



Faculty of Business and Economics

*Designing a multi-perspective framework for
performance measurement in Palestinian Banks*

تصميم إطار متعدد المنظور لقياس الأداء في البنوك الفلسطينية

Prepared By

Asem Masri

Supervisor

Dr. Anton Sabella

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Prepared By
Asem Masri

Supervisor
Dr. Anton Sabella

Approved By:

Dr. Anton Sabella
(Chairman of Supervisory Committee)

Dr. Grace Khoury
(Member of Supervisory Committee)

Dr. Suhail Sultan
(Member of Supervisory Committee)

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Abstract

This research explores the current performance measurement practices in the Palestinian banks. It also investigates the macro-environment which they operate under, and how it affects their performance measurement approaches. Based on the findings of this quest, a performance measurement framework is then devised that is in line with the needs of the Palestinian banks and their contextual factors.

A thorough examination of the literature has been undertaken to better understand the field of performance measurement, which clearly suggests that traditional performance measurement that is based on financial measures is no longer sufficient for organizations to be able to compete in modern competitive markets, and that banks should adopt a more comprehensive multi-dimensional performance measurement system that uses both financial and non-financial measures in a relevant manner to the different organizational levels.

Based on this examination, a framework was designed addressing the gaps and needs highlighted in the literature. In Order to support and further explore any deviations from the literature, an exploratory study was conducted to investigate the current performance measurement practices of the Palestinian banks and the environment which they operate in, and then identify how the findings of this study affect the proposed framework.

The data of this research is collected from seven Palestinian banks and the PMA. In total, thirteen semi-structured in-depth interviews were held with key officials from the Palestinian banks in the period spanning February 26th through March 28th, 2017. In conducting the study, this research followed a qualitative exploratory approach using thematic analysis to analyze the collected data.

Based on the findings of this study, it is concluded that:

- The Palestinian banks face many environmental uncertainties particularly at the political level. These uncertainties restrain the Palestinian banks and as a result must be continuously scanned and accounted for in their performance measurement systems.
- The Palestinian banks are aware of the importance of applying modern performance measurement practices which consider strategies, operations, competition and the environment in its performance measurement process.
- The Palestinian banks measure performance based on multi-dimensional performance measures that are internal and external, long-term and short-term, quantitative and qualitative and financial and non-financial.
- The Palestinian banks ways of measuring performance are improvised, nonsystematic, and non-institutional, and have many weaknesses in their current performance measurement methods particularly in the operational and stakeholders perspectives.

Furthermore, the framework was updated based on three main pillars:

- Stakeholders' perspective was amended to account for the factors considered important for the Palestinian banks.
- Operational perspective was adjusted to reflect the processes and capabilities which are of most importance to the Palestinian banks in their context.
- Competition and environmental scanning function is added to the framework, in order to guarantee measuring performance in a more relevant manner to the sector context.

ملخص الدراسة

يهدف هذا البحث إلى دراسة الوضع الحالي لطرق قياس الأداء المتبعة في البنوك الفلسطينية. كما يعمل على استقصاء المؤثرات البيئية المحيطة بهم و مدى تأثيرها على ممارسات قياس الأداء المتبعة لديهم. كما يهدف هذا البحث إلى الاستفادة من نتائج هذا الاستقصاء في اقتراح إطار متعدد المنظور لقياس الأداء في البنوك الفلسطينية بطريقة منسجمة مع واقعهم العملي و البيئي.

لتحقيق ذلك، فإن هذا البحث يقوم بمراجعة الأدبيات الخاصة بقياس الأداء و التي تقترح بوضوح أن أساليب القياس التقليدية و التي تعتمد على مؤشرات الأداء المالية أصبحت غير كافية و غير ملائمة لواقع المنافسة في بيئة العمل الحالية للمؤسسات، و أن البنوك بحاجة لأطر لقياس الأداء تكون أكثر حداثة و تعتمد على مؤشرات أداء متنوعة مالية و غير مالية بطرق ملائمة للمستويات التنظيمية المختلفة داخل المؤسسة.

بناء على نتائج هذه المراجعة، تم تصميم إطار لقياس الأداء يأخذ بعين الاعتبار الحاجات و الفجوات في الأدبيات ذات العلاقة. و من أجل تحديد أية فجوات و انحرافات في الإطار المقترح، تم تصميم دراسة استقصائية لاستكشاف الوضع الحالي و بيئة العمل الحالية للبنوك الفلسطينية و مدى تأثيرها على الإطار المقترح.

و قد تم جمع البيانات الخاصة بموضوع هذا البحث من سبعة بنوك فلسطينية و من سلطة النقد الفلسطينية، و ذلك من خلال ثلاثة عشر مقابلة تم تنفيذها في الفترة الواقعة ما بين السادس والعشرين من شهر شباط و الثامن و العشرين من شهر آذار لعام 2017. و لتنفيذ هذا البحث و تحليل البيانات التي تم جمعها فقد تم اتباع طرق البحث الاستقصائي النوعي و استخدام أساليب التحليل الموضوعي.

و بناء على نتائج هذا البحث تم التوصل لما يلي:

- تعاني البنوك الفلسطينية من انعدام الاستقرار في بيئة العمل لأسباب كثيرة أهمها العوامل السياسية. و لذا يجب على البنوك الفلسطينية أن تعمل باستمرار على القيام بمسح للعوامل البيئية المحيطة و أخذها بعين الاعتبار في طرق قياس الأداء المتبعة لديها.

- تعتبر البنوك الفلسطينية ناضجة في مجال قياس الأداء من نواحي الاهتمام بالجوانب الاستراتيجية و التشغيلية و جوانب المنافسة و العوامل البيئية المحيطة في طرق قياس الأداء المتبعة لديها.
- تقيس البنوك الفلسطينية أداءها بناء على مؤشرات قياس متعددة الأوجه و ليس مالية فقط.
- توجد العديد من نقاط الضعف في طرق قياس الأداء المتبعة في البنوك الفلسطينية، حيث أنها تعتبر مرتجلة و غير منظمة أو ممأسسة، كما أن بها العديد من النواقص على صعيدي الأداء التشغيلي و حاجات ذوي العلاقة.

بناء على ذلك، فقد تم تعديل إطار قياس الأداء المقترح من ثلاثة أوجه:

- تم تعديل منظور ذوي العلاقة ليعكس الأكثر أهمية منهم في واقع البنوك الفلسطينية.
- تم تعديل المنظور التشغيلي في الإطار المقترح ليعكس قياس أداء العمليات و القدرات المهمة في واقع البنوك الفلسطينية.
- تم إضافة آلية تسمح بقياس الأداء أخذا بعين الاعتبار المسح الدائم للمنافسة و العوامل البيئية المحيطة.

Abbreviations

ABC – Activity Based Accounting

AML – Anti-money Laundering

BSC – Balanced Scorecard

EFQM – European Foundation for Quality Management

FATCA – Foreign Account Tax Compliance Act

FPMs – Financial Performance Measures

ISO – International Organization of Standardization

KBEM – Kanji Business Excellence Model

KBEMS – Kanji Business Excellence Measurement System

KBS – Kanji Business Scorecard

NFPMs – Non-Financial Performance Measures

PCMA – Palestinian Capital Market Authority

PLO – Palestinian Liberation Organization

PMA – Palestinian Monetary authority

PMS – Performance Measurement System

POS – Point of Sale

SMART – Specific, Measurable, Agreed upon, Realistic, and time related

Chapter 1: Introduction

Research Overview

The role of Performance Measurement is to evaluate the extent to which organizations are well managed, and whether they create value for the organization's stakeholders (Moullin, 2003). This is done when a company defines its target performance, and states the ways to measure it using a set of performance indicators, through an evaluation process that determines whether performance targets were accomplished and at what cost. The output of this process can then be considered in strategic management, planning, and monitoring and evaluation of the overall performance of the organizations, in terms of efficiency, effectiveness, and accomplishments (Conradie & Schutte, 2003), making performance measurement fully integrated in the organization's strategies and objectives.

In the past, performance measurement systems depended on financial measures only. By late 1980s, several studies revealed that too much dependence on historical financial data is not enough anymore, given the increasing complexities and competition that the organizations currently face (Kennerley & Neely 2002). This is mainly because, in today's business environment, shareholders' value can't be evaluated based on financial data and financial performance only; rather it is driven by non-financial factors as well, such as customer loyalty, employee satisfaction, internal processes, and organization's innovation. This understanding of the importance of non-financial aspects in performance measurement led the evaluation of market value of Standard and Poor 500, to depend 90 percent on non-financial measures, and 10 percent only on traditional accounting data (Webber, 2000).

In addition, considering the fact that performance measurement is traditionally used for organizational control and for achievement of financial objectives, traditional models have focused on maximizing short term shareholders value, such as earning per share, return on investment, and net profit among others. However, these financial targets are considered to be the result of management action and organizational performance, and not its cause (Eccles & Pyburn, 1992).

Some studies indicated that these traditional financial-based performance measurement systems are inadequate in an uncertain, complex and competitive environment (Silvi, Bartolini, Raffoni & Visani, 2015). Other Studies suggested a multi-dimensional approach of performance measures, which would consider both the organization's internal and external environment, as well as using non-financial measures along with the traditional financial ones (Fitzgerald, Johnston, Brignall, Silvestro & Voss , 1991). The awareness about the importance of considering non-financial measures in performance evaluation, became the basis for many modern multi-perspective performance and strategy evaluation frameworks.

According to Striteska & Spickova (2012), although all these frameworks offer new insights as well as some limitations; there is no dominant framework which can work for all business types and organizations at all times. This suggests that although organizations should consider multi-perspectives and comprehensive performance management framework in evaluating their performance and strategies implementation, however, among all available performance management tools and frameworks, not one tool has been named as a dominant one thus far. Therefore, it would be more realistic for organizations and business sectors to customize, or design their own unique and specific performance measurement systems, based on the existing comprehensive frameworks, and taking into considerations the special context of the organization or sector.

1.1 Research Problem

The banking industry is changing due to forces like technological innovation, fierce competition, global financial regulations and restrictions, and changes in corporate behavior such as increased emphasis on long-term shareholder value (Meola, 2016; Wignall & Atkinson, 2010). These forces call for the need to adopt new management styles that emphasize the creation of long term value and sustainability.

As the research overview suggests, there is a growing need to implement a performance measurement system, which focuses on creating long-term value and sustainability rather than targeting short term goals (Baird; 2017, Silvi et al., 2015). This requires a change in the performance measurement approach that organizations adopt in all sectors including the Palestinian banking sector.

The Palestinian banks are aware of the importance of measuring performance, and do apply performance measurement practices. However, they mostly depend on experience, and practice performance measurement on need basis rather than being an institutional and systematic process. This approach is not effective and lacks the ability to continuously scan and respond to the environmental changes, and to report results in timely manner.

This research will address this problem, by suggesting a systematic and comprehensive performance measurement framework that is tailored to the Palestinian banks and their unique context.

1.2 Research Purpose and Questions

Given that the literature lacks researches related to performance measurement frameworks in the Palestinian context and particularly in the Palestinian banking sector, this qualifies the current research to be of exploratory nature.

Therefore, this study explores and investigates the current situation of the performance measurement practices in the Palestinian banks in order to develop deeper insights of what are these practices and how they are applied. This study also explores the business environment which the Palestinian banks operate under, and how it affects their performance measurement needs.

Afterwards, the researcher combines the findings of this exploratory research along with the literature review, in order to propose a generic performance measurement framework that will provide the Palestinian banks with the necessary tools for measuring their performance in the unique context they operate under, and evaluate how successful they are in formulating and implementing strategies.

To achieve the objectives of the research, the researcher poses the following questions:

1. How do the Palestinian banks currently measure and evaluate their performance?
2. What are the characteristics of the environment under which the Palestinian banks operate and how do they affect banks performance measurement needs and practices?
3. What are the main components that should be considered in a comprehensive and generic performance measurement framework that is adequate to the Palestinian banks?

1.3 Importance of the Study

This research is believed to be one of the earliest attempts to explore current performance measurement practices in Palestinian banks and to define the performance measurement best practices that must be applied by these banks, taking into consideration the environment they operate under. Therefore, the study aims to achieve the following:

- Highlight the importance of multi-perspective dimensions in measuring performance.
- Highlight the particularity of the Palestinian banks business environment and how it affects their performance, considering the unique context under which the bank operate.

- Increase understanding about how multi-perspective evaluation frameworks can be developed and then applied to the banking sector in Palestine.
- Encourage further research on the application of multi-perspective evaluation frameworks for Palestinian businesses in general, and particularly the Palestinian banking sector.

1.4 Research Structure

This research is organized into seven chapters. Below is an overview of these chapters.

Chapter One: Introduction

This chapter contains general overview about the whole content of the thesis. It starts with a brief description of the main concepts presented in the research followed by the research objective, the problem statement and research questions, the needs and importance of the research and an overview of the thesis structure.

Chapter Two: The Palestinian Financial Sector

This chapter contains background information and the main performance indicators related to the Palestinian financial sector in general, and the Palestinian banking sector in specific.

Chapter Three: Literature Review

This chapter reviews the existing literature related to performance measurement. It starts with defining the performance measurement concept in general and discusses the evolution of performance measurement practices, starting with traditional performance measurement, how it evolved to multi-perspective performance measurement, and how it links to business strategies. Then, the research discusses and compares the most common performance measurement frameworks that are generic to all type of businesses and organizations, the discussion then sheds more focus on performance measurement in services and banking sector. The chapter

concludes with a summary and set of recommendations that are seen to initiate a deep and thorough discussion in the following chapters.

Chapter Four: Theoretical Framework

This chapter underpins the assumptions of the research theoretical framework. This is obtained through summarizing the theoretical assumptions which the framework depended on, and then proposes the performance measurement framework according to these guidelines. The chapter continues to explain the rationale behind the framework relative to literature, and how the proposed framework fulfills the theoretical guidelines. The chapter then ends with proposing the steps to be followed in order to answer the research questions and fulfill its purpose.

Chapter Five: Methodology

This chapter provides a description of the methodology underlying the research. It explains the research type and design. It reviews in details the qualitative research approach used in data collection, data analysis and research sampling tools. It also discusses the research limitations.

Chapter Six: Findings and Discussion

This chapter contains detailed explanation of the research findings. It starts with an overview of the interviews results, followed by detailed discussion of findings based on the data collected during the interviews. This chapter continues with a discussion that compares findings among all interviewed banks, and concludes with comparing these findings to the literature of the research and the proposed framework.

Chapter Seven: Conclusion

This chapter contains an overview about the main contribution of this research, conclusions about research questions, and finally the research implications and recommendations for future work.

Chapter 2: The Palestinian Financial Sector

Introduction

During the last two decades, a succession of many legal systems took place in the Palestinian Territories that affected the financial sector, starting with Ottoman legislations that enacted until 1915, through legislations of British mandate that enacted after occupying Palestine in 1917 till it withdrew in 1948. From 1948 through 1967 the Jordanian legislations were enforced in the West Bank, and in Gaza Strip the Egyptian legislations were the reference. Lastly, the Israeli legislations and the Israeli military orders were enacted and forcefully imposed until the Palestinian Authority took office gradually starting from 1994. It is worth to note that regardless of having a Palestinian state under occupation, more than 60 percent of the Palestinian territories are identified as Area C, which is still following the Israeli enacted legislations.

After the signing of the Oslo interim accords and the Paris Protocol for the transition phase during the period 1993-1995 between the Palestinian Liberation Organization (PLO) and the Government of Israel, the Palestinian National Authority- which was initiated in 1994- has begun in building its institutions and develop its legal and regulatory frameworks to take over various and obsolete frames. This included the financial sector: the banking and non-banking. As a result, the formal Palestinian financial sector started to see the light, since the Palestinian Authority was endowed with administering monetary and financial affairs in the occupied Palestinian Territories (The World Bank, 2008).

Despite the difficult environment in which the Palestinian financial sector was established, it successfully covered most of the common sub-sectors, including Banks, securities market, insurance companies, payment systems, housing finance companies, microfinance institutions and financial leasing companies, with each of these sub sectors possessing a great potential to positively contribute to the Palestinian economy domestically and internationally, through partnerships and integrations with players in neighboring and far-off markets (The World Bank, 2008).

In this chapter, the researcher will provide a brief overview of the most prominent aspects of this sector. The formal Palestinian financial sector will be divided into two parts based on the regulatory body: the first one includes all the financial institutions that are regulated by the Palestinian Monetary Authority (PMA) including banks, money exchangers, and lending institutions. The second part includes all the financial institutions which are regulated by the Palestinian Capital Market Authority (PCMA). It includes securities market, insurance companies, Leasing companies, and mortgage companies.

2.1 Sectors Governed by PCMA

With the exception of the limited and inconsequential services of the insurance sector prior to the establishment of the Palestinian Authority in 1994, the Palestinian economy was suffering from the lack of professional and smart financial services outside of basic banking services. Palestinians were required to set out legal, regulatory, and organizational frameworks for this sector from the ground up. Therefore it was natural that the absence of these frameworks was accompanied by a total lack of the required skill set and experience to operate the sector, as well as little financial knowledge of the sector and its products and services amongst the public. (PCMA, 2016).

Therefore, the sector was required to undergo a complete and total education, going through a learning curve for some time. The Ministry of Finance began to issue licenses and initiated monitoring on providers of financial services that are not related only to banking. Therefor, and prior to undertaking the process of regulating the whole industry; licenses were given to some insurance companies as well as licensing the Palestinian Securities Market and the Palestinian Mortgage Company. This resulted in a great deal of problems within the sector.

In an attempt to control and regulate the sector, The Palestine Capital Market Authority was established by the Capital Market Authority in 2004 and therefore enjoys the independence of being the authority on the sector including financial independence, administrative independence, and legal structure necessary to engage and undertake the essential operations and actions to ensure it achieves its objectives and goals particularly pertaining to the ownership of the capital to facilitate its operations, activities and to regulate the capitals as outlined by the law (PCMA, 2016).

PCMA oversees the following four sectors, securities market, real-estate mortgage lending, insurance sector and leasing sector. These are the sectors that constitute the non-banking Capital Markets sector in Palestine. Therefore, the Authority is considered a unique model in the region due to the fact that it oversees the above critical sectors vital to the national economy; which is considered a largely positive element in the regulatory and monitoring operations from the perspective of ensuring compliance with legal frameworks within these sectors. It is worth pointing out here that due to the recent financial crisis, there has been a global movement towards unifying the regulatory authorities and creating a larger authority in the capital markets sector (PCMA, 2016).

2.1.1 Insurance Sector

In 2015, The Palestinian insurance sector consists of nine licensed insurance companies offering services through a network of 116 branches and offices distributed throughout Palestinian counties and employing 1,156 people. In 2015, the total assets of these insurance companies is valued at \$352.4 million, total equity amounted to \$124.6 million, while the paid-up capital amounted to \$ 58.7 million. The companies achieved a net profit after tax of \$7.3 million with insurance premiums reaching \$164.8 million and paid compensation totaling \$97.9 million during the same period. (PCMA, 2015).

2.1.2 Market Securities Sector

1995 hugged the seeds to establish the securities sector in Palestine by the inception of the Palestinian Securities Market as a private Shareholders Company; an initiative by the Palestinian Development & Investment Company with an agreement to operate in the market signed in 1996. The first trading session was opened on Tuesday 18th of February, 1997. The Palestinian securities market consists of a number of components including Palestine exchange, Savings & Transfer Center, publically traded companies, securities companies' members of the Stock Exchange, finance professionals, and investment funds.

The Market has been subject to the monitoring and supervision of the Palestinian Ministry of Finance since it commenced operations in 2005 and became regulated by the PCMA, which has lately reorganized the market so that the authority itself became a publically traded company on the local stock exchange, with the deposits and transfers center separated from the exchange. This has come in line with the global best practices and as a result, a new company was created under the name of Palestine Stock Exchange (PCMA, 2016).

