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## **Variables Used by the Palestinian Banks' Managers to Measure Their Banks' Performance**

**Nour Abu-Rub**

*Faculty of Administrative & Financial Science, Arab*

*American University, Jenin, Palestine*

E-mail: [naburub@aauj.edu](mailto:naburub@aauj.edu)

Tel: +972599653688; Fax: +97242510810

**Suleiman M. Abbadi**

*Faculty of Administrative & Financial Science, Arab*

*American University, Jenin, Palestine*

E-mail: [sabbadi@aauj.edu](mailto:sabbadi@aauj.edu)

Tel: +972599260092; Fax: +97242510810

### **Abstract**

This paper tries to find the variables that banks managers in Palestine use to evaluate their bank performance. We used Balanced Scorecard method developed by Kaplan and Norton (1992) which uses 4 groups of measures: Financial, customer satisfactions, innovation of product and services, and measures to judge commitment, learning, and growth of the employees. We applied these measures to Palestinian Banks using a sample representing 43% of the banks and branches in the West Bank. A questionnaire was distributed and filled by both bank managers of head office and branch. The ratio percentages and independent t-test where used. It was found that Palestinian banks use different measures than banks in other countries. Palestinian Banks use share price and net income as the most important financial measure, number of new customers for customer satisfaction, number of new products and services for innovation of product and services and number of seminars, lectures and training for judging the commitment, learning and growth of employees. The paper also tested the existence of statistical differences between foreign and local banks and between head offices and branches . The hypothesis testing results show mixed results between foreign and local banks and reject most hypothesis between head office and branch, which agrees with the agency problems and the concentration differences between head office manager and branch manager

**Keywords:** Balanced scorecard, customer satisfaction, innovation of products and services, net income, profit per client, innovation of products and services, return on investment.

### **1. Introduction**

Traditionally industrial firms and financial institutions used financial variables to measure the management performance, in which management compensation and bonuses depend on these measures. Soon it was discovered that financial measures are temporary and can be manipulated

though "window – dressing" techniques in favor of the management. For example several banks extended loans at a high rate to unqualified customers, which results in a high profit for the year. Soon many of those customers default on their borrowings and the bank becomes obliged to increase its loan /loss provisions, or might go bankrupt. Firms started using additional non-financial measures to sustain their growth and remain in the market, such as: customer satisfaction, credit risk management, motivation to customers such as services after sale, credit, discount...etc, innovations, new markets to sustain growth. Improvement in product, .....etc. Due to the limitations of financial measurement system, several attempts have developed to overcome these limitations. Among these attempts where the (Keegan , et. al. 1989 ) who developed a measurement matrix adding other non-financial measures. (Lynch and Cross 1991 ) developed a SMART Pyramid including other non-financial variables. The most important is a pioneer article published by the Harvard Business Review in 1992 by Robert Kaplan and David Norton called Balanced Scorecard Measures that Drive the Performance. The model tracks the key elements of a company's strategy from continuous improvement and partnership to teamwork and global scale. These measures give the managers complex information at glance, including financial and operational measures. The Financial measures tell the results of actions already taken and complements it with operational measures on customer satisfaction, internal process, and the organization's innovation and improvement activities. These operational measures are drivers of future financial performance(Kaplan and Norton 1992).

More specifically, the balanced scorecard allows managers to look at their business from four different angles "perspectives":

- 1.1."Customer perspective, which measures how customers see us.
- 1.2. Internal perspective, which emphasizes on how can we do better than others.
- 1.3. Innovation learning perspective, this emphasizes on continuing improvement and crating value.
- 1.4. Financial perspective, which tells us how we can look to shareholders"?.

If the managements have information about the four perspectives then they can improve their businesses, increase their competition , sustain a long term growth and decrease failure(Kaplan and Norton 1992 ).Several firms started using the balanced scorecard techniques to improve the performance of their businesses. By the end of last century about 50% of American organizations and 40% of European firms moved to the new performance measurement system(Frigo and Krumwiede 1999 ). Several other studies found almost the same results when they applied their models to top 100 firms in the U.S or Europe. Due to the changes in information technology, capital requirements by Basil I and then Basil II, changes in laws and regulations and globalization, financial institutions started using the new techniques to measure and improve their performance. They selected the variables that affect their business most. (Rahat, et. Al. ) proposed a framework that can be used to examine changes in performance measurement system in organizations in general and in the banking industry in particular. (Cobb, et. al. 1995 ) developed a model of organizational change and they included the significance of individuals in the change process within their extended model.

