

# **THE EFFECT OF USING ADMINISTRATIVE ACCOUNTING TOOLS ON IMPROVING INTERNAL AUDIT QUALITY IN IRAQI PRIVATE BANKS: BALANCED SCORECARD AS A MODEL**

**Saad Alwan Mehamed, University of Tikrit**  
**Zuhair Khudhair Abbas, University of Tikrit**  
**Ammar Taha Yaseen, University of Tikrit**

## **ABSTRACT**

This study examined the impact on the efficiency of internal audit in Iraqi private banks using administrative accounting tools based on balanced scorecards. In order to achieve this aim, an information scorecard questionnaire has been created to assess its effects on the standard of internal auditing. In the case of Iraqi Middle East Investment Bank (IMEIB), Baghdad, Iraq, this work aimed at applying the Balanced Scorecard (BSC) to the strategic design of private banks. The bibliographic and documentary analysis technique and case studies were employed in the production of the work. The work ends by checking that the MSC ensures the harmonization of finance, industry, technology and innovation and that it is indispensable for communication strategies, management control systems and organizational strategies. With the outcome of the strategic objectives defined in the learning and growth prospects, IMEIB, Baghdad will support its internal business processes, thereby helping to achieve the desired results in terms of consumer and financial perspectives. In turn it is possible to get an overview of the real disadvantages in the strategic implementation process and to launch corrective steps through the results of the control process. In summary, BSC provides a holistic view of the organization for IMEIB management, including customer satisfaction operating measures, innovation levels and improvement programs, as well as financial measures.

**Keywords:** Balanced Scorecard (BSC), Strategic Overview, Key Performance Measures (KPI)

## **INTRODUCTION**

The institutional barriers that characterized the banking sector have fallen in the face of competition and changing customers. This has started a series of events that have shaped a new competitive environment. Given this, banking entities have considered creating new structures that respond to the situations created by the environment. Strategic planning, supported by the BSC, is a very useful tool to respond to new situations.

Planning consists of a process to establish goals and objectives and choose the appropriate mechanisms to achieve them. There are three types of planning: strategic, operational and tactical (Hassnain, 2019).

Strategic planning, punctually, determines the purpose of the organization and describes a set of goals and objectives, providing a basis for decision-making that allows to take advantage of or create opportunities and transform dangers into opportunities (Al-Najjar, 2012). It is divided into three basic phases: the formulation of the strategy, the execution and the evaluation, each of which requires a specific type of control. For Strategic Planning, the generation of unreliable instruments should be avoided, the inadequate validation of the criteria, the absence of reference histories, placing the control instruments at the end of the

processes and developing instruments expensive control systems. However, these risks are neutralized through analytical capacity, rigor, and a critical and constructive spirit (Hassnain, 2019).

For its part, the Balanced Scorecard (BSC) consists of a multidimensional approach, which measures the corporate performance of a company from four perspectives: financial, customer, processes internships and learning - growth. Developed at Harvard by professors Robert Kaplan and David Norton in 1992, it has proven to be the most effective tool for linking vision, mission and strategy to five performance measures. The BSC offers a comprehensive view of the entity, becoming the essential element of the information system that supports the management control system in its purpose of improving the level of long-term competitiveness. It provides, in turn, a structure to focus on the indicators of each critical process such as: business plan, distribution of resources, strategies and feedback, learning, behavior towards internal and external clients and towards community actions. By combining financial and non-financial indicators, it carries out a proactive strategic policy and offers a structured method to select the guiding indicators that involve the company's management.

For the construction of an effective BSC, the consensus and support of senior management are necessary, which will identify and agree on the main purposes of the project, which will help a: guide the construction of objectives and indicators for the BSC, obtain the commitment of the project participants, and clarify the structure for the implementation and management processes .

The systematic development plan of the BSC establishes four basic phases the determination of the characteristics of the company, sizes, markets in which it operates, its main customers, and then defines the strategic elements, mission, vision, objectives, policies, strategies to achieve goals and management indicators; 2) the indicators must be linked vertically and be consistent with the entity's processes; furthermore, responsibilities must be clear. Once the indicators have been defined, their calculation formula will be specified; 3) the computing phase; for which there are many vendors and software available; and 4) the integration of the BSC into the planning and budgeting process of the company, each goal having a plan, program and a budget to ensure its fulfilment.