In 2015 there were 49 companies listed in the securities market (Palestinian Stock Exchange). During the same year, 175.2 million stocks were traded valued at \$320.4 million. The banking sector controlled the largest share of the stocks traded in 2015 at approximately 54% followed by the investment sector having 28% of the market share, the services 12%, the insurance sector 4%, and the manufacturing 2% (PCMA, 2015).

2.1.3 Leasing Sector

Leasing is a financing tool where the leasing company buys an asset and rent it to the beneficiary, with an option to own at the end of the rental period. Leasing sector has seen light in 2014, when the president endowed the law through Presidential Decree No. 6 for the year 2014

on leasing, which made the Palestinian leasing sector follow the international best practices in leasing.

In 2015 there were 11 leasing companies registered and operating in Palestine. The sector has experienced a tremendous growth since 2014, reaching to 165% in 2015, with a contracts investment portfolio amounted to \$64 million on 1204 leasing contracts. Most of the leasing services are used by individuals (77%), and most of the portfolio exists in Ramallah which has 39% of the contracts. (PCMA, 2015).

2.1.4 Real Estate Mortgage Lending Sector

Though the real estate mortgage lending is a key component in financial lending, the corresponding law to this sector is not yet endowed, and there are no companies operating in the primary market of this sector, except for the banking sector. As for the secondary market, only two companies exist, Palestine Mortgage and Housing Corporation, and its subsidiary the Palestinian Real Estate Mortgage Lending Company. (PCMA, 2015).

2.2 Sectors Governed by PMA

One of the outputs of Paris Protocol signed between the Palestinian Authority (PA) and Israeli Occupation was to give the PA the authority to establish the Palestinian Monetary Authority (PMA), with the main role of registering and regulating banks, and conducting all the roles and responsibilities of a Central Bank, except for issuing a Palestinian currency. Consequently, the President of the Palestinian Authority issued the presidential decree (184) in 1994 on establishing the PMA (PMA, 2016).

Since its establishment, PMA was considered as an independent foundation and as an authority with legal jurisdictions to carry out and direct all actions and behaviors that ensure the achievement of the purposes for which it was established. PMA objectives included all the powers of central banks, including the privilege of the national currency issuance, and licensing of banks

and regulating banking activities, the provision of liquidity to banks, the development, organization and implementation of monetary policy, and work as a bank for banks and specialized lending institutions, and as an adviser for the government and regulating the profession of banking and financial companies, development and investment funds. In addition, PMA became responsible for defining the terms of the licensing, branching, banking permitted and prohibited actions, independent audit, forming Board of Directors, disclosure conditions, and cancellation of licensing and merger with other banks (PMA, 2016).

As of 2010, PMA started to make the banking sector more in line with international best practices, such as the basic principles for effective control and Basel Accord requirements for Banking Supervision. During this phase, specifically in 2012, PMA issued the Payments Systems Act, which regulates the use of electronic payment instruments, and conduct the electronic settlement of banks' accounts and financial transactions. It also introduced the regulations and environment necessary for the introduction of electronic clearing system (PMA, 2016).

The PMA recorded many achievements such as creating the Palestine Deposit Insurance Corporation, the issuance of the Fair Credit issue instructions, the launch of the credit information system, borrowers' classification system, automated returned checks system, suspended and missing checks system, the electronic national payments system, and the International number for Bank Account-IBAN, to name few. The PMA is now working on encouraging banks operating in Palestine to issue payable and receivable payment cards in relatively low costs, increase the spread of points of sale (POS) and prepaid cards and encourage its use and provision of the necessary liquidity. As part of the PMA's efforts to inspire citizens to use the electronic banking services, and promote the use of ATM, the PMA requested all banks operating in Palestine to provide the public with free of charge Internet banking and SMS services, which will help in increasing the outreach to banking services (PMA, 2016)

It is worth mentioning that the PMA also works to raise the level of banking awareness among the citizens by initiating banking awareness campaigns, in addition to urging banks to increase disclosure and transparency on banking services provided to the public, so as to provide a clear and easy to understand information, which enables citizens to understand the trade-offs between the services provided by banks.

2.2.1 Specialized Lending Institutions

The number of specialized lending institutions licensed by PMA reached six institutions by the end of 2015 including four for profit and two not for profit companies. These companies operate through a network of 64 branches, employing 754 personnel.

The number of borrowers from the licensed institutions totaled 51,589 borrowers at the end of 2015, with the value of the existing loan portfolio at approximately \$136.7 million.

2.2.2 Currency Exchange Sector

By the end of 2015, there were 292 licensed currency exchange businesses, 238 of which operate in the West Bank and 54 in Gaza Strip. In relation to the legal structure there are 222 currency exchange businesses operating as a company and 70 currency exchange businesses operating as a sole proprietor. The data provided by the PMA for 2015 indicates that the exchange companies had \$66.8 million in assets, and \$61.8 million in capital. The sector witnessed profits of \$579 thousand in 2015 (PMA, 2015).

2.2.3 The Palestinian Banking Sector

The Palestinian banking sector in particular, has enjoyed a tremendous growth, and similar to most developing countries, it dominates the Palestinian financial sector. Before 1993, there were only two banks operating in Palestine, Bank of Palestine and Cairo-Amman Bank (The World Bank, 2008). Since the signing of Paris Protocol, the number of banks in Palestine grew

rapidly reaching to 15 banks in 2016, employing 6,138 personnel (Association of Banks in Palestine, 2015).

PMA annual Report (2015) states that there are 16 banks operating in Palestine, seven of them are local banks. The nine foreign banks operating in Palestine has 7 Jordanian banks, one Egyptian.

However, major changes in the sector took place in 2016. For example, new bank called Safa Islamic Bank was licensed and commenced operations in 2016. Also, HSBC Bank have decided to close down business and operations in Palestine by the end of 2015. Additionally, Palestine Commercial Bank was acquired by Bank of Palestine, and this acquisition is expected to complete in 2016.

Table 2-1 summarizes the current situation of the Palestinian banking sector based on statistics published in PMA 2015 annual report, taking into consideration the new changes in the sector.

Table 2-1: Operating Banks in Palestine (Source: PMA, 2015)

Bank Name	Year of Establishment in Palestine	Branches	Notes
Local Banks			
Bank of Palestine	1960	56	
Palestine Commercial Bank	1994	8	Acquired by Bank of Palestine
Palestine Investment Bank	1995	15	
Quds Bank	1995	31	
Arab Islamic Bank	1996	12	
Palestine Islamic Bank	1997	21	

The National Bank	2006	13	
Safa Islamic Bank	2016	1	
Foreign Banks			
Cairo Amman Bank	1986	21	
Arab Bank – Established in Jerusalem 1930	1994	29	
Bank of Jordan	1994	35	
Egyptian Arab Land Bank	1994	6	
Jordan Commercial Bank	1994	5	
Jordan Ahli Bank	1995	5	
Housing Bank for Trading and Finance	1995	13	
Jordan Kuwait Bank	1995	2	
HSBC Palestine	1998	1	closed its business operations on 31/12/2015

According to PMA Annual Report (2015), these banks operate through 274 branches distributed throughout the West Bank and Gaza Strip, comparing to 258 branches in 2014. This increase in branching comes consistent with the PMA strategy to increase number of branches operating in Palestine, aiming at increasing service efficiency, by decreasing the average population density served by a bank branch which is estimated to 15.6 thousand citizen per branch, to become more consistent with the international standard on 10 thousand citizen per branch.

The Banking Sector Assets

The PMA Annual Report (2015) indicates that the Palestinian Banks assets have been growing in the past five years, reaching up to 12,599.9 million dollars with a net increase equal to 6.6% compared to 2014. The increase in assets for the past five years is illustrated in Figure 2-1.

When analyzing the assets structure in the Palestinian Banking Sector, one can conclude that Palestinian banks depend mostly on depositors' money as source of funds, since they form 76.6% of the source of funds compared to 75.6% in 2014.

It is also worth mentioning that 46.2% of the available funds are used in the form of direct credit facilities compared to 41.4% in 2014. These numbers indicate that unless the Palestinian banks find other source of funds or other source of revenues, their growth will remain limited based on the deposits/financing ratio, since Palestinian banks are required to maintain a certain balance between the deposits they owe and the financing portfolio they manage. According to PMA regulations, this ratio must not exceed 88%, in order to guarantee reduced risk, by maintaining a certain reserve of funds.

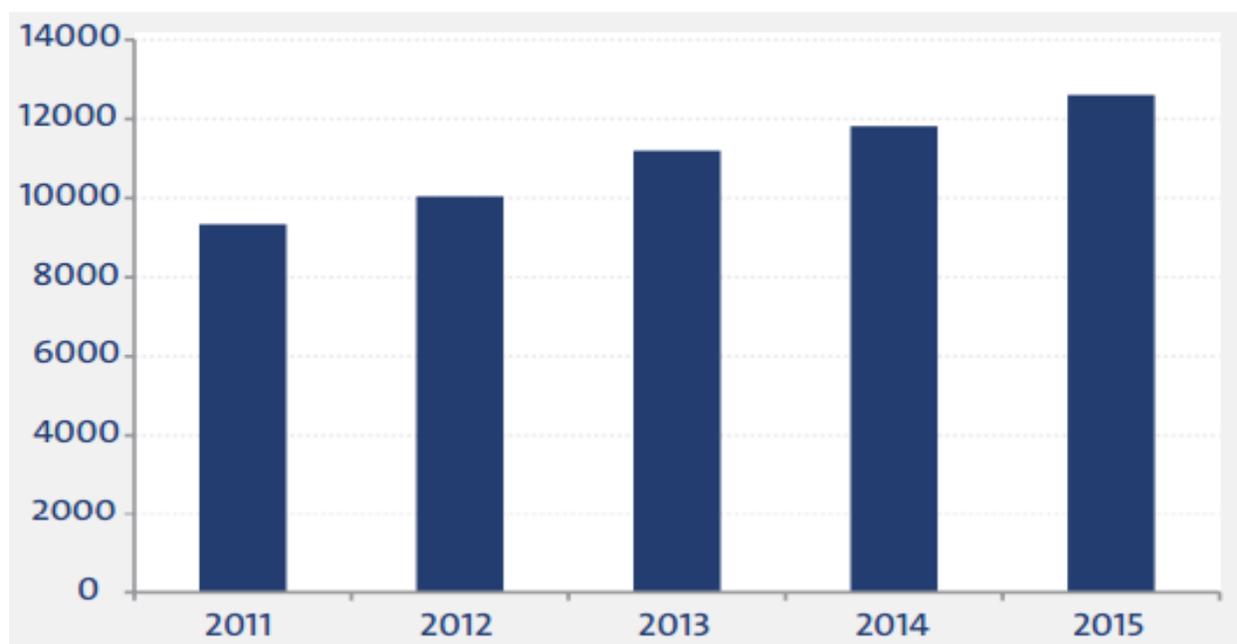


Figure 2-1: Palestinian Banking Sector Assets 2011-2015 (Source: PMA, 2015)

The Banking Sector Liabilities

PMA Annual Report (2015) shows that the total deposits in banks operating in Palestine amounted to \$10.506.6 million by the end of 2015, with an increase equal to 8.7% relative to 2014. Of this Deposits portfolio, the non-bank deposits acquired “Clients Deposits” the largest share of the total deposits 91.9% and 76.6% of the total liabilities, while bank deposits acquired 8.1% of total deposits and 6.8% of the total liabilities. The bank deposits and non-banking deposits have grown significantly over the past five years, this is due to the awareness campaigns carried out by the PMA, which contributed significantly to the promotion of depositors’ confidence in the banking system, branching policy especially in rural and marginalized areas, and the establishment of the Palestine Deposits Insurance Association. Figure 2.2 illustrates the increase in deposits through the past five years.

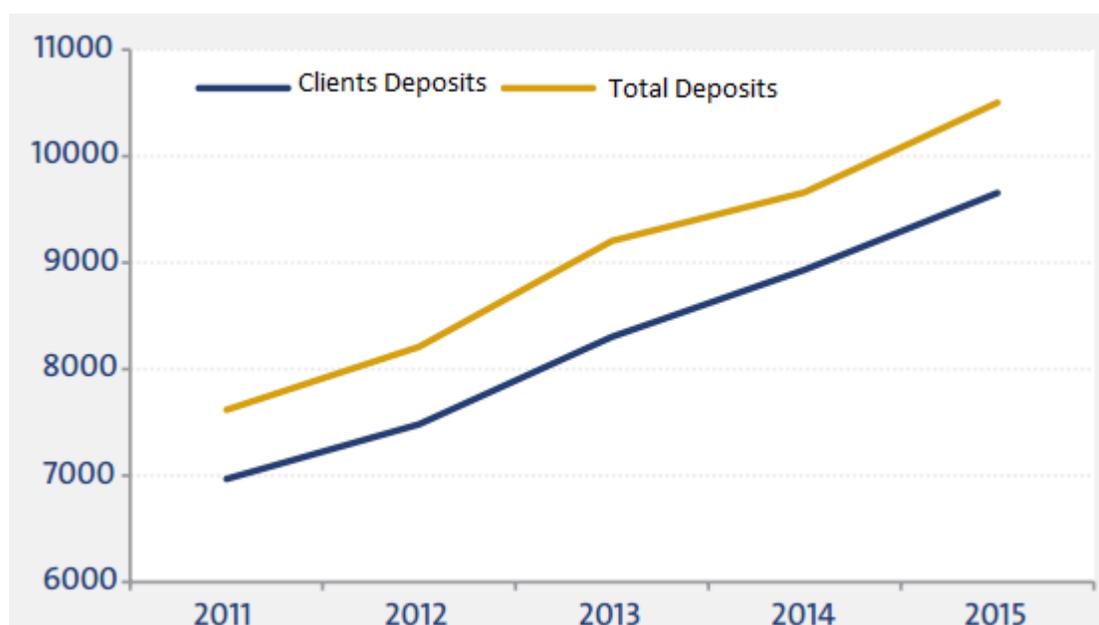


Figure 2-2: Palestinian Banking Sector deposits 2011-2015 (Source: PMA, 2015)

The private sector acquired 93.2% of clients’ deposits, comparing to 91.2% in 2014. The customer deposits are concentrated mainly in the West Bank by 89.2%, while the share of the Gaza Strip amounted to 10.8% compared to 11.1% in 2014. The reason behind such a large

disparity between the West Bank and the Gaza Strip is due to the difficult conditions experienced by the sector, represented mainly by the siege imposed by Israeli Occupying Forces on the Gaza Strip, in addition to the wars launched against the Strip during the past years, which have had a direct impact on the economic conditions and led to increasing unemployment and poverty rates to record levels.

The distribution of clients' deposits is showing a dominance of checking deposits by largest share of total deposits (40.2%), compared to 31.8% for savings deposits and 29.0% for time deposits. This is the prevailing structural distribution in many years; however, banks are working to attract more clients' deposits, especially timed deposits as it is used in funding grants, and medium and long-term investments.

As for the rest of the bank liabilities, the second most important item according to data shown by the PMA, is owner equity which shaped 11.6% of the banking system liabilities as source of funds, where the paid capital considered the most important component of the ownership rights forming 65.7% of net ownership rights'.

The Banking Sector Credit Facilities

By the end of 2015, direct credit facilities formed 46.2% of the banking sector's assets, relative to 41.4% by the end of 2014. This continuous growth of credit facilities portfolio over the past five years in terms of size and relative importance, is an evidence of how banks heading toward more usage and employment of source of funds in the local economy despite of the corresponding risk (PMA, 2015).

Figure 2-3 illustrates the growth in direct credit facilities through 2011-2015.

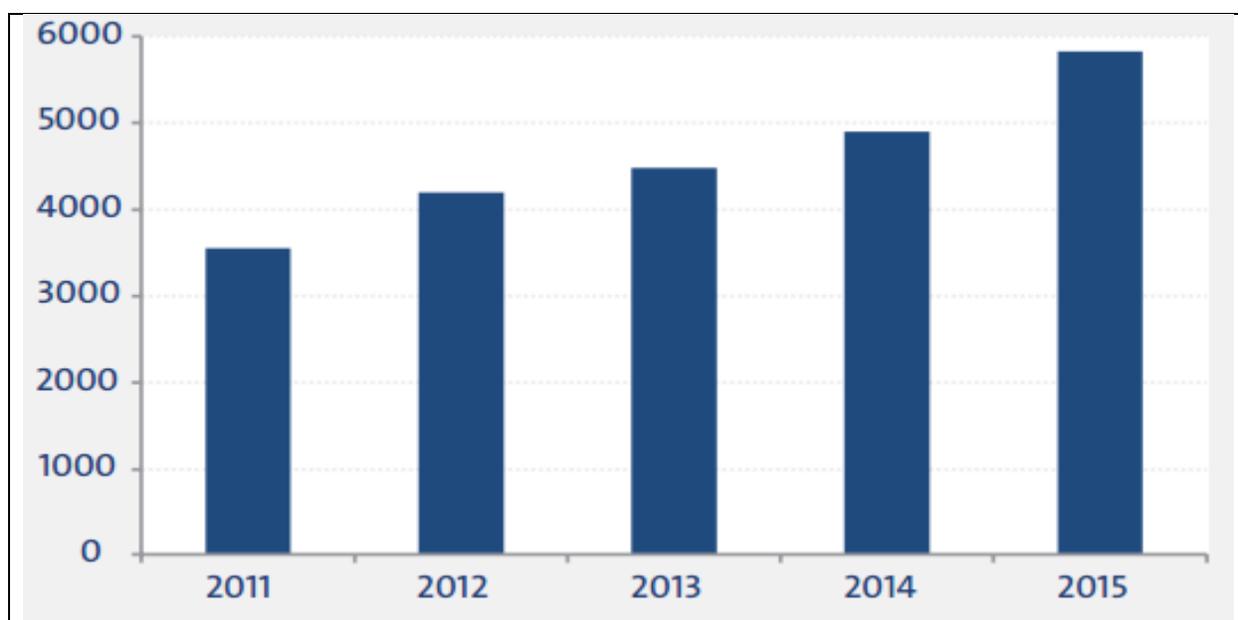


Figure 2-3: Direct Credit Facilities Portfolio 2011-2015 (Source: PMA, 2015)

The credit facilities distributed between the West Bank for 88.2%, and Gaza Strip for 11.8%, compared to 88.3% and 11.7% in 2014. This increase in Gaza's stake can be attributed to PMA strategy to encourage branching in Gaza, as part of its financial inclusion strategy. Of the entire credit facilities portfolio, loans acquire the largest share amounting to 78.7% of the total credit facilities portfolio, while the share of overdraft constitutes of 20.9%. The credit facilities portfolio was distributed between the public sector and private sector with the public sector receiving 25.3% and the private sector receiving 74.7% (PMA, 2015).

The Banking Sector Profits and Loss

PMA Annual Report (2015) indicates that the banking sector has achieved net income amounted for \$132.5 million by the end of 2015, decreasing by 9% compared to 2014. This decrease can be attributed to increase in costs at larger percentage than revenues. While the sector has generated revenues amounted to \$510.4 million with a net increase equal to 3.6% relative to 2014, the costs amounted to \$335.6 million with a net increase equal to 13% relative to 2014. These numbers indicate that the banking sector have focused its goals on financial targets through generating revenues and ignored improving efficiency in banking processes.

Considering all revenue streams in the Palestinian banking sector, 73.3% of the revenues can be attributed to interests generated from credit facilities, while the rest are attributed to banking commissions, currency exchange, and investment. This structure of the revenue streams indicates that the Palestinian banking sector is still focusing on its most important function; working as an intermediary between investors and borrowers. However, It is worth mentioning that while Palestinian banks operate in a declining economy with limited resources and fierce competition, they need to start focusing on finding other source of revenues which doesn't depend on depositors' money, and increasing banking processes efficiency in a way which will limit the increase in operational costs.