Despite these changes traditional performance system are still being used by banks such as Japanese banks ( Hussain and Hoque 2002 ). Another study used the traditional measures is the one by ( Alkhatib and Harsheh 2012 ) on the performance of Palestinian banks . They used financial measures such as ROA, ROE, Price/Book value, and economic value added. (Khrwish 2011) also used traditional financial measures in evaluating the performance of Jordanian banks. Very few studies examined the use of the new performance measures in Middle-East banks, among the most recent ones is the study by (Ahmad et. al. 2011 ), they examined the performance measures used by the commercial banks in Pakistan within the four perspectives of Balanced Scorecard.

The aim of this study is to examine the performance of Palestinian banks using the four Balanced Scorecard model developed by Kaplan and Norton, and to find out to what extent the Palestinian bank managers are aware of these measures and if they use them in evaluating their performance, and what are the main variables they mostly use. The paper also aims at testing the

differences between local and foreign banks and between head offices and branches regarding the above measures. The rest of the paper is organized as follows: Section 2 discusses the development of the Palestinian financial sector, section 3 overviews the related literature, section 4 discusses the methodology used in our research and then the analysis of the results in section 5, and finally section 6 is a concluding remarks.

## **2. Development of the Banking Sector in Palestine**

Before the Israeli occupation of the West Bank in 1967, there were 11 banks in Palestine of which 8 in the West Bank and 3 in Gaza with 30 branches of which 26 were in the West Bank and 4 in Gaza and was distributed in almost all cities of the West Bank and Gaza (ESCWA 1987). In 1967 after Israel occupation of the West Bank, Israeli government closed all banks and froze all their assets and transferred all their cash to the Bank of Israel. This sector was one of the most affected by the occupation during 1967-1993 as there were 180 military orders that aimed at restricting the activities of the financial system and closely control it. Soon after the occupation military orders allowed Israeli Banks to open branches in the West Bank and Gaza which caused in eliminating all financial relations with Arab Countries. By 1986 there were four Israeli Banks working in the West Bank and Gaza with 22 branches (ESCWA 1987). The Israeli banks remained working alone in the West Bank and Gaza until the Israeli court of justice allowed Bank of Palestine to reopen its two branches in Gaza in 1981.

Israeli banks' activities were very limited as their credit was less than 8% of their assets and their functions were mostly to finance trade, or overdraft for some merchants. Very few Palestinians were willing to deal with Israeli Banks and their credit facilities were very limited to facilitate trade between West Bank and Israel such as letters of credit or letters of guarantees which were issued to Palestinians to fulfill their commitment to Israeli firms or merchants at a very high cost (Harris Laurence 1988). This situation remained until 1987 when all Israeli banks were closed because of the Intifada. The country remained without banks during 1987-1993 except Bank of Palestine and Cairo-Amman Bank which was allowed to reopen one branch in Nablus in 1986. After the Oslo agreement in September 1993 and Paris economic agreement in 1994 and the Israeli – Jordanian agreements in Wadi – Araba in 1994, Jordanian banks were allowed to reopen their branches closed in 1967. The Palestine Monetary Authority (PMA) was established in 1995 which was authorized to give licenses to establish new banks and open new branches and started regulating the Palestinian banks in both West Bank and Gaza. This caused the number of banks to increase gradually to 18 banks with more than 200 branches in 2010, of the 18 banks, 10 are foreign banks (mainly branches of Jordanian banks) with 102 branches and 8 are local banks with 100 branches. In addition there are 154 money changers 106 micro finance companies (PMA 2011).

The activities of Palestinian banks have been developing from traditional banking services of accepting deposits and giving loans to giving almost all services offered by modern banks. Their activities were spread over all cities and villages of the West Bank and Gaza. Total assets has been growing rapidly from less than \$500 million in 1993 to over \$8.5 billion in 2010, and their customers deposits were growing in the same way from \$300 million to about \$6.8 billion during the same period.