The implications of the application of the BSC in organizations have been extensively investigated: (Zhang et al., 2009; Yansheng, 2009), developed a case study within the calculator industry, demonstrating the effectiveness of applying the BSC, since it ensures alignment between finance, market, technology and innovation. Al-Najjar (2012); Sabah (2012) analyzed the usefulness of the BSC as a communication strategy and management control device, as well as an effective device to control corporate strategy; however, they also evidenced disagreements and tensions between senior and middle management regarding the suitability of the BSC as a communication, control and evaluation mechanism.

Mashkour, (2020); Saoud (2020) in her study carried out in the Philippines, analyzed the creation of a BSC system for public organizations. Evans, (2005), in England, reflected on the advantages of applying the BSC in administrative management processes and its contribution to helping organizations become competitive institutions. There is research with unsatisfactory results on the advantages of the BSC: (Babar, 2016), in his study carried out in Denmark, examined the linkage of the BSC with operational metrics that can be understood by managers, suggesting improvements to the process. Zhang et al.. (2009), examined how the processes established by the BSC for a specific department affect the superiors' evaluations of the performance of said area, obtaining that only common measures affect the superiors' evaluations. Ojah, (2019) established that the BSC requires adjustments to be implemented in public sector organizations.

For their part, Khatib, (2019) examined how the different types of performance measures were weighted in a BSC adopted by a financial services firm, finding that the high

level of subjectivity in the BSC led many branch managers to complain about favoritism in bonuses and uncertainty in the criteria used to determine rewards. Hamdy, (2018) explored the impact of the BSC on the performance of a division of a UK wholesale electricity chain versus the performance of a division that did not implement the system, and although improvements in sales and gross profit were observed, obtained similar results in performance, so the impact of BSC on performance was not demonstrated. It is important to note that research on the implementation of the BSC in banks has been, rather, scarce: (Ahmad, 2010) determined that bank branches that implement the BSC obtain benefits compared to those that do not.

## **MATERIALS AND METHODS**

In order to contribute to the knowledge of the advantages of applying the BSC in banking institutions, a report was developed on the experience carried out in the IMEIB of Iraq, during the period January-December 2019, where it was designed a Strategic Plan model based on the BSC that would allow the bank to be a profitable, competitive and sustainable service company.

## **RESULTS**

### **Current Situation Analysis**

As a commercial bank the Iraqi Middle East Investment Bank works. It provides credit facilities, short, medium and long-term advances, household and international bank guarantees, credit letters, transfers of funds and current and savings accounts. It also participated in fund management. IMEIB is a member of the Banks & Credit Unions Industry based in Baghdad, Iraq. IMEIB is an Iraqi private bank located in Baghdad and is known also as IMEIB. IMEIB offers a variety of services for banking, such as short, medium and long term lending, project finance, providing domestic and international bank guarantees, transfers, debit and savings accounts, exchange accounts, stocks and bonds and corporate banking. It operates in Baghdad, Basra, Najaf, Erbil, Sulaymaniah, Kirkuk and many more branches. IMEIB also invests in immobilization and owns and administers 36 assets in Iraq. The bank also offers corporate asset management services. The IMEIB has been known as a source of liquidity on domestic and foreign investments (Ahmed, Bowra, Ahmad, Nawaz & Khan, 2011)

In turn, the entity plans, controls and develops its activities based exclusively on financial indicators without considering aspects such as technology, customer service and the processes that affect the final results. The management of IMEIB would not have a tool to set macro objectives and control the achievements in achieving these, considering that the actions that are developed are linked to the strategic vision of the company and directed towards all levels and departments of the organization. Therefore, it was considered that the immediate implementation of a BSC would contribute to improve the financial results and the quality of its services (Al Sawalqa, Holloway & Alam, 2011).

### **Regarding the Identification of Attractive Market Segments for IMEIB, the Following were Established**

When consolidating the ratings obtained by the different perspectives and their weightings, it is observed that the institutional rating is 92.77% out of the 100 possible percentage points, which implies that the IMEIB must carry out a more detailed analysis of

all the processes inherent to the prospects with the lowest rating and to find and implement strategies that allow improving the level of institutional rating.