2.3 Conclusion

Despite the difficult environment in which the Palestinian financial sector exist, it successfully covered most of the common sub-sectors divided into sectors governed by PCMA including market securities, insurance companies, leasing companies, real-estate mortgage and sectors governed by PMA including specialized lending institutions, currency exchange sector and the banking sector, with each of these sectors possessing a great potential to positively contribute to the Palestinian economy.

While all these sectors exist and contribute to the Palestinian economy, the banking sector remains the largest and the most stable, evidenced by the market securities exchange indicators, and the banking sector financial indicators which show stability and growth. In addition, the banking sector employs the largest number of employees, has the largest spread and reach to customers, and the largest penetration rate among all the existing financial sub-sectors. As such, any performance measurement system applied to the banking sector, must take into consideration these indicators, and must be suitable to the size, weight and the stable and growing nature of the Palestinian banking sector.

Chapter Three: Literature Review

Introduction

In order to fully comprehend what Performance Measurements Systems stand for and its importance to any business environment, it is rather essential to understand what “Performance” as a term stands for.

Performance may be defined as the end result of an activity (Wheelen & Hunger, 2012). Performance can also be defined as the ability of an entity such as a person, group or an organization, to make results in relation to specific and determined objectives (Lebas & Euske, 2004). Others define performance as the measurable achievements produced (Harbour, 1997). Of all the provided definitions, a major theme stands out: how well the end result of an activity matches the desired outcome.

Accordingly, the evaluation of an activity’s performance depends on the evaluator’s standards of the required end result of the activity under examination against its actual end results. If the actual end result meets the required or expected end result, then an activity is said to have a high or strong performance, otherwise it is said to have a low or poor performance. This process of comparing the actual performance to the desired performance is called *Performance Measurement*.

Performance Measurement: The Tool

Performance Measurement is an established concept that has taken renewed importance in varieties of organizations. This concept is constantly enhanced by scholars and organizations, for its importance in performing organizational control; the process of ensuring that an organization adopts and follows strategies that will lead to the attainment of the overall organizational goals and objectives (Nanni, Dixon & Vollmann, 1990).

In today’s business environment where organizations face increasing competition, continuously changing demands, and changes in the business roles; organizations are forced to

examine and improve their strategies and management systems regularly. One main condition to improve and achieve excellence is to develop and implement a performance measurement system, as a tool to evaluate success in achieving business goals (Kanji, 2002).

Performance measurement can be carried out as a systematic and continuous process for the entire organization or performed temporarily for a particular purpose. Organizations usually design performance measurement tools to determine various aspects such as identifying the ability of the organization to respond or meet customer needs, attesting outcomes of finalized activities and exploring the unknown. It is also important for decision making processes as all decisions shall be made based on facts not assumptions. Further, it is significant in revealing problem fields or fields with possibilities to enhance (Parker, 2000).

Bititci, Turner & Begemann (2000) identify four key aspects that performance measurement encapsulates. These are:

- Adaptable to changes that an organizational environment might encounter at any stage whether internal or external.
- Ability to review and contribute to reprioritizing objectives.
- Contribution to deploying the changes to objectives, and ensuring all parts of an organization are aligned.
- Contribution to sustainability and continuity of resulting improvements.

It is noteworthy to say that Performance Measurement stands as the basis for an organization to evaluate its progress towards objectives, identify strengths and weaknesses, and decide on future initiatives. Yet, it is important to be aware that while performance measurement stands as one key element to effective management, it's not the only one (Striteska and Spickova, 2012). In the process of tailoring the measurement process; it is essential to keep in mind that this process is not an independent result, but a mean which contributes to a larger and more

comprehensive system. On the same note, Neely, Adams & Kennerley (2002) identify performance measurement as the process of quantifying the efficiency and effectiveness of past actions, which states that the outcomes of performance measurement identify what happened, not why it happened or what to do about it.

The prevailing definition and the literature in general explains that the performance measurement is more focused on the measurement activities themselves, than on the context in which the measurement process takes place . It is the validity of the measurement that is more important in this stage. In a later stage the results of this process, can be used in the improvement and planning processes (Striteska & Spickova, 2012).

Therefore, for an organization to use performance measurement effectively, it must be able to make the transition from measurement to management by anticipating needed changes in the strategic direction of the organization, and establishing a methodology for considering the results of the performance measurement process in the strategic change. This concept is defined in the literature as 'performance management'.

Performance Management: The Definition

Procurement Executives' Association (1999, P.5) defines performance management as "the use of performance measurement information to effect positive change in organizational culture, systems and processes, by helping to set agreed-upon performance goals, allocating and prioritizing resources, informing managers to either confirm or change current policy or program directions to meet those goals, and sharing results of performance in pursuing those goals".

The key idea in performance management is: an organization uses performance measurement to define its desired performance, identify ways to measure this performance through well formulated key performance indicators, and identify whether it was accomplished and how much it cost to accomplish. Subsequently, the results of performance measurement will be incorporated and used by other performance management activities, in order to equip the

organization at different levels with tools and techniques which will help in planning, monitoring, measuring and reviewing performance against the desired outcomes (Striteska & Spickova, 2012).

Performance Management vs. Performance Measurement

Performance management is the process through which the organization uses its performance measurement results to guarantee the successful implementation of its strategies and objectives (Striteska & Spickova, 2012), while performance measurement is one element of the performance management (Striteska & Spickova, 2012).

Performance measurement specifically deals with performance measures that are the quantitative indicators which track progress towards goals and objectives. Performance management on the other hand uses the results of the performance measurement to identify cause and effect relations, as well as considering further actions to achieve the objectives more successfully. In brief, while performance measurement is an organization's way to track its progress, performance management tells the organization how to manage the results.

3.1 History and Development of performance measurement

In order to understand how performance measurement is used as an essential tool to assess and evaluate organizations' success, it is important to shed light on the roots and history of these systems. Performance measurement has been a common tool for assessing organizations' success throughout history. The modern accounting principles can be traced back to the Middle Ages when double entry accounting system was developed to arrange the relations between traders, and since then performance evaluation has been dominated by financial criteria (Kennerley & Neely, 2003).

By the mid of the 19th century and the beginning of the twentieth century, organizations evolved to reach a point where ownership and management are separated. As a result firms had to create internal controls which will assist in coordinating the several activities which will affect the performance of the organization (Kaplan, 1984), and new performance measures such as the return on investment were introduced to enable owners to monitor the actions of the managers and their corresponding performance (Kennerley & Neely, 2003). Since then, the vast majority of adopted performance measures were dominated by financial measures of similar nature.

Kaplan (1984) argues that the year 1925 saw the peak in creating and developing most of the performance measurement practices related to financial measures. He explains that any development made after that date till the 1980s, where mostly investment appraisal approaches like the discounted cash flow. This lack of innovation during this long period of time may be referred to the economic prosperity companies in the west enjoyed during this period, in addition to the emerging requirements by the regulatory bodies to oversee the financial reports of the companies, through standard and agreed upon reporting mechanisms.

By the 1980s, both scholars and organizations began to realize that the traditional financial performance measures were no longer sufficient for organizations to be able to compete in modern competitive markets (Kennerley & Neely, 2003), mainly because with the growing complexity and the increase of competitiveness in modern markets, the need for external focus on activities has emerged; a need that cannot be met by the financial measures which by nature and by definition has internal focus on activities. Scholars and organizations alike have realized that while traditional financial measures may serve as an indicator of the activities' performance of an organization, they don't provide any indication about how the performance was achieved, what are the shortcomings which the organizations suffer from, or how these shortcomings can be improved if they exist.

The deficiencies in traditional financial performance measures, taking into consideration the challenges facing companies in today's business environment, have been thoroughly discussed in the literature. These measures are considered as historical measures which provide little indication of future performance (Dixon, Nanni & Vollmann, 1991); imposes short-term planning (Kaplan, 1986); focus on internal activities and ignore important external activities related to key stakeholders (Kaplan & Norton, 1992; Neely, Gergoy & Platts, 1995); lack a strategic focus; and make individuals more concerned with meeting the standards than with continuously improving, which will inhibit innovation and encourage local optimization (Kennerley & Neely, 2003).

Kennerley & Neely(2003) explain that today's management accounting practices that depend on the organization's financial reporting system, are considered too late since decisions they measure have already been made, and are too complex to be relevant for managers at all organizational levels. This has led to the failure of traditional financial measure - as being the sole dimension in performance measurement – for many reasons including not being helpful for operating managers since they will be delivered to them too late with little focus on critical areas (Johnson & Kaplan, 1987), being of short term nature shifting the focus to increasing the short-term profits at the expense of long-term value creation (Johnson & Kaplan, 1987), being less representative of the actual shareholder value creation which depends more on non-financial factors (Cumby & Conrad, 2001) and less on financial indicators which are considered the results of management actions and performance and not the causes of it (Eccles & Pyburn, 1992), ignoring intangible assets and lacking predictive power of future performance (Chow & Stede, 2006), and finally placing a gap between strategy development and implementation since financial targets will be irrelevant to employees in most organization's operational and functional levels (Kaplan & Norton, 1996; Silvi et al, 2015).

Accordingly, several approaches were attempted to overcome the limitations of the traditional financial measures. Among the most famous attempts was enhancing accounting based performance measurement through developing new product costing techniques, which aim at providing more accurate cost information. The product costing technique that has gained the most popularity is Activity-based costing (Cooper, 1988).

ABC has gained acceptance in the management accounting discipline, and has helped the discipline to expand by including performance measurement practices. However, several researchers claim that ABC is not the solution to performance measurement not only because it is complex and expensive to implement; but also because dimensions beyond cost may be required to measure and evaluate the organization's performance. Thus, costing techniques in general are not the solution to performance measurement although they should be part of it (Neely, Richards, Mills, Platts & Bourne, 1997).

This is why in the last two decades, researchers have switched their focus to developing more comprehensive and sophisticated performance measurement systems which identify performance measures that have broader focus and are of non-financial nature.

3.1.1 Introducing Non-Financial Performance Measurement

Today, most authors accept the need to include non-financial measures in performance measurement systems. Kaplan & Norton (1992) state that organizations should not be forced to choose between financial and non-financial measures since no single measure can alone provide enough information about performance. This is why managers will need balanced measurement that uses both financial and non-financial measures.

Sinclair & Zairi (2000) argue that several authors conclude that performance measures need to be balanced in a way that combines internal measures with external benchmarks, include cost and non-cost measures, and use both result measures sought to measure effectiveness

through measuring achievement of goals and process measures which measure efficiency through measuring critical tasks applied in achieving the goals.

The argument to include non-financial measures doesn't mean that financial measures should be dropped from the performance measurement systems, but should rather be complimented and balanced with other non-financial measures; since financial performance is the most important dimension of performance to be measured (Baird, 2017; Sinclair & Zairi, 2000).

Dixon et al. (1991) call the reliance on financial measures only as the "Gordian Knot" and explains that moving from reliance on financial measures only to a more balanced financial and non-financial measurement model allows companies to focus on what really matter by dropping inappropriate measures in favor of new and more appropriate measures. They call this process cutting the Gordian knot of misguided performance measurement.

This notion doesn't only suggest that non-financial performance measures should receive greater attention in organizations, but also that there should be a connection between performance measurement and strategy. This connection should exist because performance measures should be able to measure how well an organization is achieving its strategic goals, in terms of both efficiency and effectiveness (Baird, 2017). Not having this connection will result in useless measures, will leave management sunk in useless data, and will cause strategies to become unmanageable.

Many authors have established and explained the connection between performance measurement and strategy. Sinclair & Zairi (2000) explain that unless we device and use relevant measures and performance indicators, organizations can't be managed. Wheelen & Hunger (2012) state that control follows planning to ensure that the organization is achieving what it sets out to accomplish. They further elaborate that this control process compares performance with

desired results and provides feedback necessary for management to evaluate results and take corrective actions.

While the connection is clear between performance measurement and strategy, it is of great importance to understand that emphasizing financial measures in performance measurement and ignoring other important non-financial measures will most probably create a gap between strategy development and strategy implementation, and will cause strategies to fail. According to Anand (2004), there are four barriers responsible for the failure of strategy implementation:

- Vision Barrier: which means that most of the people in the organization do not understand the adopted strategies.
- People Barrier: The goals of most employees are not linked to the strategy.
- Resource Barrier: misallocation resources to non-critical activities.
- Management Barrier: Management allocates most of its time to achieve short-term wins.

Based on the previously discussed literature about the shortcoming and nature of financial measures, a conclusion could be reached that depending on financial measures might be a strong reason of creating a gap between strategy development and implementation since financial measures will not be relevant to employees in many levels in the organization which will cause both vision and people barriers, focusing on financial measures will cause the companies to misallocate resources and ignore the more important processes causing a resource barrier, and finally being of short term nature, financial measures will cause management barrier.

The above literature clearly establishes the need to consider multiple dimensions in measuring organization's performance. These dimensions will be measured through a well-established performance measurement system that uses relevant and predefined set of measures, which when compared with well identified targets, will provide information of enough

quantity and quality to managers, to first support the performance management activities, and second support the strategic decision making process.

3.2 Performance Measures

Literature defines measures as metrics used to quantify and compute an action's efficiency and effectiveness (Bourne, Neely, Mills & Platts, 2003). There is a strong consensus among scholars that organizations should derive their measures from the organization's strategy (Bourne, Mills, Wilcox, Neely & Platts, 2000).

When the measures are derived from strategy, the initial use of them would be measuring the success of implementing the corresponding strategies and as such the information and feedback from the measures will be used to challenge the assumptions and test the validity of the strategy (Kaplan & Norton, 1996). These measures do their job through a set of key performance indicators (KPIs) at the organization's level which are derived from the organization's strategic objectives and key success factors (Sinclair & Zairi, 2000), and then be cascaded down the organization's hierarchy through a set of relevant performance indicators.

Despite the fact that there is dire need to have both organizational-level and functional/process-level measurements, the areas of measurements and the measures themselves have always been subject to discussion and controversy among scholars. For Example, Maskell (1991) suggests that organizations should measure performance in the areas of quality, process, delivery, flexibility, time, cost and social issues. Fitzgerald et al. (1991) believe that performance measures should be divided into areas which cover the end results such as competitiveness and financial performance, and the determinants of these results such as quality of service, flexibility, resources and innovation. Other scholars such as Cross & Lurch (1988), Kaplan & Norton (1996), Neely, Adams & Crowe (2001) and others, suggest different areas where measurements must be derived from.

Although the exact performance categories differ between researchers, there is consent among them that these measures should cover more than one dimension. These dimensions, and the corresponding measures may differ among organizations, since each organization has its unique set of internal environment and corresponding strategies, competencies, goals and key success factors. This is why scholars do not usually suggest measures, but rather a framework for allowing companies to choose the right measures for themselves.

After choosing the measures, they must be linked to targets. Targets are the goals that specify a measurable outcome rather than a conceptual destination, and are usually associated with the measures under investigation. Ideally targets are set by executives, managers, and workers collectively in order to guarantee buy-in and more accurate targets.

Targets can be derived statistically, or they can be benchmarked against a reference point, (i.e. Competition, market leaders, or comparable companies). Regardless of the types and nature of targets used, they must have motivational impacts on individuals and must be challenging enough to boost performance (Sinclair & Zairi, 2000). However, it is very important to understand that measures and their corresponding targets must be used as part of well-defined performance measurement system that is fully integrated with the management and decision making process, and not as individual standards to be met.

3.3 Performance Measurement Systems

Performance Measurement System is considered one of the hottest topics that are repeatedly discussed in the business management fields. Fields such as accounting, strategic management, operations management, marketing, and organizational behavior have all contributed to the literature and research related to the topic (Franco-Santos & Bourne, 2005). This interest in the topic exists because the performance measurement system helps the

companies to balance growth versus control, short-term performance versus long-term performance, and opportunities versus threats (Franco-Santos et al., 2007).

In spite of this interest in the topic, the field of performance measurement systems, lacks a cohesive body of knowledge (Marr & Schiroma, 2003), as evidenced by the diverse and multi-disciplinary researches related to the subject. This multi-disciplinary research in the field of performance measurement has led to little consensus about the definition of performance measurement system (PMS), and subsequently its main features and characteristics.

To solve this confusion, Franco-Santos et al. (2007) reviewed the PMS definitions introduced in the literature by different scholars from various research disciplines. They found 17 different definitions depending on the author of the definition and the research discipline it represents. Yet, they were able to categorize the definitions of PMS into three main categories. First, introduced by Neely et al. (1995) is the operations perspective, which identifies PMS as a set of metrics to quantify efficiency and effectiveness of actions. Second, introduced by Ittner, Larcker & Randall (2003) is the strategic perspective, which defines a PMS system as a tool to cascade performance measures to all organizational levels in order to achieve strategies align operations with strategic objectives. The third perspective was suggested by Otley (1999) which identifies PMS as a tool for planning and budgeting of actions and results. Out of the three categories of definitions of a PMS system, the most cited and most popular one is the one provided by Neely et al (1995). Nevertheless, the literature suggests that these definitions may exist alone or complement each other depending on the business nature and need.

Due to the lack of consensus on a certain definition, Franko-Santos et al. (2007) suggests that in order to provide a comprehensive definition of a PMS; one must identify the necessary conditions for its existence. Several researchers such as Dixon et al. (1991) and Tangen (2004) have discussed the key characteristics of a PMS. According to them, a PMS should:

- Be supportive to, and derived from the business's strategies and critical success factors.
- Be understandable, through utilizing as few and simple set of measures as possible.
- Have appropriate and balanced measures. Balance means not solely seeing the performance from a financial point of view, but rather, focusing on short-term and long-term results, balancing several organizational levels, and focusing on various business perspectives like the customers, shareholders, competitors, and innovation.
- Provide a set of measures for each organizational level, which allow all members of the organization to understand how their work affect the entire business, and guard against sub-optimization.
- Support organizational learning and continuous improvement.

Although this result was also accepted by Franco-Santos et al. (2007), they explain that not all characteristics mentioned might exist in the PMS. Nevertheless, there are minimum features and roles which must be satisfied by any PMS. Following the analysis of the definitions of BPM systems, Franco-Santos et al. (2007) argue that there are two necessary features for a PMS to exist: the existence of supporting infrastructure, and the existence of performance measures which cover the needed perspectives (internal, external, financial, non-financial, short-term, long-term), link the PMS to reward system and link the PMS to its environment in a way which reinforces strategies and culture and considers customers and other stakeholders. Besides these two features, Franco-Santos et al. (2007) suggest adding the link to strategic goals as a third feature, although they admit that some performance measurement systems of operational nature or short term focus, might exist without having this link.

Franco-santos et al. (2007) have also summarized the five necessary roles, which any PMS should satisfy. These are:

- Measuring Performance Role: this Role encompasses monitoring progress of performance achieved and measuring performance of actions, against specific targets.
- Strategy Management Role: this role includes applying strategic management philosophies into a company by developing, formulating, and implementing strategies and providing alignment between processes and objectives.
- Facilitating Communication Role: This role comprises the roles of facilitating communications within the company as well as with parties outside of the company.
- Influencing Behavior Role: involves deciding on rewarding or compensating behavior.
- Learning and Improvement Role: This role embraces the roles of feedback and learning.