The growth of deposits has caused an improvement in the credit facilities that reached \$2.9 billion representing 42.4% of total deposits last year, directed mostly to the private sector to finance trade, construction, and other sectors. Net profits of the banking sector has been also improving to reach about \$140 million in 2010. return on average equity (ROE) has increased to 17.5%, while ROA increased to 2.1% in 2010. these ratios are acceptable and within the range of regional returns of the banks in the area. Despite the instability that has characterized both West Bank and Gaza during the past decade, Palestinian banking sector also showed improvement in the area of non-performing loans which has been declining to 3.1% of total loans in 2010. these are below the average in neighboring countries The improvement in the banking sector has been reflected in banks' net equity which increased to \$1.1 billion, part of which was due to the PMA law to increase the minimum bank capital

from \$10 to \$20 to \$50 million which was enforced recently in order for the banks to comply with Basil III. (PMA 2011).

### **3. Literature Review**

finance and bank management texts told us that in order to understand how well a bank is doing we need to start looking at the bank's financial variables such as operating income and operating expenses to get net income. But sometimes net income does not give us an idea of how well the bank is doing, because it does not adjust for the bank size, thus it makes it hard to compare between banks. So a good measure of bank profitability that is correct for the size of the bank is the return on assets (ROA). But bank owners are concerned more of the return on their equity investment so a better measure for them is the (ROE). In addition there are several financial measures such as net interest margin, net operating margins, earnings per share, asset utilization ratio.....etc. for more details see (Rose and Hudgins PP171-180). All these measures can be summed into a single variable called financial measures. Several writers used these measures to find out the performance of the banking sector in their countries. For example (Tarawneh 2006) used the financial measures to compare the performance of Omani banks and he found out that profitability performance is not a result of higher capital or larger deposits, credit or total assets. (Khrawish 2011) used internal and external factors, of which all financial factors to find the performance of Jordanian banks. He found that there is a significant and positive relationship between ROE and the bank size, total liability to total assets, net interest margin, exchange rate, and loans to total assets. And a negative relationship between ROE and annual growth rate of GDP and inflation rate. Finally (Alkhatib and Harsheh 2012) used internal measures such as ROA, market measures such as price to book value, and economic measures such as economic value added to measure the financial performance of Palestinian banks. They found that there is an effect (statistically significant) of the size of bank, credit risk, operational efficiency and asset management on the financial performance of Palestinian commercial banks.

Several other studies used the financial performance to compare between banks in the same country such as the study of (Hanif et. al. 2012) who compare the performance of conventional banks and Islamic banks in Pakistan. He used internal and external factors. The external factors include consumer behavior and perception about both Islamic and conventional banks. While internal factors include profitability, liquidity, credit risk and solvency. He finds that conventional banks were better than Islamic banks in terms of profitability and liquidity, while Islamic banks were better in credit risk management and solvency. Customers motivation factor are the location and shari'a compliance while in case of conventional banks is the wide range of product and services. Another study tested the relationship among corporate governance, risk management, and bank performance in Indonesian banking sector using a Triangle Gap Model. They found that the relationship between corporate governance and bank performance are sensitive to the type of ownership. They also found that foreign banks have better implemented good corporate governance than have joint-venture owned banks, state – owned banks and private domestic – owned banks. Finally they found an interrelationship between risk management and bank performance (Tendelilin et. al. 2007). A more recent study tested the effect of capital structure on the performance of Palestinian banks found that there is a good relationship between ROA and market value and between ROA and efficiency, and a weak correlation between loans and return on equity and loans and market value. (Abadi and Abu-Rub 2012)

Even though financial measures are still widely used to measure the performance of banks and financial institutions, but due to the development in information technology, capital requirements, changes in laws and regulations and globalization, financial measures become insufficient to measure the performance of banks and other firms. New measurement performance systems were developed during the last two decades, the most famous was the Balanced Scorecard Measures developed by Kaplan and Norton. They used four measures in four different areas, namely, from the point of view of the customer, internal perspective, innovation and learning perspective and finally financial

perspective (Kaplan and Norton 1992). Several studies used this model to test the performance of firms and banks, while some other studies started developing their own model to include relevant variables to evaluate their businesses or banks.