These market segments were categorized as attractive by IMEIB, because it sought to centralize efforts to meet the financial needs of these segments. They were considered considering that they covered the highest percentage of said markets at a national and international level and the planning and implementation of projects could be better focused to achieve better results, both in market share and profitability. For its part, the SWOT analysis, as seen in Table 1, evidenced the following:

<b>Table 1</b>	
<b>SWOT ANALYSIS OF IMEIB</b>	
<b>EXTERNAL ANALYSIS</b>	
<b>OPPORTUNITIES</b>	<b>THREATS</b>
1. There are business segments that have not been served.	1. Positioning in Quito and Guayaquil
2. Leverage with other companies	2. Positioning in the rest of the country.
3. Strategic alliances focused on Cooperatives	3. Customer service.
4. Government support for small and medium banks.	4. Technology
5. Positioning in the southern zone of Ecuador.	5. Asset quality
6. Products and services for migrants	6. Human Resources Management
7. International presence	7. Marketing Management (Distribution channels)
8. Comprehensive infrastructure for TC development	8. Inefficient operating processes.
9. Group equity strength	9. Vertical communication
	10. Limitation of autonomy outside the South (lack of empowerment)
	11. Restriction for segments: business and housing.
	12. Management of corporate governance.
	13. Portfolio concentration.
	14. Administration Management.
	15. Marketing of products.

### **BSC Proposal for the Strategic Planning of IMEIB**

The proposal begins with the definition of the strategy by IMEIB SA, for which the IMEIB established as a general strategy, to become the most profitable medium-sized bank in the financial system, recognized for the quality of its service, with a state-of-the-art technological system and a professional, committed and motivated human group (Greiling, 2010).

In turn, the administration of IMEIB determined three strategic objectives for the period 2012 - 2019:

1. Recover and maintain an AA rating, which means that the institution has been rated as very financially sound, that it has a good performance record, and that it does not seem to have

any weak points to highlight. The risk profile of the institutions that maintain this rating is low.

2. Reach a market share of 5% in deposits and loans.
3. Be among the top three banks in profitability and among the top five in efficiency within the banking system.

While it was considered pertinent to propose 5 new strategic objectives, the same ones that guided the entire design of the proposed BSC to the authorities of the

1. Marketing Management (Distribution channels)
2. Inefficient operating processes.
3. Vertical communication
4. Limitation of autonomy outside the South (lack of empowerment)
5. Restriction for segments: business and housing.
6. Management of corporate governance.
7. Portfolio concentration.
8. Administration Management.
9. Marketing of products.

These were:

1. Achieve customer service satisfaction.
2. Improve technological systems.
3. Consolidate the national presence of offices.
4. Develop virtual banking.
5. Apply improvements in operational processes.

## Strategic Map

Based on the establishment of the strategic objectives for IMEIB, the strategic map of the cause - effect relationship of the institutional objectives was developed. The strategic objectives planned for IMEIB were designed considering the 4 perspectives suggested by the BSC (financial, clients, internal processes, development and learning). The strategic map was made up of the following way:

The results obtained after the application of the Holmes Matrix corresponding to the financial perspective, show that the KPIs established to measure performance have met the goals set, with the exception of the unproductive portfolio and, to a lesser extent, the deposits and placements.

In accordance with the results of the evaluation of the KPIs (Table 2), it is observed that the strategic financial objectives of the institution's BSC are met according to the planning established for the established period, with an achievement of 97%; However, it is important to point out that the goals of total deposits and loans, and those of the non-performing portfolio are not at the same level of compliance as the profitability KPIs. Therefore, IMEIB should focus its efforts to implement strategies that allow it to adjust its compliance with these KPIs and, therefore, on the strategic objectives.

The Holmes Matrix applied to the customer perspective, results in a consolidated rating in the analysed period of 92.31%, which implies that the institution must work better on this issue and, above all, place greater emphasis on the productivity of the branches and the level of deposits of each one, which is the KPI with the lowest rating and compliance and which affects the final result expressed in the matrix.

The weighting and achievement BSC presents the fulfilment of the strategic objectives from the clients' perspective, evidencing by its KPI that it was fulfilled in the achievement of the clients' satisfaction, while with regard to reaching a market share of the 5% in deposits and loans could not meet the expectations raised.