3.3.1 Performance Measurement System and Strategy

There has been growing research about the relationship between PMS and strategy. PMS is mostly used to monitor how effective and efficient the organization is exploiting its resources in achieving its objectives. This link to organization objectives, implicitly indicates that an effective PMS will measure the effectiveness of the formulated strategies in achieving the organizational objectives (Smith, 1997). This implicit connection between the performance measurement and strategy was also established by Garengo, Biazzo & Bititci (2005) who have reported that performance measurement can affect the successful implementation of organization's strategy. Other studies went further, by stating that a PMS should play a valuable strategic role and enhance strategy formulation and implementation (Baird 2017; Silvi et al., 2015).

Mintzberg (1978) defines a strategy as the activity of defining long-term organizational objectives, and adopting actions and allocating resources needed for achieving these objectives. Scholars suggest that companies should design their performance measurement system in accordance with the company's business strategies (Kaplan & Norton, 1996), as well as the

operational aspects (Neely et al., 2002), in order to link the strategies to the strategic objectives, as well as to functions and individuals.

Scholars also suggest that the strategic focus a company might adopt, must be unique and requires different set of performance measures (Jusoh, Ibrahim & Zainuddin, 2006). This shall be the approach since each strategic focus controls its own set of dimensions. For example, while a low price strategy requires greater emphasis on the cost and efficiency dimensions, a differentiation strategy would emphasize dimensions which are more important to the customers such as quality, service and delivery. Accordingly, using traditional accounting-based performance measures would be emphasized in measuring and controlling efficiency that is required to achieve cost leadership, while non-financial measures would be more suitable for a differentiation strategy (Lynch & Cross, 1991).

This connection between the PMS and strategy, clearly indicates that a firm's strategy is also more likely to affect the design of the PMS (Pedersen & Sudzina, 2012). Garengo et al. (2005) suggest several attributes where PMS is affected when it adopts strategic focus:

- The PMS will combine multi-dimensional measures.
- The PMS will balance financial and non-financial indicators.
- The PMS will derive the non-financial indicators from key success factors.
- The PMS will include an organizational learning and feedback tool.
- The PMS will emphasize a cause-effect link between operations, strategy and goals.

The question that remains unanswered so far is what the available performance measurement systems are and how they compare to each other. Phillips, Davies & Moutinho (1999) explain that determining how to measure business performance is not an easy task for two reasons: difficulties in choosing the appropriate definitions for performance that is suitable to the situation under investigation, and difficulties in finding measures and metrics that would measure

the performance based on the chosen definition. Accordingly, there is a little agreement about which business performance measurement system is the best one to implement. As a result, several frameworks and models have been developed which will help organizations in measuring performance, and will be discussed thoroughly in the following sections.

3.4 Performance Measurement System Frameworks

The literature on PMS has introduced several performance measurement frameworks and models for measuring business performance such as Sink and Tuttle Framework (Sink & Tuttle, 1989), The Performance Measurement Matrix (Keegan, Eiler & Jones, 1989), Results and determinants framework (Fitzgerald et al., 1991), Balanced Scorecard System (Kaplan & Norton, 1992), the performance pyramid system (Lynch & Cross, 1991), The European Foundation for Quality Management Excellence Model (EFQM, 1992), Theory of Constraints (Goldratt, 1990), the Performance Prism System (Neely et al., 2001), and Kanji Excellence Model (Kanji, 2002).

These systems suggested a wide range of measures and dimensions and offered different models for measuring performance. Srimai, Radford & Wright (2011) provided a summary of the key dimensions used in performance systems since the 1980s, these are as follows: effectiveness, efficiency, financial, customer, internal processes, learning perspective, growth, renewal, employee's competences, internal and external structure, stakeholder satisfaction, stakeholder contribution, process, and people.

Table 3-1 summarizes the most popular performance measurement frameworks and models. It also entails a comparison of the pros and cons of the frameworks and models, based on the definition and characteristics of a performance measurement system, which was discussed previously. For more details about the frameworks discussed below, and how these frameworks operate, refer to ANNEX I.

Table 3-1: Popular Performance Measurement Frameworks (Source: Data Analysis)

Framework	Main Dimensions	Strengths	Weaknesses
Sink and Tuttle (1989)	<ul style="list-style-type: none"> • Effectiveness • Efficiency • Quality • Productivity • Quality of Work Life • Innovation • Profitability 	<ul style="list-style-type: none"> • Details the measures and dimensions 	<ul style="list-style-type: none"> • Lacks a causal relationship between dimensions • Lacks connection with strategy • Doesn't support organizational learning and continuous improvement • Ignores important dimensions such as the customers • Limits the definitions of dimensions to certain ratios
Performance Measurement Matrix (Keegan et al, 1989)	<ul style="list-style-type: none"> • Internal • External • Cost • Non-Cost 	<ul style="list-style-type: none"> • Details the types of measures and dimensions 	<ul style="list-style-type: none"> • Lacks a causal relationship between dimensions • Lacks connection with strategy • Lacks the structure and details, making it complex to use and implement

<p>Results and Determinants Matrix (Fitzgerald et al., 1991)</p>	<ul style="list-style-type: none"> • Financial Performance • Competitiveness • Quality • Flexibility • Resource Utilization • Innovation 	<ul style="list-style-type: none"> • Establishes a causal relationship between the leading indicators (Quality, Flexibility, Resource Utilization, Innovation) and the lagging indicators (Financial performance and Competitiveness) 	<ul style="list-style-type: none"> • Ignores the link between dimensions inside the same category (inside lagging indicators or inside leading indicators) • Lacks the connection with Strategy
<p>The SMART Performance Pyramid (Lynch & Cross, 1991)</p>	<ul style="list-style-type: none"> • Market • Financial • Customer Satisfaction • Flexibility • Productivity • Quality • Delivery • Cycle Time • Cost 	<ul style="list-style-type: none"> • Establishes a causal relationship between the framework levels and dimensions • Establishes a link between strategy and operations • Considers internal and external environment 	<ul style="list-style-type: none"> • Doesn't provide a mechanism to identify key performance indicators • Doesn't support organizational learning and continuous improvement

<p>Balanced Scorecard (Kaplan and Norton, 1992;1996;2004)</p>	<ul style="list-style-type: none"> • Financial • Customer • Internal processes • Innovation and Learning 	<ul style="list-style-type: none"> • Well packaged with a clear vision and strategy • Double-loop feedback which supports communication, organizational learning and continuous improvement • Establishes a causal relationship between dimensions • Establishes a link between measurement and strategy • Considers multiple dimensions of short-term and long-term nature 	<ul style="list-style-type: none"> • Doesn't consider all stakeholders • Top-down approach which fails to communicate information to all employees • The causal relationship is not true in all cases and ignores the time lag between the leading and lagging factors • Suitable only for stable organizations
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<p>European Foundation for Quality Management Excellence Model (EFQM, 1992)</p>	<ul style="list-style-type: none"> • Leadership • People Management • Policy and Strategy • Resources and Processes • People Satisfaction • Customer Satisfaction • Impact on Society • Business Results 	<ul style="list-style-type: none"> • Suitable for self-assessment and benchmarking • Feedback loop which supports organizational learning and continuous improvement • Establishes a causal relationship between the dimensions • Considers multiple dimensions 	<ul style="list-style-type: none"> • Not suitable for communication among the organization levels • Lacks the connection with strategy • The casual relation ignores the time lag between the cause and effects • Criteria is too broad making it difficult to define measures and targets • Depends on assessment questionnaires rather than actual data
<p>Theory of Constraints (Goldratt, 1990)</p>	<ul style="list-style-type: none"> • System Constraints 	<ul style="list-style-type: none"> • Protects from information overload 	<ul style="list-style-type: none"> • Lacks the characteristics and structure of a true PMS

		<ul style="list-style-type: none"> • Uses measures that are easy to access and easy to comprehend 	
<p>Kanji Business Excellence Model (Kanji, 2002)</p>	<ul style="list-style-type: none"> • Leadership • Delighting the customers • Management by Facts • People • Continuous Improvements • Customer Focus • Process Improvement • People Performance • Culture 	<ul style="list-style-type: none"> • Suitable for self-assessment and benchmarking • Considers multiple dimensions • Considers all stakeholders • Considers key success factors • Helps in identifying blind spots and highlights improvement areas 	<ul style="list-style-type: none"> • Not suitable for communication among the organization's levels • Lacks support for continuous improvement and organization learning • Lacks an explicit connection with strategy • Criteria is too broad making it difficult to define measures and targets • Depends on assessment questionnaires rather than actual data

	<ul style="list-style-type: none"> • Performance Excellence • Values • Organizational Learning • Stakeholders 		
Performance Prism (Neely et al., 2001)	<ul style="list-style-type: none"> • Stakeholders • Strategy • Processes • Capabilities 	<ul style="list-style-type: none"> • Double-loop feedback • Link measurement with Strategy • Supports multi dimensions • Provides a mechanism to communicate measures to all organizational levels • Considers all stakeholders • Connect measures with strategy and key stakeholders 	<ul style="list-style-type: none"> • Not clear how to design and implement • Suitable only for stable organizations

3.5 Performance Measurement in Services

The previous sections provided insights about the researchers' increased attention to non-financial performance measurement, notably during the recent years. Although many of the researchers discussed the issue of performance measurement in manufacturing industries, very few studies were devoted to service industries (Hussain, 2005).

The reduced attention to service industries relative to manufacturing is surprising, considering the substantial contribution of service industries to gross domestic products and employment in most advanced economies (Hussain, 2005). Moreover, what is known about the factors affecting the design and implementation of an effective performance measurement system is much less in service business than in manufacturing, and most of the studies in this area, have been conducted in western and developed countries (Hussain, 2005).

This lack of attention to the service business in the performance measurement literature can be referred to several reasons:

- Much of the recent literature on non-financial performance measurement does not differentiate between performance measurement in manufacturing industries and in services, mainly because researchers usually focus on the development of performance measurement systems that are either suitable for any organization, or specifically tailored for a certain organization or a small sector of organizations (Sinclair & Zairi, 2000).
- Many non-financial performance indicators can be easily identified in manufacturing businesses, but not as easy in service businesses, notably because of the continuous intervention of governing bodies, and the more subjective nature in services than manufacturing, to the definition of terms such as quality, productivity, product core values, customer service, and customer satisfaction, to name few (Hussain, 2005).

- The most famous frameworks occupying much of the literature in the discipline, either were developed as generic strategic management and performance measurement tools such as the BSC, or focus on process optimization and total quality that is more tailored to manufacturing settings, such as excellence quality models.
- Many of the studies on performance measurement in the service industries have focused on the adaption of manufacturing performance measures to be used in services, including productivity, quality, and customer satisfaction (Sinclair & Zairi, 2000).

3.5.1 Common Performance Dimensions in Services

A recent study conducted by Tyagi & Gupta (2013), suggests that in order for a service business to be monitored for performance; several elements and aspects of measurement must be considered:

- **Growth:** It refers to innovation in a business model, service concepts, processes, access, and delivery. It is a key element in measuring the long-term growth of a firm. Sample measures of this element include revenue share from new offerings, launch rate, commercial success rate and time to market.
- **Leadership:** It presents the impact of the decision-making practices followed by the management on corporate performance. Sample measures of this element include the financial health of the service firm representing the CEO's commitment to creating value to shareholders, corporate social responsibility initiatives followed by the business, and employee recognition by top management.
- **Acceleration:** It refers to the rate of improvement and encourages the involvement of all stakeholders for an improved service performance. A Typical measure is the rate of improvement in reducing wastes and variations in addition to increasing market position on the SBU unit.

- Collaboration: It refers to partnership management. The measure here could be partner satisfaction and time to deliver.
- Employee Innovation: It refers to the impact of employees' engagement on service innovation, and is related to employees' skills, knowledge and competency. An ideal measure of such an element includes employee satisfaction and level of involvement.
- Execution: It refers to operational execution and internal processes performance. Examples of measures related to this element include response time, time to deliver, and learning curve.
- Retention: Refers to customer retention, which has direct impact on the company's profitability and growth.

3.6 Performance Measurement in the Banking Industry

The banking industry has recently experienced major changes due to the impacts of globalization, global financial crisis, advancements in information technology, international risks, terrorism, and regulations (Wignall & Atkinson, 2010).

The speed and intensity with which the global banking industry has changed, led to global expansion across borders, growth in international transactions, and the restructuring and consolidation of banks. These rapid changes have motivated the banks to change the mechanisms applied to manage risks and mitigations, focus more on innovation and efficiency, and change the way they manage and measure their performance (Helliar, Cobb & Innes, 2002).

Accordingly, banks became subject to increasing pressure by their stakeholders, demanding an improvement on the performance. This, technically, forces banks to re-examine their applied management control mechanisms and technologies. It also adds pressure to ensure reducing the non-performing assets, focus on efficiency and cost reductions, enhance corporate governance, and adopt customer centric initiatives (Helliar et al., 2002). Additionally, initiatives

such as Basel Accords and CAMELS, have introduced risk-adjusted guidelines which directly affected the banks organizational structures, strategies and most importantly performance measurement systems (Geyfman, 2005).

These changes all together have enforced banks in the global environment to adopt more technologically sound management practices, which have led to reconsidering the suitability of existing control systems, including performance measurement systems. This has resulted in an increasing need to introduce changes to PMS in response to the increasing requirements to innovations in management controls, as a way to meet the challenging environment and increased competition. These changes are becoming must-haves and should be applied proactively before they lose relevance to current and rapidly changing business environment (Ferreira & Otley, 2009).

However, not only that performance measurement systems in banking industry must change, but also they must change in a way that allows the banks to a adopt holistic performance measurement systems, in order to demonstrate to stakeholders the bank's ability to exploit financial and non-financial measures and provide investors with accurate and factual performance information. This holistic view of performance measurement can be achieved through integrating both financial and non-financial performance measures in the bank's performance measurement system.

Li & zhang (2009) argues that this is very important in order for banks to compete in an effective and proactive manner; since non-financial measures will provide the bank with a future looking performance measurement, insights about both the internal and external environments that are important to win competition, and ability to put emphasis on both tradition assets and intellectual and intangible assets.

3.6.1 Researches on Performance Measurement in Banks

The increased understanding of the need to reconsider the traditional performance measurement practices applied by banks, have globally ignited the conduction of many researches to look into performance measurement practices applied by banks.

Pandy (2005) reported the results of an exercise done by a group of managers of a large bank, who developed a multi-perspective performance measurement framework for their bank. The experiment demonstrated that internal processes improvements and other non-financial variables greatly surpassed the financial variables, and helped in achieving strategic objectives.

Harold (2006) developed a comprehensive multi-perspective performance measurement for the IT function in the banking sector in India. He found that such a framework can guarantee better performance measurement practices in Indian commercial banks. In a similar context, Chiang & Lin (2009) developed an integrated multi-perspective framework through a study which revealed that this framework will help in translating the results of performance measurement into managerial implications.

In a study by Ayadi, Adebayo & Omolehinwa (1998) about the Nigerian banking sector, authors argued that the performance measurement systems applied by the Nigerian banks which depended on profitability and short-term financial measures, was the reason behind the crisis that hit the Nigerian banking sector which erupted in the early 1990s. They argued that these systems were weak and made some banks appear good performing, although they depended on a sole source of fund which is the Nigerian government, and that they should have been liquidated long time ago.

This discussion, thus far, have illustrated the need for a multi-perspective non-traditional performance measurement framework to be applied within banks, which works in uncertain and highly competitive environment. However, in practice, the adaptation of such frameworks is not

yet mature enough in both developed and developing countries. For example, in a research conducted by Hussain (2003) which studied banks in Sweden, Finland and Japan, the research has come to a conclusion that although most of the banks investigated are aware of the importance of considering non-financial measures in their measurement systems, yet they depend mostly on financial measures and measure them more regularly and frequently than non-financial measures. Several other studies have come to similar conclusions, that most of the banks give more significance to financial measures, although they use customer related measures and other non-financial measures. Examples of such studies include Ahmed, Bowra, Ahmad, Nawaz & Khan (2011) conducted on 27 Pakistani banks, Fakhri, Menacere & Pegum (2011) conducted on 55 Libyan banks, and Al-Najar & Khalaf (2012) conducted on Iraqi banks.

3.6.2 Common Performance Dimensions in Banking

Although it is a given that banks shall focus more on the financial measures, several authors have discussed the importance of considering a range of dimensions and sub-dimensions in a bank's performance measurement system, whether collectively or individually/separately. Examples include:

- Ozturk & Coskun (2014) argue that the four dimensions of the Balanced Scorecard are to be considered, and that they are the most common dimensions among the banking and financial institutions. Two surveys done among financial institutions, one conducted in 1999 which looked into 140 financial institutions in the US, and another conducted in 1998 on the UK's biggest 20 banks, have both concluded that about 49% of researched financial institutions used BSC.
- Ozturk & Coskun (2014) concluded that banks must at least consider the following sub dimensions which represent a useful model for banks performance measurement system:

Table 3-2 Banking Performance Dimensions (Source: Ozturk & Coskun, 2014)

Dimension	Sub Dimension
Financial	<ul style="list-style-type: none"> • Sales • Return on assets • Debt ratio • Earnings per share • Return on investments • Net profit margin • Net Income
Customer	<ul style="list-style-type: none"> • Customer satisfaction • Market share rate • Profit per customer • Customer retention rate • Profit per customer • Customer increasing rate
Internal Process	<ul style="list-style-type: none"> • Number of new service items • Customer complaints • Transaction efficiency • Rationalized forms & processes • Management performance • Sales performance • Efficiency Ratio
Learning and Growth	<ul style="list-style-type: none"> • Response of Customer Service • Professional training

	<ul style="list-style-type: none"> • Employee stability • Employee satisfaction • Organization competence
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- Ozturk & Coskun (2014) mentioned that the data for targeted performance must always be determined by a comparison with competitors. Therefore it is essential to consider Competition when applying relevant banking performance measurement system.
- Ozturk and Coskun (2014) also argue that information technology is a key dimension which must be considered in today's banking performance measurement systems.
- Frigo, Pustorino & Krull (2000) explain that long term performance measures in a banking environment must include time and money spent on strategy formulation, planning and training, amount of money invested in technology infrastructure, and a comparison, view and study of competition.
- Ayadi et al. (1998) argue that bank's sources of fund are performance indicators of long term performance.
- Hussain (2003) have concluded in a study conducted on Finnish, Swedish and Japanese banks that the most important dimensions to be considered in a banking performance measurement system are listed in order to be: customer satisfaction, quality of service, commitment to stakeholders, research and development efforts, and social responsibility.

Despite the importance and relevance of all the above mentioned measurements, they remain subject to amendments according to the objectives and strategies of the business. It is also very important for the measurement system to stay responsive to the environment in which the bank conducts its business. In a study conducted by Tanner (2009), he concluded that a primary difference between banks that succeed and those that fail is the ability to respond to changes in the environment it operates in, which will ultimately determine their performance.

Hence, the importance of adapting a performance measurement systems to recent environmental conditions.

As explained by Dixon et al. (1991), a good measurement system needs to be continually changed in order to remain effective. As one set of goals or objectives is satisfied, or as the set of measures becomes too gross to detect improvement, a new set needs to be articulated, and the old set needs to be discarded or modified. This means there can never be a set of good performance measurement that is stable over time.

3.6.3 Environmental Factors Affecting Banks Performance

The literature suggests that changes in performance measurement systems are influenced by the Macro-Level environment of banks (Hussain & Hoque, 2002). These changes if properly predicted, will help banks increase productivity and accountability, in addition to boosting their ability to survive in a highly competitive environment (Helliard et al., 2002). According to Hussain & Hoque (2002), changes in the macro-environment will automatically result in changes in banks strategy, structure, and management control systems including performance measurement system. These macro-level factors affecting the banking industry in general include economic conditions, technology, socio-cultural and political conditions.

Economic Conditions

Hussain (2003) argues that managers who face greater economic and environmental uncertainties focus more on financial than non-financial Data. He also argues that while greater economic uncertainty increases the importance of financial performance measures, fierce competition forces management to focus on long term survival tools which obliges non-financial measures to stand out.