(Ahmed et. al. 2011) used the Balanced Scorecard to evaluate the commercial banks in Pakistan. They used to test the four perspectives of the model and they found out that commercial banks in Pakistan use return on investment, growth in revenues and profit per account as the main financial measures. They use the number of complaints, number of new customers, and customer appreciations to judge the level of customers' satisfaction. Measurement of internal process they use improvement in response time to customer queries, new products and services and reduction in waiting time. Finally measures used to judge the commitment, learning and growth of the employees are the feedback from employees, suggestions offered by employees, overhead turnover and employees training. Several studies tried to tackle a certain element of the banking sector and use non financial measures such as (Lin P and Mei A. K. 2006) who tried in their study to solve the problems of overdue loans and bad debts. Their research establishes the internal performance measures to monitor and enhance the operational quality of the employees in lending department. The research utilizes the value-added approach to analyze the lending production process and derive the internal performance measures to add value to the lending activities. The internal performance proposed in their article would be more effective for evaluating the job performance of employees in lending activities which will ease the lending operational risk.

Standard profit measures are affected by tax laws and regulations (Gilbert and Wheelock 2007) studies the effect of subchapter S of the Federal tax code on the performance of small banks and found that these banks which apply for subchapter S (more than 2000 banks by 2006) performed better in terms of the financial returns than those banks which did not apply. This caused some authors to evaluate banks on pre-tax earnings. The article shows that different tax treatments of S and C banks has a quantitatively large impact on comparison of mean after-tax profit rates across banks. They also found that S banks tend to have higher rate of return than C banks of same size even when S banks rates are adjusted for the Federal Tax. This is because of lower expenses and higher ratios of net non-interest income to assets.

The effect of modern development in information technology has been studied. (Al-Smadi and Al-Wabel 2011) studies the impact of E. Banking on the performance of Jordanian banks. They used accounting data to measure the bank performance and their results show that E. banking has a significant negative impact on banks performance. Cost associated with the adaptation of the E. banking technology is higher than revenues of electronic services. Another study on Bangladesh about the relationship between service quality and customer satisfaction in using E. Banking found that reliability, responsiveness and assurance have more contribution to satisfy the customer of E. Banking (Nupur 2010).

#### **4. Research Methodology**

To achieve the previous mentioned research objective, the researchers used descriptive analysis approach, using the appropriate questionnaire to gather the data, which contains four sections: section one concentrates on the Financial Measures which include 8 variables, section two focuses on Customer Satisfaction which include 6 variables, section three designed for Innovation of Products and Services which have 9 variables; and finally measures to judge Commitments, Learning and Growth of the Employees include 7 variables. In order to achieve the study goals, the questionnaire was conducted at the managers level in the Palestinian banks. Foreign and local head offices and branches managers were interviewed. The instrument used (questionnaire) was developed and utilized by Norton and Kaplan (1992) but the researchers modified it slightly to fit the Palestinian context.

#### 4.1. Study Population

The study population included all banks operating in the Palestinian Authority Territory, which contain, ten foreign banks having 68 branches, and 8 national banks having 70 branches scattered in the West Bank and Gaza strip.

#### 4.2. Study Sample

Due to difficulties of transportation and communication with Gaza strip, and the difficulty in covering all banks in the West Bank: a sample contains 47 banks managers representing 43% of the population in the West Bank was chosen. The sample was selected randomly but represent both local and foreign banks. Table (1) shows the sample distributed among foreign and local banks and among head office and branch.

**Table 1:** Sample description.

Banks		Manager		Total
		Branch	Head Office	
National	Number	15	6	21
	Percent	71.4%	28.6%	100.0%
Foreign	Count	21	5	26
	Percent	80.8%	19.2%	100.0%
Total	Count	36	11	47
	Percent	76.6%	23.4%	100.0%

As the table shows the sample include 21 national banks of which 15 are branch manager and 6 head office manager and 26 foreign banks of which 21 branch manager and 5 regional manager.

### 5. Statistical Results

The study used SPSS package to analyze the data using two kinds of statistical analyses:

#### 5.1. Ratio Percentages

The Ratio Percentage of the variables were used in the four sections of the measures. In which Participants were asked to sort the criteria's of measuring the financial performance in general by giving 1 to the most important variable, 2 to the next and so on. The variable that get the least mean is the most important and the one which get the highest mean is the least important.