Compliance with the KPIs considered in the development and learning process for the analysed period, in their joint qualification obtains 91.38%, which implies that most of them, and except for the acquisition of new software, are not. It met the goals set, the lowest point being the number of new equipment acquired, an issue that should be considered by the administrators of the institution.

### **Critical Path Monitoring**

As an important part of the BSC to carry out the control and analysis of the monthly evolution of the different KPIs, a critical path was proposed to the IMEIB administrators, which will allow verifying the fulfilment of the goal on a fortnightly, monthly and bi-monthly basis.

In turn, executives and administrators of IMEIB were recommended to expand the strategic objectives; as well as developing a command board directed at all levels of the organization; develop and implement software for daily application, considering access to information from all departments and levels of IMEIB; Disseminate the scope of the control panel and the goals at all hierarchical levels implement a system of rewards and punishments through the variable remuneration system; set a scale of points to rate the achievements of each of the KPIs based on the complexity of the goals. Finally, the need for IMEIB to incorporate the BSC at all levels, including branches, agencies and extension windows, was emphasized.

### **Key Performance Indicators (KPI1). Development of the Critical Matrix**

We proceeded to synchronize and adapt the activities of the different business units, processes and departments that make up IMEIB, by means of two differentiated levels and at the same time complementary to each other: horizontally, in terms of interdepartmental synchronization, which It guaranteed that the chain of processes and activities of internal (value chain) and external (supply chain) of the organization run along a line of activity according to the objectives, plans and expected strategies. In turn, it was considered essential that all functional departments and employees participate in the objectives, plans and strategies of IMEIB, involving them in the achievement of the goals, for which the vertical alignment was used that promotes that all levels of the organization actively participate in the mission and are involved towards the achievement of the objectives of the company of which they are participants in terms of creation. For this, a critical contribution matrix was developed.

Projects. Established both the Balanced Scorecards regarding the strategic objectives and the KPIs, 1 Key Performance Indicator.

Once the critical contribution matrix was developed at the Managerial level, the BSC was drawn up where the different projects that need to be executed to achieve the set objectives were defined, also including the value that IMEIB must incur for their implementation.

**Table 2**  
**HOLMES MATRIX: FINANCIAL PERSPECTIVE**

<b>PER SPE CTI VE</b>	<b>KPI</b>	<b>Res ults / Ave rage equi ty</b>	<b>Oper ating expen ses / total depos its</b>	<b>Total depos its IMEI B / Total depos its system</b>	<b>Total placeme nts IMEIB / Total placeme nts system</b>	<b>Unprod uctive charact er / Total charact er</b>	<b>Operati ng expense s / average assets</b>	<b>Tot al</b>	<b>WEIG HING (%)</b>	<b>META 2019 (%)</b>	<b>RE AL 201 9 (% )</b>	<b>EVAL UATI ON (%)</b>	<b>QUA LIFI CAT ION</b>
FIN ANC IAL	Results / Average equity		2	2	2	2	2	10	32	15.1	16	100	32.3
	Operatin g expenses / total deposits	0		2	2	2	1	7	23	6.4	6.8	94	21.1
	Total deposits IMEIB / Total deposits system	0	0		1	1	0	2	6	4.2	4.3	93	6.02

Total loans IMEIB / Total loans system	0	1	1		1	0	3	10	4.8	4.6	96	9.29
Non- performi ng portfolio / total portfolio	0	0	1	1		0	2	6	6.2	6.5	92	5.91
Average operating expenses	0	0	2	2	2		7	23	6.01	6.1	99	22.4
Total							31	##				96.9

2 = most important; 0 = equally important; 1 = least important

<b>Table 3</b>					
<b>BSC WEIGHTING AND ACHIEVEMENT: FINANCIAL PERSPECTIVE</b>					
<b>META 2019</b>					
<b>STRATEGIC OBJECTIVE</b>	<b>KPI</b>	<b>Lower limit (%)</b>	<b>Average (%)</b>	<b>Upper limit (%)</b>	<b>ACHIEVEMENT 2019 (%)</b>
Be among the top three banks in profitability and among the top five in efficiency within the banking system	Results / Average equity	14.14	14.9	15.01	15.6