The economic climate particularly for banks has recently been uncertain due to factors including globalization, deregulation, privatization, and highly fluctuating inflation and interest rates (Helliard et al., 2002). These economic conditions put pressure on banks to improve performance, which ultimately affects the PMSs adopted. The recent financial crisis has forced many banks to change their PMS and internal management controls, by incorporating strategic planning, risk based measurements and proactive, intelligent and automated reporting systems.

The Banking industry used to be a highly protected and safe industry. It only saw restrictions on domestic and foreign entry. However, the current trends of deregulations have led to increased and fierce competition between banks and other financial institutions, in addition to the growing presence of foreign banks and eroded market share of many banks. This has forced banks to create efficiency in financial services, while increasing the quality of financial products, and focusing on innovation (Obermann, 2006). Competition and deregulation has also added pressure on the source of funds among banks, by removing ceilings on deposits rates; putting pressure on the banks' profits and forcing them to focus more on quality of service, customer satisfaction, providing full stack services and products, enforcing presence online and through technological platforms which facilitates self-service, and allow for global presence at the highest efficiencies and minimal costs.

Consequently, a substantial number of banks are applying an integrated holistic PMSs which cover all these complex aspects of business, and apply internal controls for different activities.

Technology

The impact of technology on management practices including performance measurement has been well recognized in the literature, which suggests that technology is contributing significantly to the expansion of the banking industry, and that its impact is even stronger on services than on manufacturing companies (Kaplan & Norton, 1996).

Technology created opportunities for banks to improve quality of service, boost customer satisfaction and provide a wider range of financial products and services. E-banking, e-finance and other self-service and automated services have enabled banks to provide services which are not directly connected to the cost of funds, such as internet banking, debit cards, e-services, smart cards and credit cards (Allen, McAndrews & Strahan, 2002).

These methods enabled banks to create new delivery channels, increase efficiency, reduce costs, facilitate global existence and offer a full package of financial services and products. Consequently, banks have started to adopt customer-centric strategies and facilitated customizations of services, pricing, tracking, risk management based on individual accounts and classifications of accounts (Helliard et al., 2002).

Additionally, technology enabled banks to track performance at the transactional level, and to facilitate automatic and proactive performance measurement through the implementation of data warehouses and business intelligence infrastructures (Helliard et al., 2002). Nevertheless, this adaptation and dependency on technology has left the banks subject to increased risk, and potential to float over an overwhelming volume of data and measures.

Socio-Cultural and Political Environment

The Socio-cultural and political factors are generally characterized by the rules and requirements, with which individuals and organizations must comply. These factors appear to changes in the interests of individuals or groups, changes in the underlying power distribution, differentiation of groups and the existence of heterogeneous or divergent beliefs and practices. For example, in many Islamic countries, banks have been forced to work based on a profit and loss business model that is interest free, in order to satisfy the beliefs of Islam (Ahmad, 1993). Consequently, central banks in many Islamic countries were forced to issue a separate set of regulations for Islamic Banking.

Relevant literature suggests that banks follow international standards and quality measurement stipulations either voluntarily or obligatorily. These standards are usually determined by countries such as the USA, or organizations such as ISO and the United Nations. Consequently, these banks are forced to adapt their performance measures to conform to the recommendation of such bodies (Holland, Lockett & blackman, 1997). For instance, the Bank for International Settlements has made it obligatory for banks operating in developing countries to implement performance measures and internal control systems that are set under Basel Accords, in order to be able to operate in international markets.

Regulatory Control

Banks are required to operate under the regulations of the Central Bank or similar official bodies. The failure to comply with the central bank's regulations and guidelines results in financial penalties or cancellation of a banking license. The regulatory bodies issue stipulations that regulates the industry such as setting certain financial ratios (e.g. loans/deposits ratio, capital, and reserved funds ratios), pricing strategies and regulations, compliance to certain marketing standards and compliance to certain transparency standards, to name few.

Banks, thus, are required to improve their internal management control and performance measurement systems to guarantee being in accordance with the regulatory bodies standards and regulations, such as Basel Accord II which seeks to improve the existing rules by aligning regulatory requirements to the risks which banks face. It is expected that banks will be even put under greater pressure to improve performance, when regulatory bodies require the banks to comply with more international regulations such as Basel Accord III (Wignall & Atkinson, 2010).

3.7 Conclusion

An Organization's performance involves assessing how well the end result of an organization's activity matches its desired outcome. Accordingly, the evaluation of an activity's performance depends on the evaluator's standards of the required end result of the activity under examination, against its actual end results. This process of comparing the actual performance to the desired performance is called performance measurement.

Organizations usually do performance measurement to determine certain requirements such as identifying the needs of customers and seeing if they are able to fulfill their requests or not, approving outcomes of the activities done and finding out what they do not know, taking decisions based on facts rather than assumptions, and revealing problem fields or fields with possibilities to enhance.

However, performance measurement is not an end by itself, but is part of a larger and more general concept and a key element to effective performance management. While performance measurement track progress towards goals and objectives, performance management on the other hand uses the results of the performance measurement to identify cause and effect relations, and further actions to take to guarantee successful achievement of objectives.

Performance measurement has been a common tool for assessing organizations' success throughout history. Since its emergence, it depended on financial and accounting values in assessing organization's performance. By the 1980s, both scholars and organizations began to realize that the traditional financial performance measures were no longer sufficient for organizations to be able to compete in modern competitive markets. This realization came due to the identification of several deficiencies in traditional financial performance measures, given the current competitive challenges facing companies. Traditional financial measures have been criticized for being historical and backward looking, providing little indication of future

performance, encouraging short term planning, focusing on internal activities and ignoring important external activities related to key stakeholders such as competitors or customers, lacking strategic focus, inhibiting innovation and encouraging local optimization.

These criticisms to financial-based performance measurement have led scholars to identify and utilize performance measures that have boarder focus and are of non-financial nature, which cover multiple dimensions in measuring the organization's performance. These measures must be defined both at the organizational level and the departmental/processes level, must be derived from the organization's strategy and must be compared to well define targets, in order to guarantee strategic alignments, motivation, and relevance among all levels of an organization.

Although there is no consensus among scholars on a specific definition of performance measurement system, still, a well-defined and well established performance measurement system must be linked to strategy, and must combine multi-dimensions measures which are consistent with and supportive to the business's strategy and critical success factors, be understandable through utilizing as few and simple set of measures as possible, provide a set of measures for each organizational level, support organizational learning and continuous improvement, influence individual behavior through connection with the rewards system, emphasize a cause-effect link between operations, strategy and goals and their related multi-dimensional measures and integrate long term and operational strategies.

Several models and frameworks have been developed by scholars as an attempt to reach the best model optimized for this purpose. Despite the significant number of PMS's developed in the literature, none of these systems and models appear to be inclusive, and several weaknesses and problems appeared in each one of them. A main reason behind this, is that this area of research is a complex area and, as such, offering a single dominant framework as a solution for measuring performance in all business settings seems to be impossible. Accordingly, as there are several models and frameworks, there appear to be a temptation to use more than one model.

This understanding has motivated researchers to move their attention from developing new frameworks to finding best methods for designing, using, and implementing performance measurement systems which match different settings.

Although many discussions related to performance measurement and performance measurement frameworks debated the issue of performance measurement in manufacturing industries, very few studies were devoted to service industries since most of the recent literature doesn't differentiate between performance measurement in manufacturing and services and encourages tailoring generic frameworks to the actual setting under investigation, as long as it considers the main performance areas in any service industry which include: growth, leadership, acceleration, collaboration, innovation, execution and retention.

While these considerations also apply to the banking sector being part of the services industry, banks have its own specific guidelines when it comes to performance measurement. These guidelines include the need to continuously respond to changes in the banking sector macro-environment and the need to adopt a holistic view of performance measurement through integrating both financial and non-financial performance measures including but not limited to important stakeholders, strategy, internal processes, internal capabilities, technology, research and development efforts and social responsibility.

Chapter 4: Theoretical Framework

Introduction

In the previous chapters, the literature suggested three definitions for performance measurement system; an operational definition which focuses on the quantification of metrics related to efficiency and effective operations, a definition that is more focused on linking performance measurement to strategic planning, and a third one which focuses on the management accounting perspective of performance measurement. Based on the discussed literature, the researcher chooses to accept the three definitions, since it is believed that a good banking performance measurement system which is suitable for the Palestinian context, must cover all these definitions.

Nevertheless, all secondary information available about the Palestinian banking sector, including reports from regulatory bodies and official associations related to the sector, mostly compare banks' performance based on financial data, and ignore other non-financial measures, regardless of whether they are of operational, strategic, or management accounting nature. This has also been noted inside the banks themselves in both developing and developed countries, which made the researcher create an assumption that this is also the case in the Palestinian banking sector, and start this research as an attempt to create a comprehensive performance measurement system that is suitable for the Palestinian banking sector context.

In designing this framework, the researcher has considered the most important guidelines found in literature in general, and in services and banking industry in specific. The following sections will clarify the basis on which the framework is built, the suggested framework itself and the rationale behind it, and finally the approach that was followed to validate the theoretical design underpinning the framework.

4.1 Theoretical Underpinnings

Based on the literature discussed previously, the designed framework must satisfy several guidelines in order to fulfill its role in performance management and strategic planning. Table 4-1 below summarizes the guidelines that were used to suggest the new framework.

Table 4-1: Performance Measurement Guidelines for the Proposed Framework (Source: Data Analysis)

Guideline	Explanation
Long term value	The ultimate purpose of performance measurement framework is to contribute to the creation of long term value, rather than satisfying short-term financial targets. Therefore the framework will be a multi-perspective one that uses measures which are financial and non-financial, qualitative and quantitative, short term and long term, lagging and leading, and backward and forward-looking (Cumby & Conrad, 2001; Eccles & Pyburn, 1992).
Stakeholders	The key to creating long term value, is to satisfy, measure and monitor the needs of all key stakeholders (Neely et al., 2001). Based on literature, Palestinian banks have several important stakeholders including: customers, PMA, International regulatory bodies, correspondent banks, and the community.
Strategy	Given that different strategy concentrations will enforce different performance dimensions and will directly affect the PMS design; the key to successful performance measurement is to link measurement and control activities to strategic planning (Dixon et al., 1991; Kaplan & Norton, 1992, 1996,

	<p>2004; Lynch & Cross, 1991; Neely et al., 2001). Since each bank is expected to pursue different strategies in satisfying its stakeholders' needs, then strategy must be included as an authentic part of the framework.</p>
Operations	<p>One of the keys to successful implementation of a performance measurement system and ultimately a successful strategy implementation, is to be able to communicate the objectives of each dimension to all levels in a relevant manner, which clears all barriers against a successful implementation of the strategy. Therefore, each dimension must specify relevant objectives to all organizational levels and to the bank branches, and identify relevant measures for these objectives in a casual bottom-up approach (Dixon et al., 1991; Franco-santos et al., 2007; Kaplan & Norton, 1992; 1996; 2004; Lynch & Cross, 1991; Tangen, 2004).</p>
Feedback and Organizational Learning	<p>Dimensions and measures must be linked in a casual manner. All dimensions and measures must provide two way feedback between each other in a timely manner, which allows for organizational learning and adds flexibility to the framework (EFQM, 1992; Franko-santos et al, 2007; Garengo et al., 2005; Kanji, 2002; Kaplan & Norton 1996; Neely et al., 2001).</p>
Environment	<p>The chosen Framework must respond to the external environment which the Palestinian banks operate within. For example, the generic banking sector external environment discussed in the third chapter, recommends the need to</p>

	<p>consider PMA rules and regulations, utilizing banking technology, considering international regulations such as Basel Accord II, and focusing on quality of service, customer satisfaction, delivery and personalization as a result to fierce competition (Helliari et al., 2002; Hussain & Hoque, 2002).</p>
<p>Service Industry Performance Measurement</p>	<p>The Suggested framework must satisfy the general guidelines in performance measurement in service industry in general. Notably, Since banks are service companies, the designed framework must also reflect all the relevant dimensions that generally exist in a service company performance measurement system including: Growth, Leadership, Acceleration, Collaboration, Employee Innovation, Execution, and Retention (Tyagi & Gupta, 2013).</p>
<p>Banking Industry Performance Measurement</p>	<p>The suggested framework must satisfy the relevant guidelines in performance measurement in banking industry literature. The literature suggests that banks must consider all important stakeholders, strategy, internal processes, internal capabilities, technology, Research and Development efforts and Social Responsibility (Hussain & Houqe 2002; Ozturk & Coskun, 2014; Tanner, 2009).</p>

4.2 Proposed Framework

Based on the guidelines discussed thus far, the researcher suggests that Palestinian banking sector may refer to and use the performance measurement framework illustrated in figure 4-1. The proposed framework is created based on Performance Prism and on The Balanced Scorecard; this suggested framework is called Multi-Facet Scorecard.



Figure 4-1: Proposed Performance Measurement framework (Multi-Facet Scorecard) (Source: Data Analysis)

4.3 Rationale behind the Framework

Literature related to performance measurement models and generic frameworks, concluded that researchers are currently moving their attention from developing new performance measurement frameworks to finding best methods for designing, using, and implementing performance measurement systems that match different settings, by using one or more of the existing models (Goldratt & Cox, 2004).

Accordingly, instead of starting from scratch, the researcher decided to identify the general guidelines of a good banking performance measurement system as listed in table 4-1, and compare the existing performance measurement frameworks in light of these guidelines. As a result, the researcher reached a conclusion that Balanced Scorecard and Performance Prism are the two frameworks that mostly satisfy these guidelines. Therefore, they were used as the basis for the framework design, with some customizations to match the context under investigation.

The Framework design process was inspired by a conviction that BSC is merely a light and more specialized version of the Performance Prism. The two frameworks argue that the measurement system must include internal capabilities and internal processes. Both enforce the link with strategy either as an independent dimension when using Performance Prism, or in case of using the BSC, through strategy maps, and both impose a causal relationship among dimensions and call for a two-way feedback process.

Perhaps the only obvious difference between these two Frameworks is that instead of taking all important stakeholders into consideration as the Performance Prism does, the BSC focuses attention on two main stakeholders; shareholders and customers. In essence, BSC can satisfy the same purpose as the Performance Prism, simply by creating a Balanced Scorecard for each stakeholder.

4.3.1 The Stakeholders Approach

Organizations use performance measurement to track and guarantee achieving its goals. Organizations' goal is to maximize shareholders long term value, and that is usually achieved through satisfying its key stakeholders, by formulating and implementing sound strategies (Neely et al, 2001). Consequently, a good performance measurement framework must start with key stakeholders' needs and requirements, and put strategies that guarantee satisfying them (Neely et al., 2001). This mostly refers to the fact that strategies are means to reach a conclusion but not the conclusion itself. Accordingly, they should be measured and controlled, not only based on successful implementation, but also on achieving the strategic objectives which they were formulated to satisfy in the first place. Figure 4-2 provides samples of needs and requirements of the Palestinian banking sector stakeholders.

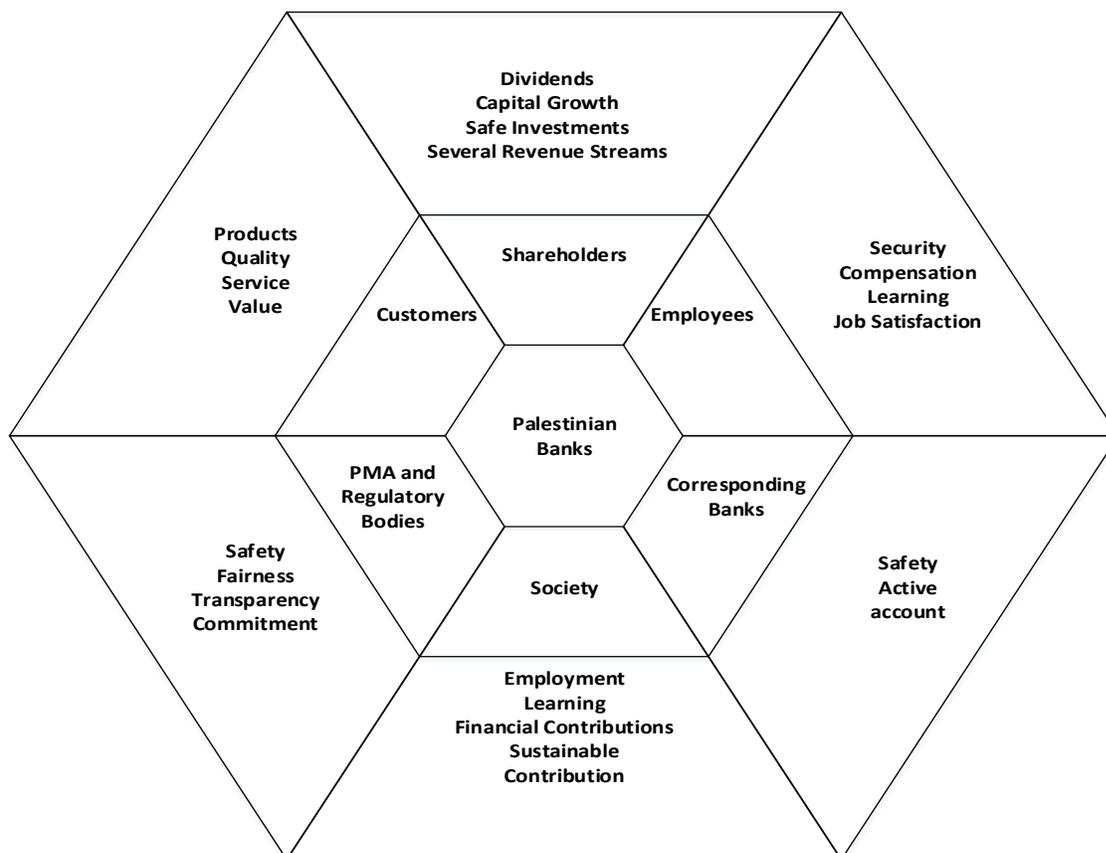


Figure 4-2: Stakeholders and their Expectations (Source: Data Analysis)

In identifying the need to measure performance related to different stakeholders, the framework adopts a stakeholder centric approach, and acknowledges that while shareholders remain the most important stakeholder to many organizations, considerations must still be made to other key stakeholders, in order for an organization to create long term shareholder value. The framework follows an inclusive approach, which guarantees considering all key stakeholders in the performance measurement process, and enables identifying objectives and related measurements, which allows not only achieving stakeholders' satisfaction, but also guaranteeing their contribution to the organization's wellbeing.

In this context, it is worth mentioning that in identifying and aiming at satisfying several key stakeholders inclusively, conflicts between these stakeholders' needs and requirements may naturally erupt.

These conflicts can be seen as a healthy symptom of the framework, since it will help us in identifying the dimensions we excel at versus dimensions where we are not doing great, then prioritize strategies and assign weights to stakeholders (Kanji, 2002). This shall result in an objective judgment at the organization's overall performance based on the actual objectives of the business. This can then be used in supporting the feedback and organizational learning process.

Accordingly, the proposed framework was built based on guidelines and best practices offered by previous literature related to the BSC and the Performance Prism frameworks. The following section will explain in details, the components in the proposed framework.