**First question:** How do banks managers measure the financial performance of their banks? The results are shown in table no. 2 below:

**Table 2:** Financial Measures Used by the Banks Managers.

Variable	No. of banks managers	Mean
Net Income	47	2.32
Total Deposits and Facilities	47	2.57
Profit per client	47	3.38
Return on Investment	47	3.60
Profit per account	47	4.06
Average cost per transaction	47	6.30
Share price	47	6.47
Comparison of standard cost with actual cost	47	7.21

Looking at the table number 2 above we notice that the net income was considered the most important factor used by the banks managers to evaluate their performance: while Comparison of standard cost with actual cost was the least important measure . these findings are not consistent with other studies such as (Ahmad et. Al.2011) who found that Pakistani banks use return on investment, growth in revenues, and profit per accounts their main financial variables.

Based on researchers' opinion , since the majority of participating managers are branch managers , their main concern focuses on maximizing profitability of their branches, so the net income and the total deposits and facilities were their top priority.

**Question two:** What measures you use to judge customer satisfaction of your bank? The results are shown in table 3 below.

**Table 3:** Measures to Judge Customer Satisfaction.

Variable	No. of Banks Managers	Mean
Number of new customers	47	1.72
Number of customers	47	2.74
Market share	47	3.02
Number of complaints	47	4.11
Average length of time of an account	47	4.43
Independent survey	47	5.45

The table shows that the number of new customers is the most important and number of customers is the second according to the opinion of the participants , this is also different from the findings of Ahmad et. Al. on Pakistani banks which concentrate on number of complaints and number of new customers. Average length of time of an account and Independent survey were the least important indicators for the customers satisfaction.

The researchers might disagree with this direction of assessment . the customer surveys are the most independent and unbiased resource to measure their real satisfaction. An example may be many new customers will leave the bank totally or not activate their new account soon after they experience the bank services.

**Question three:** How do banks measure the Innovation of Products and Services of their banks. The results are summarized in the table 4 below.

**Table 4:** Measures for Innovation of Products and Services

Variable	No. of banks	Mean
Number of new product and services	47	2.66
Improve in response time to serve customers	47	3.21
Improvement in space utilization	47	3.91
Provision of in time services	47	4.00
Improve in response time to answer customers about their inquires.	47	4.23
Percentage of equipment maintained on schedule	47	4.64
Research and development expenses	47	5.96
Reduction in waiting time	47	8.17
Percentage of processes covered by IT	47	8.21

The above table shows that the number of new products and services and improve in response time to customers were the most critical factor to reflect the measures for innovation of products and services in the operating banks in West Bank ,which agree with Pakistani banks while percentage of processes covered by IT and reduction in waiting time, were the least important indicators.(the later was a priority for Pakistani banks).

**Question four:** How do banks measure the commitment ,learning , and growth of the employees on their banks. The results are shown in the table5 below.

**Table 5:** Measures to Judge the Commitment, Learning, and Growth of the Employees.

Variable	No. of banks	Mean
Number of seminars, lectures, and training	47	2.43
Number of trained employees	47	3.26
Labor turnover	47	3.40
Number of absences	47	3.74
Average years of services	47	3.81
Employees suggestions	47	5.30
Number of employees with advanced degrees	47	5.89

Looking at the table above we notice that the number of seminars, lectures, and training was considered the most important factor in determining the evaluation used by the banks managers, which also does not agree with Pakistani banks: while Employees suggestions and number of employees with advanced degrees was the least important measure .

## 5.2. Independent t-test

A t-test was used to analyze the difference between foreign and local banks and between head office and branches. We used the following hypothesis:

**H01:** There is no statistical inference at the level of indication ( $\alpha = 0.05$ ) on measuring the financial measures between national banks and foreign banks head offices.

**H02:** There is no statistical inference at the level of indication ( $\alpha = 0.05$ ) on measuring Customer Satisfaction between national banks and foreign banks head offices

**H03:** There is no statistical inference at the level of indication ( $\alpha = 0.05$ ) on measuring the Innovation of Products and Services on their banks between national banks and foreign banks head offices.