	Operating expenses / total deposits	6.6	6.5	6.4	6.8
Reach a market share of 5% in deposits and loans	Total deposits IMEIB / total deposits system	4.12	4.3	4.5	4.2
Regain and maintain an AA rating	Total loans IMEIB / total loans system	4.6	4.7	4.8	4.61
	Non-performing portfolio / total portfolio	6.5	6.3	6.1	6.5
	Average operating expenses / assets	7.1	6.1	6.1	6.5
RATING OUTLOOK	THE				97.02

### BSC of Weighting and Achievement

For the evaluation of the fulfilment of the goals set for the established period, the BSC of weighting and achievement was used, which was elaborated for each perspective including indicators, their goals and the achievement reached at the end of the period; This achievement was rated according to a previously established value scale, for this objective the support of the Holmes matrix was necessary, which weighted each of the KPIs for each perspective in order to finally qualify the general institutional management by consolidating the qualifications of the four perspectives (table 3) and then carry out a weighting according to the weight that the IMEIB determined for prospects, based on their importance (Panicker, Sunita, Seshadri & Vinita, 2013).

### DISCUSSION

Strategic planning has been conceived as an extremely important element that affects the work of any bank, so it is feasible to assume that what is predicted by said tool will largely determine both the operational planning, as well as the current daily activities of the IMEIB. Likewise, if the strategic planning process is not conceived as a simple element, but rather a complex phase of strategic management, which depends above all on the information available to the planning team and on organizational capacities, and if, in addition, During the process, crucial mistakes can be made for strategic and operational planning, so the application of the BSC in a financial institution of such importance for the region and the country as IMEIB is decisive. Thus, in this study a tool was provided that would allow a

balance between multiple perspectives, which would allow IMEIB to develop all its organizational capacities as well (Babar & Akter, 2016).

However, in 2012 the BSC designed and described in this article was proposed to IMEIB. It would be of great interest to determine if the implementation of the BSC in the banking entity has influenced its economic results. With the institutional decision to apply the BSC, the advantages that certain authors highlight, such as the offering of a complete vision of the entity, and becoming a tool to support the management control system and long-term competitiveness (Chwan-Yi & Lin, 2009).

In this case, in order to have a vision of the financial performance of the entity in recent years, we proceeded to review the economic results found on the official website of the Superintendence of Banks (Minto, 2016) and compare them with the projected goals in the Holmes Matrix (Table 2). Thus, for example, in the indicator results / average equity in 2019 a percentage of 5.12% was reached, when the goal projected in the BSC was 15%; while in the indicators operating expenses / total deposits and total deposits / total system deposits, results were similar to those projected previously. On the other hand, in the results obtained by the unproductive portfolio / total portfolio indicator a negative difference of 0.31 percentage points is observed, while in operating expenses / average assets the negative difference reaches 1.65 percentage points (Yaser, 2015).

With the presentation of such results, it is not intended to indicate that the postponement of the implementation of the BSC has a correlation or is associated with the results obtained in 2019 by IMEIB, but to take advantage of the opportunity to highlight the possibility that such facts are related. The investigations that were referred to in the theoretical section of this study contrasted the effectiveness of the application of the BSC in institutions, both public and private (Yassir, Wafaa, Bahaa & Hakeem, 2020)

## CONCLUSIONS

This article reached an exploratory level, since it was limited to making a first approach to the issue of the BSC and its application in private banking. The literature review found, albeit incipient, the positive implications of the application of the BSC in organizations: first, by ensuring alignment between finance, market, technology and innovation; and in turn, being indispensable as a communication strategy and management control device, as well as an effective device to control corporate strategy; For its part, its application would present advantages within the administrative management processes and would contribute to making organizations competitive. However, other studies evidenced negative aspects such as: disagreements and tensions between senior and middle management regarding the suitability of the BSC as a communication, control and evaluation mechanism; the need for adjustments to the BSC at the time of its implementation in public institutions; possess a high level of subjectivity; and results that did not show the impact of the BSC. Finally, there was a shortage of studies on the implementation of the BSC in banking entities, which led to the development of a case study in the IMEIB. Finally, it can be concluded that the applied BSC sought to translate the strategy as a sum of measures that will connect the mission and vision of IMEIB; Therefore, in addition to the fact that the BSC applied included the definition of strategic objectives and concepts to measure the strategy that determined the degree of introduction of the desired changes or the development defined with strategic objectives, it included the creation of a strategic map for the banking entity, in which the strategic objectives were analysed from four perspectives to better explain the strategy,

causes and consequences. IMEIB will foster its internal work processes, thereby helping the company to achieve the desired result in the customer and financial perspectives, by achieved the results of the strategic goals defined in the learning and development perspectives. The results achieved in the control phase will, in turn, help you to acquire and initiate a series of corrective actions an overview of the true advantages in the strategic implementation process. In short, the BSC will provide IMEIB managers with a thorough understanding of the organization, including customer satisfaction operational steps, level of innovation, improvement activity and financial measures.