4.3.2 Internal Processes

The performance of internal processes, is a leading indicator of successful strategy implementations and improvements in stakeholders' satisfaction and contribution (Neely et al, 2001). Internal processes can contribute to successful strategy implementation through creating

and delivering value to stakeholders, and improving processes and reduces costs leading to greater operational efficiency. Internal processes typically include (Kaplan & Norton, 2004):

- Operations related processes which are the basic day to day processes, through which companies deliver their end products and services to the customers. Sample operations in the Palestinian banking sector include the financing process, clearance process, branches related processes, existing electronic services processes, and risk management.
- Customer related processes expand and strengthen the relationship between the banks and their targeted customers. These processes include:
 - Selecting customers through segmenting customers and identifying the segments for which the value proposition offered is the most desirable.
 - Acquiring targeted customers which involves generating leads, communicating to potential customers, choosing entry-level products, pricing, and closing the sales.
 - Customer retention which involves quality, service and responsiveness.
 - Growing business with existing customers through cross-selling multiple products and services.
- Innovation processes which develop new products, process and services and enable banks to penetrate in new markets and recognize customer segments. This involves identifying opportunities for new products and services, managing the research and development efforts, designing and developing new products and services, and bringing the new products and services to market.
- Regulatory and society processes help organizations to continually and successfully operate in the local and international environment where they exist. National and local regulations such as the PMA regulations, Basel II Accords, and international anti-money laundry standards impose restrictions and standards on the Palestinian banks' operations.

An excellent reputation in the community supports the organization in attracting customers, suppliers, investors, partners, and market's best talent.

4.3.3 Internal Capabilities

Improvements in internal capabilities are lead indicators for internal processes (Kaplan & Norton, 1992, Neely et al., 2001), and for successful strategy implementation and satisfied and active stakeholders. Internal capabilities describe how the people, policies, technology and organizational culture are grouped to contribute in supporting the strategy. These include (Kaplan & Norton, 2004):

- People capabilities which is the availability of leadership, skills, talent, successors and know-how required to manage and implement the banking processes mentioned above.
- Technology capabilities including information systems, networks and information infrastructure required to manage, operate, and monitor the banking processes.
- Organization culture capabilities which enable the bank to be responsive and flexible enough to respond timely and effectively to changes in priorities and changes in strategies.
- Policies and procedures capabilities which enable the bank to operate processes in a timely, effective, efficient, governed, standardized and relevant manner.

4.3.4 Hierarchal Setting of the Framework

The suggested framework is designed in a hierarchal manner, which reflects both a causal relationship and a logical structure of both objectives and measurements. This design is done on purpose, in order to guarantee relevance and logical connection between all dimensions of the framework, and to guarantee aligning all levels and functions of the organization, with the strategic objectives.

Accordingly, objectives and measures are to be set comprehensively at all levels of the framework, where objectives are cascaded to all levels and measures are chosen in a bottom up approach (Lynch & Cross, 1991). Banks can do this by following these steps:

- Objectives are cascaded to all organizational levels to guarantee relevance among objectives at all levels of the framework and all business functions/business processes of the bank.
- Identify the bank objectives for all key stakeholders.
- Based on these objectives, formulate the strategies that will fulfill and achieve the objectives.
- At the internal processes and capabilities, these strategic objective must be translated into sub-objectives relevant to the specific level/function inside the bank. This will make the internal processes linked to the corresponding strategy. Sub-objectives must be selected in a way that guarantees fulfilling them will result in achieving the bank's stakeholders' strategic objectives.
- These sub-objectives can also be used to create a scorecard of objectives at the employees/units levels.
- After the objectives and sub-objectives are set, the bank will select the relevant measurements to measure performance for each sub-objective and each objective in a bottom up approach.
- The bottom up approach means that the bank will set measures for sub-objectives at the internal capabilities level to measure the readiness and reliability of our capabilities, then at the internal processes levels to measure the reliability, validity, efficiency and effectiveness of our internal processes in achieving their objectives then at the strategies level to measure how successful these strategies are and if implemented as formulated.

Finally, at the stakeholders' level to measure their corresponding objectives, and how satisfied and active they are.

- This bottom up approach will guarantee that measurements set at one level, will guide the measurements setting at the next setting, in a causal relationship, that guarantees relevance in objectives setting and performance measurement at all levels of the framework, and all business functions/business processes of the bank.

Not only that this hierarchical setting guarantees relevance and alignment among all levels of the organization, it also allows for double-loop feedback (Franko-santos et al, 2007; Garengo et al., 2005; Kanji, 2002; Kaplan & Norton 1996; Neely et al., 2002), where each level in the framework will be able to provide backward feedback to the level before, and forward feedback to the level after. For example, low performance in customer retention might provide a backward feedback to the capabilities level to improve customer care policies and procedures related to closing accounts and improve competitive analysis capabilities and a forward feedback to customer related strategies to improve customer experience and to consider new changes in competition offering.

In summary, this framework is designed to be used both as strategic planning and performance measurement framework, which focuses on creating long term value and allows for aligning all levels of the organization through cascading objectives among all organizational levels and allowing for a bottom up measurements setting approach, all in a casual manner allowing for a double-loop feedback at all levels of the framework.

4.4 Fulfilling the Guidelines

Post setting the theoretical underpinning for the multi-facet scorecard, and explaining the rationale behind the framework, it is now that we set the connection which will explain how the

proposed framework will satisfy the performance measurement guidelines in the theoretical underpinning. Table 4-2 illustrates this connection.

Table 4-2: Connection between the Framework and the Guidelines (Source: Data Analysis)

Guideline	Connection with Multi-Facet Scorecard Framework
Long term value	It's a multi-dimension framework which focuses on long-term value creation through enforcing financial and non-financial, qualitative and quantitative, short term and long term, lagging and leading, and backward and forward-looking measure.
Stakeholders	Stakeholders is a complete dimension inside the framework. The framework considers that stakeholders' satisfaction and contribution is the most important value creation, and that it is the ultimate goal of strategy formulation.
Strategy	Strategy is a dimension inside the framework, which allows each bank to use the framework, set objectives and select measures depending on chosen strategies. Framework can be used as a strategic planning tool and performance measurement tool
Operations	The Framework allows for cascading the objectives to all organizational levels with a bottom-up measurement setting approach, which guarantees setting relevant objectives and selecting relevant measurements at all levels of the organization, all in a causal relationship among objectives as well as measurements.

Feedback and Organizational Learning	The framework allows for double-loop feedback. It also allows for spotting blind spots and conflicts between strategies and stakeholders' objectives.
Environment	<p>The framework responds to the generic environment which banks usually operate within, through considering:</p> <ul style="list-style-type: none"> • PMA and other regulatory bodies in the stakeholders perspective • The international regulations such in the stakeholders perspective and in internal processes perspective • The banking technology as an internal capability. • The competition and the need for customers' satisfaction, quality of service, and delivery in the customers' stakeholders, and in corresponding strategies, internal processes and capabilities. • The need for efficiency and innovation in the internal processes perspective • The socio-cultural environment through society, PMA and regulatory body stakeholders, in addition to their corresponding strategies, processes and capabilities • Dimensions selected based on Key Success Factors
Service industry performance measurement	The framework considered both financial and non-financial performance measures, and allows for the creation of relevant operational measures. The framework reflects all relevant dimensions which generally exist in a service company performance measurement system as follows:

	<ul style="list-style-type: none"> • Growth: satisfied through innovation processes which develop new products, process and services and enable banks to penetrate in new markets and recognize customer segments • Leadership: satisfied through shareholders satisfaction, focusing on long-term value creation, focusing on society as a key stakeholder, and focusing on employees both as stakeholders and also as a key asset for success. • Acceleration: Satisfied through considering multiple stakeholders and through focusing on efficiency as well as effectiveness in internal processes • Employee innovation: Satisfied through considering employees' skills, knowledge and competency as a key factor and asset for success. • Execution: Satisfied through internal processes • Retention: Satisfied through considering the customers' stakeholder, and all corresponding strategies, processes and capabilities.
Banking industry performance measurement	The framework considers all key stakeholders, embedding strategy in the framework, focusing on operational levels of the organization, considering technology, considering Research and Development and innovation, and considering social responsibility.

4.5 Developing and Updating the Framework

In order to develop the proposed framework, and update it to best reflect the context of the Palestinian baking sector the approach illustrated in figure 4-3 will be followed.

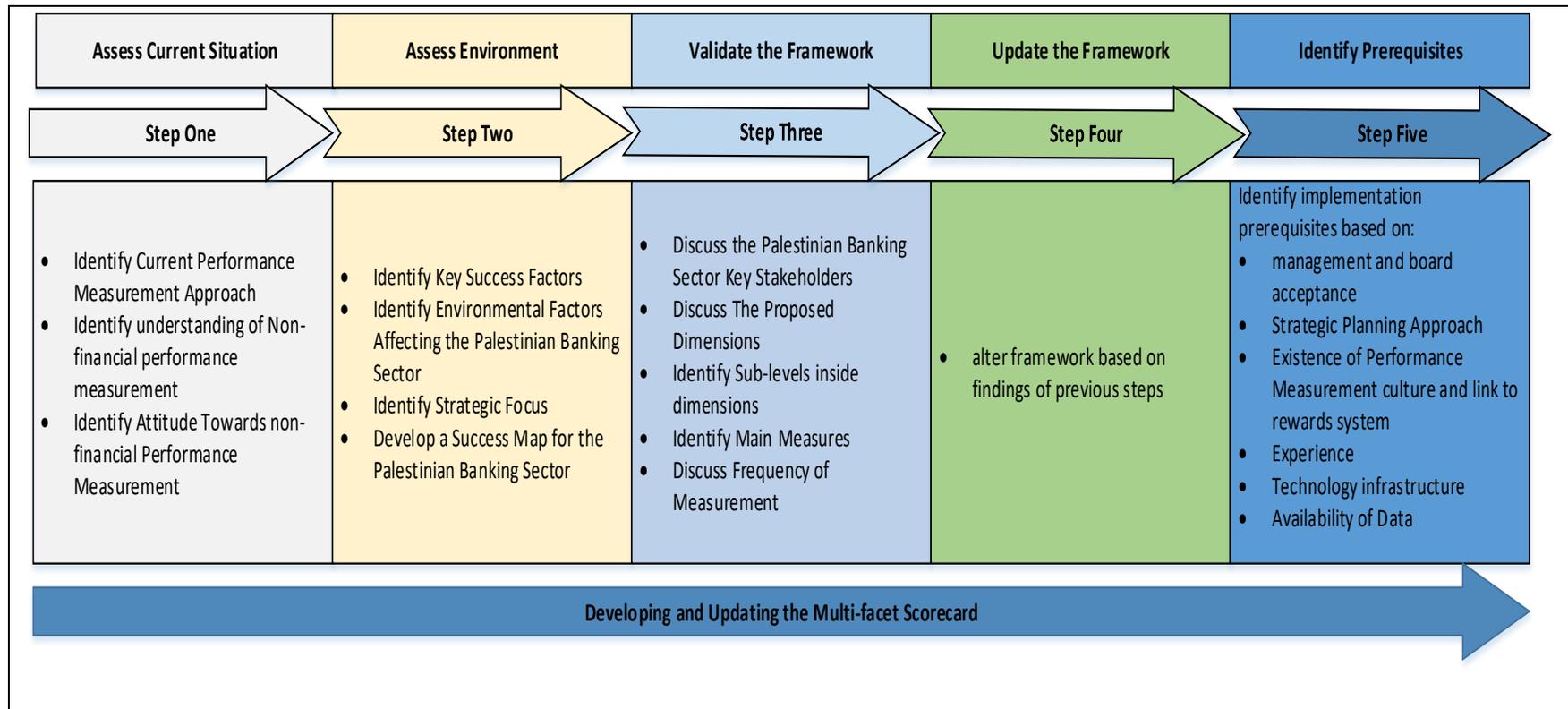


Figure 4-3: Approach for developing and updating the Multi-facet Scorecard (Source: Data Analysis)

Chapter 5: Research Methodology

Introduction

This chapter discusses the methodology used in this research. It also discusses the research instruments which are adopted to collect the data required to update the proposed performance measurement framework. Furthermore, this chapter discusses the data analysis approach followed, and the research limitations faced.

5.1 Research Design

After investigating the literature on performance measurement, the researcher also searched for literature related to performance measurement in the Palestinian context with particular interest in the banking industry. However, there were very few resources which discussed the subject matter, and certainly less than the researcher can build on. Even when investigating the subject in developing countries, the researcher came to a conclusion that findings of this investigation cannot possibly be generalized or built on, while studying the Palestinian context, due to the unique political situation of occupation by Israel; a situation which enormously affects the Palestinian business environment in general, not to mention measuring performance in a sensitive and important sector such as the Palestinian banking sector.

Based on aforementioned reality, the researcher decided to explore the performance measurement problem in the Palestinian banking sector for better understanding of the subject; an understanding which although will not provide definitive answers, it will identify the key issues, pave the way for further more extensive studies, and offer methodological avenues for this endeavor. (Sekaran, 2003).

Hence, the researcher chose to conduct an exploratory study. Exploratory research, as the name states, intends to explore and provide a better understanding of the research questions

and problem, and doesn't necessarily propose a conclusive solution to the problem under investigation (Saunders, Lewis & Thornhill, 2012).

Exploratory research is the most suitable in this situation since it investigates new problems on which not much research was previously done (Brown, 2006). After the problem is investigated and understood, the researcher can propose a comprehensive model for solving the problem (Sekaran, 2003; Singh, 2007).

Based on this philosophy, the researcher has formulated the research questions to be more of exploratory nature in order to establish understanding of performance measurement in the Palestinian banking sector and its business environment. The researcher shall then compare and contrast the findings with those from the literature review, and identify key differences and make suggestions. Consequently, the proposed framework will be modified based on and in accordance with the literature, and recommendations for future studies capable of generating more robust and conclusive insights will be suggested (Sekaran, 2003).

5.2 Research approach

This research follows a qualitative research approach. Qualitative research is a subjective approach which focuses on capturing perceptions in order to gain an understanding of a phenomena and is more involved in answering questions of exploratory nature such as "What" and "How" (Hussey & Hussey, 1997). The qualitative approach is more suitable for this research because:

1. Being of exploratory nature, this research is still in a very early stage, and the researcher roughly knows about what he is looking for.
2. The aim is a complete and detailed description in order to generate knowledge and discover ideas and concepts which can then be built on, in further more conclusive researches.

3. Qualitative research is more suitable for research questions of exploratory nature such as “what and how”, which are the type of questions addressed in this research.
4. Qualitative research is of an inductive nature which is more suitable to this research, since it will let the data collected to result in the emergence of patterns, concepts, and designs.
5. Qualitative research allow for more in depth understanding of a phenomena through capturing better perceptions and experiences (Creswell, 2009).

5.3 Sampling and Selection

The research’s focus is on designing a comprehensive multi-perspective framework to provide the guidelines for performance measurement in Palestinian banks. Yin (2009) described the area of focus that a study analyzes as the research’s unit of analysis. As such, this research’s unit of analysis will be the Palestinian banks, which operate inside West Bank and/or Gaza, and their headquarters located in Palestine.

Banks operating in Palestine include not only this segment defined as a unit of analysis, but also regional and international banks which operate mostly inside the West Bank. However, these banks’ headquarters are located outside Palestine (Mostly Jordan and Egypt). After the researcher has done a preliminary scanning, and being in a managerial position in the Palestinian banking sector, the researcher came to a conclusion that these banks are not to be included in the research because:

- Their strategies and roadmaps are decided on their behalf by their headquarters.
- Their performance standards and considerations are affected by the regional and international context and regulations, more than by the Palestinian Environment.
- The local representation of these banks are more of the operational side, and as such cannot adopt a performance measurement strategy, without being discussed with and approved by the headquarter.

- These banks are treated as foreign banks whose governments have established political and economic relations with the Israelis, and therefore, they are less affected by the Political situation and the occupation like the Palestinian banks.
- The researcher doesn't have access to these bank's headquarters.

Therefore, this criteria for the unit of analysis applies to seven Palestinian banks, and the researcher interviewed all of them. Table 5-1 below illustrates the key characteristics of these banks. For confidentiality purposes the researcher has changed the names of the banks, and replaced them with Greek alphabet.

Table 5-1: List of banks (Source: Association of Banks in Palestine, 2016)

Bank	Years in Operations	Profits (USD)	Branches	Employees
Alpha	57	53,055,980	83	2,063
Beta	22	10,470,704	37	672
Gamma	20	12,603,598	29	568
Delta	21	6,220,821	16	411
Epsilon	11	7,402,240	15	432
Zeta	22	3,388,202	17	239
Eta	1	-2,164,791	1	60

Purposeful selection is used to select representatives of each bank. According to Maxwell (2005), this selection strategy is useful in cases when certain persons should be deliberately selected who are capable of providing insights which cannot be otherwise captured. Therefore, these banks are represented by key top management officials inside each bank.

Selecting top management key officials to be interviewed for this study was purposeful, in that they were the leaders of their respective banks, and would understand best the process within the banks and the sector in general, with regard to strategy setting and performance measurement. This allows for identifying and soliciting knowledge from key informants as Patton (2002) calls them. According to him, key informants are people who are particularly knowledgeable about the inquiry setting and articulate about their knowledge, and whose insights

can be helpful in assisting an observer in understanding events that have happened and reasons why those events happened.

In order to achieve a rich understanding of each bank, it was important to include two key officials from each bank. This strategy not only will help in establishing deep understanding inside each bank, but will also allow for comparing perceptions inside the bank itself, which will give more deep insights about the current situation, for better design of future research. Therefore, a total of fourteen participants were planned to be interviewed.

Although the original plan was to conduct fourteen interviews with key officials from seven Palestinian banks, only a total of twelve interviews were conducted; because two banks have accepted to conduct only one interview with their deputy GMs, stating that whatever information they provide, represents the top management perceptions of their banks. This was accepted by the researcher because during the interviews it appeared that the findings inside the banks and also cross the banks were mostly consistent, repetitive and literally replicated, and therefore can be accepted without having to conduct further interviews (Yin, 2009).

Additionally, one of the interviewees, a vice president in one of the selected banks introduced the researcher to the assistant PMA governor for financial stability, who agreed to be interviewed for the purpose of this research. Due to the importance of PMA as a regulator and its ability to affect the bank's strategic decisions and the management and control practices they adopt, the researcher believed that the insights from such an interview will be invaluable in validating the findings concluded based on the data collected from the interviews with the Palestinian banks, and hence the interview with the assistant PMA governor was conducted. Table 5-2 below list the interviewees and their titles.

Table 5-2: List of Interviewees (Source: Data Analysis)

Count	Interviewee Title	Organization	Date of Interview
1.	Deputy GM	Bank Alpha	26 th of February, 2017
2.	Deputy GM	Bank Beta	27 th of February, 2017
3.	Assistant GM for Credit and Financing	Bank Beta	27 th of February, 2017
4.	Northern Branches Manager	Bank Alpha	1 st of March, 2017
5.	General Manager	Bank Gamma	13 th of March, 2017
6.	Assistant GM for Distribution Network	Bank Gamma	13 th of March, 2017
7.	Deputy GM	Bank Delta	15 th of March, 2017
8.	Assistant Governor for Financial Stability	PMA	19 th of March, 2017
9.	Assistant GM for Customer Relations	Bank Epsilon	21 st of March, 2017
10.	Operations Manager / Deputy GM	Bank Eta	22 nd of March, 2017
11.	Deputy GM	Bank Zeta	23 rd of March, 2017
12.	General Manager	Bank Eta	26 th of March, 2017
13.	Deputy GM	Bank Epsilon	28 th of March, 2017

5.4 Research instrument

According to Creswell (2009) several methods can be used in conducting qualitative researches. These methods include interviews, documents and observations. For the sake of this research, the researcher has chosen to use interviews in the form of semi-structured face-to-face (one-on-one) interviews.

Interviews allow for open discussions between the interviewer and the interviewee. Interviews also allow new questions to be brought depending on the course of the discussions, while maintaining structure that is important for comparability among responses. (Lindlof & Tylor, 2010; May, 1997).