**H04:** There is no statistical inference at the level of indication ( $\alpha = 0.05$ ) on measuring the Commitment, Learning, and Growth of the Employees on their bank between national banks and foreign banks head offices.

**H05:** There is no statistical inference at the level of indication ( $\alpha = 0.05$ ) on measuring the financial measures between branches managers and head office managers.

**H06:** There is no statistical inference at the level of indication ( $\alpha = 0.05$ ) on measuring Customer Satisfaction between branches managers and head office managers

**H07:** There is no statistical inference at the level of indication ( $\alpha = 0.05$ ) on measuring the Innovation of Products and Services on their banks between branches managers and head office managers.

**H08:** There is no statistical inference at the level of indication ( $\alpha = 0.05$ ) on measuring the Commitment, Learning, and Growth of the Employees on their banks between branches managers and head office managers.

In testing the hypothesis, the following tables below show the results distributed by kind of measures and type of bank:

**Table 6:** Financial Measures.

Variable	Branch/HO	National		Foreign	
		Mean	Sig.	Mean	Sig.
Return on Investment	branch	4.00	.331	3.71	.001
	Head Office	3.33		2.20	
Net Income	branch	3.00	.005	1.57	.635
	Head Office	4.00		1.40	
Profit per account	branch	3.80	.013	3.86	.915
	Head Office	5.67		3.80	
Average cost per transaction	branch	6.80	.838	5.86	.492
	Head Office	6.67		6.20	

**Table 6:** Financial Measures. - continued

Share price	branch	7.20	.000	7.14	.426
	Head Office	2.00		6.80	
Profit per client	branch	2.60	.193	4.00	.301
	Head Office	3.67		2.80	
Comparison of standard cost with actual cost	branch	6.60	.001	7.29	.141
	Head Office	8.00		7.80	
Total Deposits and Facilities	branch	2.00	.361	2.43	.002
	Head Office	2.67		4.80	

The tables above summarize the results of T-test in both local and foreign banks and between branches and head offices regarding the financial measures.

**5.2.1.** The table shows there is a significant statistical differences between local banks and foreign banks in using financial measures, as well as between head offices and branches . Head offices in the Local banks concentrate on the share price , while in foreign banks they use more net income, which is also the same in the foreign branches. While the national branches concentrate on total deposits and credit facilities rather than net income or share prices. So we rejected the H01 and H05 for local banks and accepted it for foreign banks. These results are normal and consistent with the agency problem theory .

**Table 7:** Measures to Judge Customer Satisfaction

Variable	Branch/HO	National		Foreign	
		Mean	Sig.	Mean	Sig.
Number of complaints	branch	4.40	.595	3.43	.109
	Head Office	4.83		5.20	
Number of existing customers	branch	3.20	.068	2.71	.174
	Head Office	2.17		2.20	
Market share	branch	2.80	.094	3.86	.000
	Head Office	1.67		1.80	
Number of new customers	branch	1.40	.005	1.57	.002
	Head Office	2.33		2.60	
Average length of time of an account	branch	4.20	.614	4.57	.762
	Head Office	4.50		4.40	
Independent survey	branch	5.00	.165	5.71	.269
	Head Office	5.67		5.40	

**5.2.2.** The table above shows there is no statistical differences regarding the customer satisfaction we found at 5% level between local and foreign banks head offices, as they both use the market share as a measure of customer satisfaction so we accept H02. But we reject H06 as the branch managers in both local and foreign banks use the number of new customers as a measure of customer satisfaction.

**Table 8:** Measures for Innovation of Products and Services

Variable	Branch/HO	National		Foreign	
		Mean	Sig.	Mean	Sig.
Percentage of equipment maintained on schedule	branch	2.60	.002	5.57	.806
	Head Office	5.83		5.40	
Improvement in space utilization	branch	4.60	.391	2.71	.019
	Head Office	5.33		5.20	
Improve in response time to customers	branch	4.40	.005	2.71	.001
	Head Office	6.33		5.40	