## REFERENCES

- Ahmad, Z.I., & Nawas, M. (2010). Balanced scorecard: Is it a spontaneous performance measurement tool? *Interdisciplinary Journal of Contemporary Research in Business*, 2(2), 100-107.
- Hamdy, A. (2018). Balance scorecard role in competitive advantage of Egyptian banking sector The Business and Management Review, 9, 3; 7th International Conference on Business and Economic Development (ICBED), 9-10 April 2018, NY, USA
- Ahmed, Z., Ahmad, B.I., Nawaz, M., & Khan, M. (2011). Performance measures used by the commercial banks in Pakistan within the four perspectives of balanced scorecard. *Journal of Money, Investment and Banking*, 21,12-20.
- Al Sawalqa, F., Holloway, D., & Alam, M. (2011). Balanced scorecard implementation in Jordan: An initial analysis. *International Journal of Electronic Business Management*, 3(9), 196-210
- Sabah, A., & Khawla, K. (2012). Designing a balanced scorecard to measure a bank's performance: A Case Study. *International Journal of Business Administration*. 3. 10.5430/ijba.v3n4p44.
- Md Babar & Akter, (2016). Developing a comprehensive balanced scorecard for the banking sector in Bangladesh: An Empirical Study. *Journal of Business Studies*, 37, 159-186.
- Yi, C., & Lin, B. (2009). An integration of balanced scorecards and data envelopment analysis for firm's benchmarking management. *Total Quality Management*, 11(20), 1153-1172.
- Yaser, J. (2015). Proposed approach to apply green balanced scorecard at Iraqi environment. 2<sup>nd</sup> International Conference on Ecology, Environment and Energy, Available at SSRN: <https://ssrn.com/abstract=3665031>.
- Evans, N. (2005). Assessing the balanced scorecard as a management tool for hotels. *International Journal of Contemporary Hospitality Management*, 5(17), 376-390.
- Fakhri, G., Menacere, K., & Pegum, R. (2011). Organizational specificities that affect the use of corporate performance measurements process in the banking sector. *Journal of Performance Management*, 3(23), 5-23.
- Greiling, D. (2010). Balanced scorecard implementation in German non-profit organizations. *International Journal of Productivity and Performance Management*, 6(59), 534-554
- Anis, K., & Pierre, A. (2019). The balanced scorecard as a measure for performance of banks in Lebanon: A review of literature. *International Review of Management and Business Research*, 8, 254-271. 10.30543/8-3(2019)-1.
- Saoud, M. (2020). Accounting syndromes and using effective technics of treatment (A survey study of the syndromes of Iraqi government institutions). *Restaurant Business*. 118. 922-935.
- Yassir, M., & Wafaa, H., & Bahaa, M., & Hakeem, H. (2020). The role of balanced scorecard in the integration of management control system and the strategy of economic unity, 13, 2020.
- Hassnain, O., & Yasir, S., & Ahmed, M., & Mohammad, A., & Yasir, M. (2019). Use of the balanced scorecard in improving health performance. *The Study of the Health Sector in Iraq*, 2, 24-30.
- Sunita, P., & Vinita, S. (2013). Devising a balanced scorecard to determine standard chartered bank's performance: A Case Study. *International Journal of Business Research and Developmen*, 2, 35-42. 10.24102/ijbrd.v2i2.286.
- Minto, W., & Syamsul, H., & Noer, S., & Handoyo, S. (2016). Analysis of balance scorecards model performance and perspective strategy synergized by SEM. MATEC Web of Conferences, 58. 02003. 10.1051/mateconf/20165802003.
- Yansheng, Z., & Longyi, L. (2009). Study on balanced scorecard of commercial bank in performance management system. 10.1109/ICMSS.2009.5303394.