Not only that this kind of one-on-one interaction allows for deep understanding of the phenomena under research, it also allows for discovering complementary information not covered or thought off during the interview preparation, by allowing the interviewer and the interviewee to deviate to gather more detailed answers. This flexibility serves the exploratory nature of the research by providing information that is important for the study, which might not have been thought off during the preparation of the questions (Gill, Stewart, Treasure & Chadwick, 2008).

Kumar (2005) suggests that interviews are as the most suitable method for investigating complex situations, since the interviewer has the opportunity to clarify and explain the questions involved in the interview. However, in order for an interview to succeed, relationships and rapport must be established, and coupled with trust, in order for the interviewer to be able to find out what is in and on someone else's mind and identify the things which cannot be observed (Patton, 2002). Therefore, the quality of the data collected is highly affected by the skills of the interviewer in conducting the interviews (Speziale, Streubert & Carpenter, 2010).

The interview questions have been divided into four sections: current situation which discusses current performance measurement practices in Palestinian banks, banking sector

environment which discusses the unique business environment and how it affects the bank's performance, framework design which discusses the factors to be considered in a comprehensive performance measurement framework of the Palestinian banks and finally needed capacities to implement such a framework. The interview questions are found in ANNEX II.

The interview questions were reviewed by two professors from Birzeit University, who are both faculty members of the Business department and are experts in the research field. These questions were developed based on the literature review and the theoretical framework developed in order to guarantee covering all main components of the proposed framework. Questions were developed to allow participants to elaborate on the subject under investigation and to permit scope for individuals to answer questions more on their own, yet still provide a good structure for comparability, which allows for creating themes and generating knowledge.

5.5 Interviews and data collection

Data collection took place between 26th of February and 28th March 2017. All interviews were scheduled smoothly due to connections which the interviewer has in the banking sector, which facilitated scheduling the interviews. All interviews were conducted in Arabic, translated and transcribed to ensure accuracy. All participants were interviewed in their own offices, since these are key top management officials who have very busy schedules.

Interviews lasted between 45 minutes and 1 hour, and few interruptions occasionally occurred during the course of the interviews, due to the busy schedules of the interviewees. As a first step, the interviewer explained to participants the purpose of the study, research procedures, expected benefits, their right to withdraw from the study at any time, and assurance of confidentiality. The interviewer also asked participants if they had any questions about the research study and research procedures, and provided background information about himself,

which along with the informal connections who facilitated arranging the interviews, helped in establishing rapport and gain their trust (Patton, 2002).

During the interviews, the interviewer employed his skills and current position as a fellow banker, to develop rapport and gain the interviewees trust, assured the interviewees about the confidentiality of the interviews and the sole purpose of being used for research purposes only, and used the informal connections who helped arranging for these interviews, in order to establish friendly conditions which helped in carrying out the research, and allowed for the interviewees to open up and elaborate freely on the subject.

5.6 Ethical Considerations

In conducting any research, the researcher must be aware of the impact which their research will have on participants and on society as a whole and must therefore consider this in all their research activities.

Kumar (2005) explains that in order for the data collection process to be ethical, participants must express their voluntary participation and informed consent. Therefore the researcher made it clear to all participants that they can withdraw from the interviews and choose not to answer specific questions which they believe should not be answered.

The research has given advanced notice to the interviewees, shared a high level outline of the research topic with them, and explained the type of information which the participants were expected to share. The researcher has also explained that the data collected will be solely used for the purpose of this research, and will not be shared or used in any other context.

The researcher has also ensured the participants about the confidentiality of the data collected during the interviews and anonymity of the interviewees. To guarantee this, the researcher coded the interviewed banks with anonymous names, didn't write or use any

information which might have exposed the name of the bank or the interviewee, and did not in any way use or benefit of any information shared by the interviewees on an “off record” basis.

5.7 Validity and Reliability

Validity in qualitative researches can be achieved through cross-checking (Cohen, Manion & Morrison, 2007). Qualitative research validity means that the research is credible and trustworthy (Johnson & Christensen, 2009).

Qualitative research deals with considerable amounts of text. This is why the validity in qualitative research cannot be measured based on quantitative values used in quantitative researches. Instead, other methods can be followed to validate the qualitative research. According to Hair, Money, Samouel & Page (2011) the triangulation method is one of the most important methods to achieve qualitative research validity. In this method, four types of triangulation can be followed in qualitative researches:

- Research Triangulation, which involves analyzing and interpretation of collected data by multiple researchers.
- Data Triangulation, which involves collecting and comparing data from multiple data sources.
- Method Triangulation, which involves conducting the research using different methods and comparing the findings.
- Theory Triangulation, which involves using multiple theories to interpret and understand the data.

In this research, the researcher followed a data triangulation approach to validate the research findings; by cross-checking the collected data with the findings from relevant literature.

Reliability in qualitative researches can be measured as the degree of harmony between what the researcher transcribes based on the data collected, and what is actually communicated during the interviews (Cohen et al., 2007).

In this research, the researcher has taken notes during the interviews, and transcribed the interviews dialogues and discussions and confirmed the collected data with the participants to ensure the accuracy of transcribed data.

5.7.1 Researcher position

It's important to acknowledge that the researcher works in the banking sector, as product development manager, and has brought his own background into this research.

The researcher acknowledges that his background may lead to increased focus on themes and content that comes consistent with his understanding and his opinions about what a good performance measurement system for banking industry consists of. Therefore, it is crucial for the researcher to keep monitoring his bias during and after the interviews, and during the data analysis and interpretation of collected data.

5.8 Data analysis

There is no single way to accomplish qualitative research, since data analysis is a process of making meaning. It is a creative process, not a mechanical one (Denzin & Lincoln, 2003). Nevertheless, among the most commonly used qualitative data analysis methodologies in literature, are thematic analysis and content analysis.

Content Analysis is a systematic approach that depends on coding and categorizing data in a way that helps in describing large amounts of information by determining the frequency and pattern of words (Pope, Ziebland & Mays, 2006). The Content analyst is used in order for content to be seen, read, and acted based on their importance and meaning, and are therefore considered more descriptive than interpretive (Krippendorff, 2004).

Marshall & Rossman (1999) have identified thematic analysis a way for interpreting collected data in order to identify content. While content analysis focuses more on quantifying and describing data, thematic analysis applies minimal description to data sets, and interprets various aspects of the research topic (Braun & Clarke, 2006).

Both content analysis and thematic analysis share the same aim of analytically examining narrative materials from life stories by breaking the text into relatively small units of content and submitting them to treatment (Sparkes, 2005). Content analysis uses a descriptive approach in analyzing the data (Morgan, 1993). Conversely, thematic analysis provides a purely qualitative, detailed, and nuanced account of data that is more of interpretive nature (Braun & Clarke, 2006).

If analysis only considers the frequency of codes counted to find significant meanings in the text, the analysis will be endangered to miss or remove the meaning from its context (Morgan, 1993). This is because of the misinterpretation of the frequency of a word, a code or a category; frequent occurrence might indicate great importance, but it might just reflect greater willingness or ability to talk about a certain topic (Shields & Twycross, 2008).

This research requires not only describing the performance measurement phenomena in the Palestinian banking sector, but it also requires a deeper focus on the meanings of words and categories and an interpretation of the interviewees perceptions. As such, a combination of descriptive and interpretive analysis were applied, through thematic analysis.

Due to the lack of literature in relation to the phenomena under investigation, , the type of the research done was inductive thematic analysis, since there isn't enough previous studies dealing with the phenomenon under investigation. Therefore codes and categories are derived directly from the data gathered in the interviews (Hsieh & Shannon, 2005).

The steps for conducting the thematic analysis will follow a process developed based on suggestions by Marshall & Rossman (1999) and Creswell (2009):

Phase 1: Organize and transcript the data in order to generate familiarization with it.

Phase 2: generate categories or themes.

Phase 3: Coding data by labeling and applying categories to them.

Phase 4: testing emergent understandings.

Phase 5: Interpreting the meaning of the data, employing the researcher's background.

Phase 6: writing the report.

5.9 Research limitations

The study focused on data collected from top management key officials, and ignored insights which could have been collected from other bank personnel such as middle management.

The scope of this research is limited to Palestinian banks and, therefore, results cannot be generalized to other banks operating inside Palestine.

An additional limitation would be the data collection process itself; since information obtained during the interviews is largely dependent on the interviewee willingness to share, and their own perceptions and experiences.

5.10 Conclusion

This chapter discussed the methodology followed to conduct this research. It discussed the exploratory purpose of the study, and explained the qualitative approach adopted. It also discussed the motives behind choosing the semi-structured interview as a research instrument. This chapter also discussed the validity and reliability of the research and how thematic analysis will be used to analyze the collected data. Finally, this chapter discussed the research limitations.

Chapter 6: Findings and Discussion

Introduction

As explained in the methodology chapter, the researcher found very few resources which discussed performance measurement in the Palestinian context with particular interest in the banking industry, and certainly less than the researcher can build on, in proposing a framework that is suitable for the Palestinian banking sector. It is for this reason that the researcher decided to first explore the current situation in the Palestinian banks and the business environment they operate in, from a performance measurement perspective, before proceeding on the framework design.

This approach is vital to the research; since it will define a baseline for the current situation, and draw better understanding of the context. After extensive preliminary work is done to understand the current situation, the researcher can develop a model and update the proposed framework taking into consideration the reality of the Palestinian banking sector.

This chapter discusses the findings of the collected data. The data was collected from the seven Palestinian banks and the PMA. Based on the research methodology, inductive thematic analysis was used to analyze the collected data, which entails that categories are to be developed directly from data collected during the interviews (Hsieh & Shannon, 2005).

Based on this methodology, four themes were identified and grouped during the analysis process with each theme constituting some relevant categories under it. The themes are: Banks' current situation, banking sector environment, performance measurement framework design, and performance measurement needed capacities. These themes are presented below and discussed in relation to the relevant literature.

6.1 Banks' Current Situation

The categories that have been identified for the current situation, were derived directly from the collected data. These categories are:

- Bank's size and maturity: According to Franco-Santos et al. (2007), this can be identified based on figures such as number of branches, number of employees, financial figures in terms of revenues and assets, and number of years in operation. This data was retrieved from the Association of Banks in Palestine Comparative Performance report (2015).
- Approach used for measuring performance.
- Practice and importance of financial measures.
- Practice and importance of non-financial measures.
- Tools and methodologies used.
- Opinions and suggestions for improvement.

Table 6-1 summarizes the current situation based on these categories.

Table 6-1: Summary of Banks' Current Situation (Source: Data Analysis)

Bank	Size and Maturity	Followed Approach	Practice and Importance of FPMs	Practice and Importance of NFPMs	Tools and Methodologies	Opinion and Suggestions
Bank Alpha	Large and Stable	<ul style="list-style-type: none"> Based on objectives set by board Derived from Strategy Top down assignment of targets to all levels 	Practiced/ Very important	Practiced/ Very important	<ul style="list-style-type: none"> Dedicated Business Intelligence Department Measures and Targets are chosen based on experience 	<ul style="list-style-type: none"> Needs more periodic review to update measurement based on changes in the business environment
Bank Beta	Medium and Stable	<ul style="list-style-type: none"> Objectives and Direction set by the Board Strategies Formulated based on set objectives Action Plans Set to achieve strategies SMART measures and targets are selected based on action plans Performance is regularly monitored 	Practiced / Very important	Less Practiced / important	<ul style="list-style-type: none"> Dedicated MIS department Reports from financial department Measures and targets are chosen based on experience 	<ul style="list-style-type: none"> Must be linked to reward system and is used to build career paths Must have secondary data from authentic sources to rely on in benchmarking

Bank Gamma	Large / Stable	<ul style="list-style-type: none"> • Direction by Board • Strategic Retreats • Budgets and plans are set • Targets and Measures identified • Performance regularly measured taking competition into consideration • Measures and targets regularly reviewed and updated based on competition and environment 	Practiced/ Less important	Practiced / More important	<ul style="list-style-type: none"> • Manual • Based on experience 	<ul style="list-style-type: none"> • Still not mature enough to effectively use non-financial measures, due to lack of expertise and secondary data
Bank Delta	Medium and Growing	<ul style="list-style-type: none"> • Strategic goals are set by the board • Strategies set • Plans and budgets developed • Measures and targets set 	Practiced / Very important	Practiced / Very important	<ul style="list-style-type: none"> • Manual and based on experience 	<ul style="list-style-type: none"> •
Bank Epsilon	Small - Medium / Growing	<ul style="list-style-type: none"> • Board sets direction • Strategic Committee sets strategies • Business Plans and budgets developed • Relevant Measures and targets are set • Regular review and updates based on competition and environment 	Practiced / Very important	Less Practiced / Less important	<ul style="list-style-type: none"> • Strategic planning committee sets measurements and targets based on previous experience 	<ul style="list-style-type: none"> • Measures must be set at the individual level and must be linked to reward system

Bank Zeta	Small – Medium / Stable	<ul style="list-style-type: none"> • Strategic plan is set • Measures and targets are set based on the set plan 	More practiced / Very important	Practiced / Very important	<ul style="list-style-type: none"> • Manual and based on expertise 	<ul style="list-style-type: none"> • More attention must be given to non-financial measures to guarantee long-term superior performance
Bank Eta	Small / Growing	<ul style="list-style-type: none"> • Targets and Measures are set based on strategy • Takes competition and previous experience into consideration 	More Practiced / Very important	Slightly practiced / very important	<ul style="list-style-type: none"> • Manual • Based on previous experience 	<ul style="list-style-type: none"> • In time, non-financial measures must be monitored more to guarantee performing well in the long run

6.1.1 Bank Size and Maturity

When understanding the current performance measurement practices applied in the Palestinian banks, the researcher has noticed that the main differences between the Palestinian banks in this regard can be spotted based on the banks' size and their level of maturity.

Banks which are medium-to-large and stable are more mature in terms of performance measurement practices, use both FPMs and NFPMs in their performance measurement process, and strongly believe that their sustainability in the long run is tightly connected to their level of performance in measures of qualitative and long-term nature such as: social responsibility, financial inclusion, innovation, products diversity, employees' qualifications, employees' satisfaction, reputation and brand recognition, and most importantly customer satisfaction and quality of service. On the other hand, banks which are small-to-medium and growing, focus more on their financial performance with little focus on non-financial measures.

This observation is also recognized by the banks' officials themselves. When asked about their performance measurement practices, the deputy GM of Bank Alpha "a stable and large bank" responded that "the followed performance measurement practices differ depending on the stage at which the organization is and the size of the organization. Large and stable organizations consider both financial and non-financial KPIs". Similarly, the GM of bank Eta "a small and still growing bank" conferred that "generally, performance measurement in a newly established bank is very different from stable banks which are in operation for long time. Currently we focus on financial indicators such as deposits, financing portfolio and financing to deposits ratio, taking into consideration competition".

This observation has come consistent with the literature which states that many of the existing multi-perspective performance measurement frameworks such as the BSC are more suitable to well performing and stable organizations which are looking for long term sustainability

(Rillo, 2004; Striteska & Spikova, 2012). Accordingly, the proposed framework must be flexible enough to enable any bank to focus on what matters to them depending on its current size and maturity.

6.1.2 Performance Measurement Approach and Methodologies

Both the proposed framework and the literature suggest that the key to successful performance measurement is to link measurement and control activities to strategic planning (Dixon et al., 1991; Kaplan & Norton, 1992, 1996, 2004; Lynch & Cross, 1991; Neely et al., 2001). They also suggest that one key dimension to successful implementation of a performance measurement system and ultimately a successful strategy implementation is to be able to communicate the objectives of each dimension to all levels in a relevant manner through setting relevant measures and targets at the operational levels (Franco-Santos et al., 2007; Kaplan & Norton, 1992; 1996; 2004; Lynch & Cross, 1991; Tangen, 2004).

When it comes to the approach followed by the Palestinian banks for measuring performance, all of them are consistent with the literature and the proposed framework in that they all start with a strategic direction set by the board, formulate strategies based on the direction set, develop plans and budgets to implement the strategies, and then select measures and targets based on these plans. According to all banks, these measures and targets are set at both strategic level represented by companywide measures such as market share and employee turnover rate, and operational level represented by measures set to branches and banking operations that are mostly of financial nature and measures set to support departments that are mostly of non-financial nature.

The performance of branches and banking operations is usually measured against the budget which is based on financial measures. On the other hand, the performance of support functions is measured through a set of non-financial measures that are developed based on historical and secondary data. Examples of a non-financial measure used in support function

include employee satisfaction as a performance indicator to human capital department, products diversity, customer complaints and number of users using e-channels, among others.

In both cases, Palestinian banks assert that they set these measures at the operational level only after strategic objectives are set, strategies are formulated and plans and budgets to implement strategies are developed. According to them, this process is important in order to develop measures which are relevant to the corresponding operation and relative to the strategic objectives. This is very consistent with the proposed framework and with the literature suggesting that one of the keys to successful implementation of a performance measurement system and ultimately a successful strategy implementation is the ability to communicate the objectives of each dimension to all levels in a relevant manner, which clears all barriers against a successful implementation of the strategy, and that each dimension must specify relevant objectives to all organizational levels and to the bank branches (Franco-Santos et al., 2007).

However, the rigid distribution of financial and non-financial measures over support functions and branches and bank operations, may result in miscommunication of targets and measures to lower organizational levels which could possibly cause a sub-optimization and hinder innovation. This may occur because:

- Financial measures set by the Palestinian banks at branches levels, might not be relevant to all employees operating in these levels.
- The measures at all levels must be set on a casual bases, where measurement process occurs bottom-up to guarantee the achievement of the stakeholders' objectives. (Kaplan & Norton, 1992; 1996; 2004; Lynch & Cross, 1991). However, this separation of measures which the Palestinian banks practice, may result in ignoring measures at a certain level that are casual to measures at upper levels. For example, a customer satisfaction measure which must be applied to customer service employees in the branches, is a non-financial measure that may result in achieving or failing to achieving a revenue measure

at the strategic level. However, with the current practice of the Palestinian banks, such a measure is ignored at the branch level.

This measurement setting approach practiced by the Palestinian banks can be attributed to the lack of systematic and institutional performance measurement system in the Palestinian banks, but it can also be attributed to setting operational performance measures based on functional silos rather than cross-functional processes. According to Neely et al. (2001) and Kaplan & Norton (2004), setting measures based on cross-functional processes rather than functional silos produces and delivers value by setting measures that are more relevant and casual.

On another finding, although all banks followed similar approaches, few of them only stated that they periodically review and update their measurements based on changes in competition and the business environment. Some other banks stated that they link the results of performance to an incentive scheme and rewards system. Yet, most of the banks acknowledged that the lack of periodic reviews and connection with their rewards system create a problem in their current performance measurement system.

This acknowledgement and the current approach followed by the Palestinian banks are very important, since they indicate a high level of maturity in understanding the roles of performance measurement system in that it goes beyond measurement, to also serve as a tool for strategic management, communication between all organizational levels, and influencing behavior and organizational learning (Franco-Santos et al., 2007).

In fact, the Palestinian banking sector is doing well when it comes to performance measurement compared to literature related to performance measurement in banks in developing countries and the region, since most of the banks give more significance to financial measures, although they use some measures related to customers and other non-financial measures.

Examples include Ahmed et al. (2011) conducted on 27 Pakistani banks, Fakhri et al. (2011) conducted on 55 Libyan banks, and Al-Najar & Khalaf (2012) conducted on Iraqi banks.