**Table 8:** Measures for Innovation of Products and Services - continued

Improve in response time to customers requires	branch	3.80	.234	2.71	.078
	Head Office	3.33		3.40	
Provision of in time services	Branch	3.00	.281	5.29	.536
	Head Office	3.33		4.60	
Research and development expenses	branch	7.00	.000	7.00	.000
	Head Office	2.83		2.20	
Number of new product and services	branch	2.60	.112	3.29	.056
	Head Office	1.33		1.80	
Percentage of processes covered by IT	branch	8.80	.042	7.57	.007
	Head Office	8.33		9.00	
Reduction in waiting time	branch	8.20	.621	8.14	.635
	Head Office	8.33		8.00	

**5.2.3.** The test results show that we accept H03 as no statistical difference between local and foreign Head offices in using a number of new services and products as a measure of innovation of product and services. Branches of local banks use the same measure as their head offices so we accept the null hypothesis H07 for local banks but we reject it for foreign banks, as the branches of foreign banks use improvement in space utilization and improve in response time to customers as a measure of innovation and new services.

**Table 9:** Measures to Judge the Commitment ,Learning , and Growth of the Employees.

Variables	Branch/HO	National		Foreign	
		Mean	Sig.	Mean	Sig.
Number of absences	branch	3.40	.729	3.86	.660
	Head Office	3.67		4.40	
Labor turnover	branch	2.60	.050	3.14	.008
	Head Office	4.50		5.60	
Number of seminars , lectures, and training	branch	2.60	.897	2.57	.024
	Head Office	2.67		1.00	
Average years of services	branch	5.00	.247	2.86	.178
	Head Office	4.33		3.60	
Number of employees with advanced degrees	branch	6.40	.372	5.57	.967
	Head Office	6.00		5.60	
Employees suggestions	branch	5.60	.000	6.00	1.000
	Head Office	1.50		6.00	
Number of trained Employees	branch	1.80	.000	4.00	.001
	Head Office	5.33		2.00	

**5.2.4.** Finally the hypothesis testing shows a statistical difference between local and foreign banks head offices and between branches and head offices of local to judge the commitment, learning and growth of the employees, so we reject H04 and accept H08 as local banks head offices use employees suggestions while local banks branches and foreign banks and their branches use number of seminars lectures and training.

## 6. Summary and Conclusion

**6.1.** This paper tries to find the variables that banks managers in Palestine use to evaluate their performance. We used the Balanced Scorecard method developed by Kaplan and Norton to divide these variables into four measures: Financial; customer satisfaction; innovation of product and services; and commitment, learning and growth of employees. Each measure is divided into several questions and a questionnaire was distributed on a sample of banks' managers representing 43% of

banks and branches (local and foreign ) in the West Bank , because of difficulties in reaching the Gaza strip. The results was analyzed in two different methods. The first one we used the averages where 1 was given to the top priority and 2 to the second and so on. So the one with least average is the best variable for the manager, and the highest mean is the least used variable. It was found that :

**6.1.1.** Net income was the most important variable used by the banks managers to evaluate their financial performance followed by total deposits and credit facilities.

**6.1.2.** Number of new customers is the first variable used to measure customer satisfaction followed by total number of customers: while the least they use is to make a customer satisfaction survey.

**6.1.3.** Number of new products and services is variable number one used to measure the innovation of product and services.

**6.1.4.** Number of seminars lectures and training is the most important variable used to measure the commitment, learning and growth of employees.

**6.2.** The second method used in this study to compare the measures used by foreign and local banks ; and between head offices and branches of both local and foreign banks. The main findings of the study are:

**6.2.1.** There is a significant statistical differences between foreign and local banks head offices in variables used to evaluate their financial performance. Local banks use share prices while foreign banks use net income .as their first measure. There is also a significant statistical differences between head offices and braches of local banks as branches of local banks use total deposit and credit facilities as their top priority measure.

**6.2.2.** There is no significant statistical differences between local and foreign banks head offices in measuring customer satisfaction as they both use market share as their first measure. But on the other side there is a significant statistical differences between head offices and branches of both local and foreign branches as the later use number of new customers .

**6.2.3.** There is no significant differences between local and foreign bank head offices in using number of new services and products as a measure of innovation of products and services. The same is true for local branches, but foreign bank branches use improvement in space utilization and improve in time to customers.

**6.2.4.** Number of seminars, lectures, and training is the first number variable used to measure the commitment, learning and growth of employees used by both local and foreign head offices and branches. While local head offices use employee suggestions.

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