palestinian banks should consider the need for developing services or products that are useful in fulfilling the needs of customers while associating it with the BSC's perspective of the customer.

There is a need to develop indicators that are useful in measuring the satisfaction of customers which is associated with the customer's perspective of the BSC model. It is necessary to conduct more investigation regarding

further factors that impact implementing BSC as a tool of developmental planning on the financial aspect of the performance of Palestinian banks in addition to the study of the impact of BSC. taking into account the type of bank whether Islamic or commercial and local or foreign. There is a need to apply the results and recommendations of this research on Islamic and commercial banks and the results should be subsequently compared.

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