While the current approach followed by Palestinian banks is generally consistent with relevant literature, still, it is important to highlight two significant findings, which are:

- Palestinian banks in general commence with their performance measurement process with a strategic direction set by the board, before formulating strategies. Yet, the connection with the stakeholders in setting the strategic direction is inconsistent, non-systematic, and unclear. This contradicts the literature which suggests that in order for performance measurement to create long term value, it must satisfy, measure and monitor the needs of all key stakeholders (Neely et al., 2001).
- Palestinian banks in general depend on the top-management experience in the performance measurement process. This means that any implemented practices in a given bank is not part of the culture itself, and is not as institutional as other traditional disciplines such as banking operations. Therefore, a management change in a given bank will more likely result in dramatic changes to the performance measurement practices in that bank. While one may argue that the several similarities in the Palestinian banks' approaches to performance measurement suggest consistency in practices followed; this can be negated by a statement from deputy GMs of banks Beta and Zeta that "most of the functioning top-management in Palestinian banks come from one or two banking institutions, which explains the similarities in any given approach".

6.1.3 Nature of Performance Measures

The Palestinian banks differ in the level of importance they assign to non-financial measures relative to the financial ones. As discussed earlier, this difference may be attributed to the stage in which the bank lies, which affects its strategies and corresponding plans and measures. Yet, all Palestinian banks acknowledge that both financial and non-financial measures

must be considered in their performance measurement systems, even if they are currently less practiced.

This finding has been stated on more than one occasion during the interviews. Most of the banks stated that using non-financial measures is very important in order to guarantee the quality of investments, assets, and liabilities and customers' portfolios which will all end up in creating long-term value; because if the banks fail in the non-financial aspects they will fail with numbers on the long run. This comes very consistent with literature which suggest that the ultimate purpose of performance measurement framework is to contribute to the creation of long term value through measures which are financial and non-financial, qualitative and quantitative, short term and long term, lagging and leading, and backward and forward-looking (Cumby & Conrad, 2001; Eccles & Pyburn, 1992).

Eccles & Pyburn (1992) suggest that financial measures are merely the results of management actions and not its cause, as such must not be monitored in isolation from the leading indicators to performance, represented by relevant non-financial indicators. This suggestion appears to be comprehended and followed by most of Palestinian banks.

One example is the interview with the GM of Bank Gamma. When asked about the nature of measures they use, the answer was "Both. Because you need to use relevant KPIs to the function which you are trying to measure its performance.... For example, human capital must serve employees, and as such employees' satisfaction is considered to be a non-financial KPI". He further elaborated that "The Chairman and I refused to evaluate our performance based on financial performance, simply because financial performance is the result of the bank's overall performance. For example, if I limit my performance to achieving a certain profit value, I can simply do that by not investing or entering risky investments such as junk bonds and by saving expenses. However this is not sustainable".

On the other hand, the Palestinian banks do acknowledge that they are not using enough non-financial measures as they believe they should. They mainly attribute that to:

- Lack of experience
- Lack of secondary data which can be used to develop and benchmark measures
- Complexity and high cost of these measurement due to their subjective nature and the need to perform many primary researches to generate data needed for the measurement process.

6.2 Banks' Macro Environment

According to Hussain & Hoque (2002), changes in the macro-environment will automatically result in changes in a bank's strategy, structure, and management control systems including performance measurement system. These macro-level factors affecting the banking industry in general. These factors include economic conditions, technology, socio-cultural, regulatory and political conditions.

6.2.1 Economic Conditions

In general, the Palestinian economy is dependent on the Israeli economy and the Israeli practices towards the Palestinians, therefore it is strongly tied to the political situation and the occupation. This results in an uncertain and unstable economy. Due to these conditions, the Palestinian economy is suffering from lack of actual and sustainable GDP growth, high rate of unemployment and lack of investments in sustainable and long term development.

As a result, banks are suffering from lack of investment opportunities and are focusing more on less risky but unsustainable sectors such as consumables, real estate and working capital financing. In addition, banks have to be very careful and apply risk-based management and control practices, in order to be able to survive these uncertain and unstable economic conditions.

This practice of risk-based management and control, comes consistent with the global trend in the banking sector; since according to Helliari et al. (2002) the entire global banking sector environment is becoming more and more uncertain for different economic reasons such as globalization, deregulation, and highly fluctuating interest rates, forcing banks to change their PMS and internal management controls by incorporating strategic planning, risk based measurements and proactive, intelligent and automated reporting systems.

Additionally, the Palestinian banks are also facing fierce competition in the local business environment. The presence of foreign banks has eroded market share of many Palestinian banks, lack of regulations on the pricing of banking products has added pressure on the source of funds among banks by removing ceilings on deposits rates and putting pressure on the banks' profits, the lack of expansion and investment opportunities have forced the banks to compete on relatively small target segments relative to the number of banks operating in Palestine. Finally, all banks offer similar products at similar rates.

This fierce competition has forced the banks to focus more on quality of service, customer satisfaction, providing full stack services and products, enforcing presence online and through technological platforms which facilitates self-service, and allow for global presence at the highest efficiencies and minimal costs.

According to Hussain (2003), organizations which face greater economic and environmental uncertainties focus more on financial than non-financial Data. However, while the Palestinian banks are facing such environmental uncertainties, they also face fierce competition in the local business environment, which according to Hussain (2003) forces management to focus on long term survival tools which obliges non-financial measures to stand out next to the financial ones.

6.2.2 Technology

Both competition and advancements in banking technologies, is changing the way in which the Palestinian banks do their business, by focusing more on delivering their products and services through technology.

This embrace of technology increases the Palestinian banks' efficiency in operations by enabling them to reduce the cost of operations through automation and self-service technologies such as Internet banking, mobile banking, ATM machines and self-service booths; services which most of the Palestinian banks are offering or considering to offer in the near future.

In addition, Palestinian banks are using technology to create new online delivery channels which will provide services to remote customers and facilitate inclusion of areas where the Palestinian banks don't or can't have physical presence due to security or political reasons; such as Area C, East Jerusalem and the Palestinian areas occupied in 1948.

Moreover, Palestinian banks and based on directions set by PMA, are now trying to use technology to encourage electronic and cashless transactions, through online transfers, e-money and card services. These services when mature enough will dramatically reduce the cost of operations and the cost of holding and transferring cash, and will effectively reduce the problems resulting from Israeli currency cash stacking in the Palestinian banks.

During the interviews, and when exploring the technological environment with the Palestinian banks, the researcher has come to believe that all Palestinian banks are perceiving the technological advancements as an enabling factor which as expressed by the Deputy GM of Eta bank "is a long-term investment which all the banks must make, if they are to flourish in the long-run, otherwise it will be left behind". Therefore, it appears that the Palestinian banks do realize the importance of having strong technological capabilities as a mean to achieve sustainable value creation in the long run. The assistant GM for customer relations of Bank

Epsilon said in this regard "I do believe that banks which utilize technology in their services, will be the ones to generate most profit in the future", an understanding which is widely accepted in the literature (Allen et al, 2002; Helliard et al, 2002; Kaplan & Norton, 2004).

6.2.3 Regulatory Control

Banks operating in Palestine are required to operate under the regulations of PMA, and the failure to comply with the PMA's regulations and guidelines results in financial penalties or cancellation of a banking license.

Due to the uncertainties existing in the Palestinian business environment, the PMA is enforcing tough regulations that increase the standards that the banks operating in Palestine has to follow, both at financial and non-financial levels.

An example of financial regulations include setting certain financial ratios such as maintaining certain loans/deposits ratio, complying with certain capital requirements, and reserving some funds. All these regulations are set up to mitigate or reduce the risks and uncertainties facing the Palestinian banking sector, and to protect the Palestinian citizen rights.

Additionally, the PMA enforces compliance with the most recent international risk and AML regulations and standards such as Basel II accords and IFRS 9 standards which enforces tough regulations on the ways banks calculate their provisions relative to the financing and loans given. These standards are sometimes enforced on the Palestinian banks even before many of the most advanced countries. For example, according to GM of bank Gamma "while the IFRS9 is becoming a requirement which the Palestinian banks have to comply with by 2018, countries such as the USA will not apply this standard before 2020".

While these regulations appear to be tough relative to the Palestinian business environment; in an interview with a PMA official, he argued that these regulations are set to protect Palestinian citizens and to ensure the Palestinian financial stability, which are among the main

roles of any central bank worldwide. He explained that due to the special political and economic conditions Palestine encounters, the government will not be able to compensate the Palestinian citizen in case of a crisis. As such, banks themselves have to take this responsibility if they are to operate in this environment. He elaborated that these regulations are also for the best interest of the Palestinian banks themselves; since they help in building a strong reputation and image about the well-being of the Palestinian banking sector, which will increase confidence in the Palestinian banks internationally.

Luckily, Palestinian banks have no complaints regarding the strictness of the PMA regulations; as they do realize that PMA regulations are sound and one of the most advanced in the region. Furthermore, these regulations contribute to the well-being and help protecting them in the long run. Additionally, the Palestinian banks do recognize the efforts by the PMA in involving them in all the discussions related to a regulation before a final version is approved and issued.

On top of these efforts, PMA in its capacity as a regulator pushes the Palestinian banks towards financial inclusion automation, electronic services and competition based on quality. Among the many activities which the PMA is performing in this regard, the latest are the national switch, central transfers and electronic checks consolidation; activities not only aiming at providing better service to the Palestinian citizen, but also eliminates what was once price-based competition tools and add pressure on the Palestinian banks to compete more on the quality of service.

Nevertheless, and referring to the interviews conducted for the benefits of this research, it appears that PMA still needs to exert more efforts in regulating electronic banking, a trend that both the banks and the citizens are aspiring for. Additionally, while the PMA efforts are positively recognized both on the local and regional levels, the Palestinian banks do suffer from incomplete, old laws and regulations that are torn between several versions inherited from Egypt in Gaza Strip and Jordan in the West Bank. For example laws that are related to collaterals and juridical

reservations are old, suffer from different versions and take extremely long time to process, that the Palestinian banks prefer to settle outside courts whenever possible, even if it means incurring some losses.

Palestinian banks, however, are required to improve their internal management control and performance measurement systems to comply with PMA standards and regulations that clearly push towards risk-based management, quality based competition, and technology based operations. It is expected that the Palestinian banks will be even put under greater pressure to improve performance, as PMA continues to require compliance with more international regulations (Wignall & Atkinson, 2010).

6.2.4 Socio-Cultural

The most obvious socio-cultural factors are the ones related to Islam beliefs and those related to social responsibility.

Due to the fact the majority of the Palestinian population are Muslims, this culture has created an opportunity for Islamic banks to emerge and prosper in the Palestinian banking sector, reaching a total market share of 12% and is expected to increase topping at 20-25% during the next few years, based on expectations by many of the interviewees. This fact is clearly observed in the numbers discussed in chapter two, in the new license issued by PMA to a new Islamic Bank, and according to Assistant GM for branches in bank Gamma, is a candidate to rise more due to the political situation and occupation which pushes the average Palestinian citizen to be more interested in banking products that comply with Sharia', especially during the times of war and Intifada. This is very consistent with literature which suggests that in many Islamic countries, banks have been forced to work based on a profit and loss business model that is interest free, in order to satisfy the beliefs of Islam (Ahmad, 1993).

The social responsibility activities is especially important in the Palestinian context, due to the large number of segments in need for these activities, and the low number of sectors which are financially capable to make effective contribution and activities. This is why expectations from the Palestinian banks in this regard are high. However, only three of the Palestinian banks have discussed social responsibility as a core activity which is regularly practiced at an institutional level, and considered a strong value creator in the long-run. Two of these banks are Islamic banks which consider their entire business model is built on being socially responsible, and one commercial bank.

6.2.5 Political Situation and Occupation

The above discussion establishes a statement that the political situation and occupation in the Palestinian context is affecting all the macro-level environmental factors. The economy is directly tied to the Israeli economy and is affected by its performance. The regulatory environment is really tough compared to neighboring countries because they are taking into consideration all the risks resulting from the existence of occupation. Technology is also limited by what the Israelis allow Palestinians to use and exploit, like for instance the limitations on the 3G internet services which limits e-banking.

Perhaps the most restraining factor resulting from the existence of occupation is the one related to Israeli currency, the Shekel. Israelis are causing the Israeli currency to keep stacking in the Palestinian banks treasury, and refuse to accept transferring these amounts to the Israeli central bank. They argue that the cash existing in Gaza strip and the West bank is subject to money laundry since they do not control their sources and since much of this cash is deposited to the Palestinian banks without knowing its real sources.

This would have been true except for one reason, that much of this cash actually comes from inside the Israeli borders through the Palestinian labor and 1948 Palestinian investors and traders! What is even stranger is that the Israelis do encourage buying US dollars from the

Palestinians, causing deficit in US dollars and surplus in Israeli Shekels with no or limited investment opportunities to the latter, and as such performing economic control over the Palestinians and the Palestinian banks. This is particularly the case for Palestinian banks only, since Jordanian banks operating in Palestine do have the ability to transfer Shekel to the Israeli central bank.

In addition, the fact that Paris Protocol prevents PMA from issuing and managing national currency, forces the Palestinian banks to deal with four major currencies: US Dollar, Jordanian Dinars, Israeli Shekel, and Euro. This also adds pressure on the Palestinian banks, since they will have to balance their budgets, and design their products and services based on these four currencies, knowing that PMA and the Palestinian banking sector have no real control over purchase power, money supply, interest rates, and investment opportunities in these currencies.

The currency issue forces the Palestinian banks to keep evaluating and monitoring their treasury operations. Hence, a comprehensive performance measurement framework that is applicable to the Palestinian context must take treasury and AML processes into consideration.

The Occupation is also limiting physical and legal access to Palestinians living in Area C, East Jerusalem, and Palestinian lands occupied in 1948 and Palestinian expats. This limits the banking sector target segment size and causes competition among them to intensify. It also forces banks to compete on the same small market through both price competition and quality of service, and pushes banks towards reaching for new segments through technology and new innovative delivery methods and international expansion.

Occupation also sheds its agony on the Palestinian economy in general and the banking sector in particular by considering Palestine as a dispute or risky area.

It is a fact that Palestine is not treated or recognized collectively by the international community as an independent country, which adds to the long list of obstacles that prevent

assigning correspondent banks or establishing relations with them, the least to get. For example, correspondent banks request generating certain revenues as a result of an established relationship, but with all the restrictions practiced by the occupation this is a nightmare on its own. This is a de facto to be seriously considered when it comes to proving that Palestinian Banks are internationally recognized for being compliant with FACTA and AML standards.

These facts among others, stand against establishing healthy and sustainable relationships with correspondent banks on an international level, which result in shrinking the market size and the long-term visions for Palestinian banks.

Furthermore, the Political instability which have led to the current split between West Bank and Gaza, has resulted in restraining the performance of the Palestinian banks. Due to the high political and economic risks in Gaza, only few of the Palestinian banks are currently operating in Gaza, and the rest are only existing through representative branches or offices. Besides, in many cases, Palestinian banks operating in Gaza face limitations on prosecuting or executing judicial decisions due to differences between laws applied in West Bank and Gaza, which is adding more pressure on the Palestinian banks with their provisioning, risk-mitigation and hedging strategies. Moreover, due to the lack of control by the Palestinian Authority and the PMA on Gaza, this has resulted in the creation of a parallel or informal economy, represented by illegal banks which are operating inside Gaza and fiercely competing with the formal banking sector, both on financing and deposits levels.

Finally, due to instabilities resulting from occupation and lack of control by the Palestinian authority over the borders, export and import activities, clearing taxes, and the national wealth, Palestinian banks are forced to apply risk-based management and control systems, including application of strict provisioning rules , and limiting the investments to very few sectors such as real-estate and consumables. Together, these facts limit opportunities of growth/development on a national level and increases pressure on certain sectors, among them is banking sector.

6.3 Framework Design

In this part of the interviews, the discussion covered 3 perspectives: stakeholders' perspective, strategy perspective, and operational perspective. These are the most important perspectives constituting the framework proposed in the theoretical framework, based on the findings in the relevant literature. Accordingly, it became of vital importance to discuss these three perspectives with the Palestinian banks, in order to crosscheck them against the context of the Palestinian banks, so as to identify and close any potential gaps in the proposed framework.

6.3.1 Stakeholders' Perspective

The interviews show clearly that Palestinian banks did not systematically consider the stakeholders in setting their strategic direction and measuring their performance. However they all had special eye on the shareholders. Apparently, Palestinian banks strongly believe that the organization's role is to create a long-term shareholder value. Yet, the link between the organizational performance and the organization's stakeholders other than the shareholders is not yet clear in the practices of the Palestinian banks.

The interview questions included an important inquiry about the considerations of any bank towards their stakeholders that the bank needs to consider in its performance management strategy. Surprisingly, the answers included much more than the shareholders, which may be attributed to any of the below two reasons:

- The banks' officials do implicitly consider stakeholders in their strategies and in their performance measurement practices, but since these practices are not systematic or institutional, the stakeholder's perspective becomes unclear and inconsistent with the banks' performance measurement system, and is only considered part of the strategic objectives set by the board.

- The banks' officials do recognize their key stakeholders, but they do not measure their performance towards them.

This contradicts the literature which suggests that in order for performance measurement to create long term value, it must satisfy, measure and monitor the needs of all key stakeholders (Neely et al., 2001), and that stakeholders come first then strategic objectives are set and strategies are formulated (Crowe, 1999; Neely et al., 2001).

However, the Palestinian banks were able to identify several key stakeholders to their organizations. While including all these stakeholders may result in a more comprehensive list, we choose to list only stakeholders which were identified by all or most of the banks; because our purpose is to propose a generic framework which can be initially used by all Palestinian banks and could possibly be customized to fit each of them. Therefore, hereunder we provide a common list of major stakeholders in order of importance as set by banks:

- Shareholders
- Clients
- Employees
- PMA
- Correspondent banks
- Society
- Local Partners and Associations which include Association of Banks in Palestine, Palestine Deposits Insurance Corporation, in addition to large vendors and suppliers.

When discussing their key stakeholders, most of the banks stressed that the relationship with the bank's stakeholder must be on a win-win basis. For example, and according to Palestinian banks, while the bank aims at generating profit for its shareholder, the latter must support the bank with connections/network. Another example was based on loyalty, i.e. while banks work on

satisfying their customers and employees, the latter, in exchange, must remain loyal to the bank. This recognition of stakeholder's contributions comes consistent with the literature (Crowe 1999, Neely et al., 2001).

6.3.2 Strategy Perspective

All Palestinian banks have recognized the role of strategy in the performance measurement system and have put it into implementation too. They select their measures and set their targets only after strategic direction is drawn, strategies are formulated and plans are developed. They also use these measures and targets to measure the success of strategies' implementation in achieving the strategic goals.

Assistant GM for Credit and Finance of Bank Beta during his interview, summarized the approach followed by all the Palestinian banks in this regard: "Strategies are plans to achieve targets. They can be long-term or short-term. These are the means to achieve the objectives. Therefore, the KPIs should be chosen on the basis of their ability to evaluate strategies. If not, we won't be able to achieve the objectives." He further elaborated "For instance, an expansion KPI will be affected by the selected strategy to expand, i.e. whether physically or electronically".

This understanding of the strategic perspective in the performance measurement processes is consistent with the proposed framework and relevant literature, because it suggests that the link with the organizations' objectives implicitly indicates that an effective performance measurement system will measure the formulated strategies effectiveness in achieving the organizational objectives, leading to competitive advantages and superior performance (Garengo et al., 2005; Smith, 1997). Additionally, a PMS should play a valuable strategic role in this area and enhance strategy formulation and implementation (Kaplan & Norton, 1996; Neely, 1999).

6.3.3 Operational Perspective

Although Palestinian banks encounter few problems when it comes to the way they measure their operational performance, and here we refer to the discussion in section 6.1.2 of this thesis, yet, they do recognize the importance of measuring operational performance by using a set of relevant measures selected based on strategies and strategic objectives, and put it in practice.

According to many of the banks interviewed, the operational level performance must be evaluated for several reasons. Below are sample quotes from the interviews which summarize these reasons.

- Deputy GM of Bank Alpha state that “operational level is set to achieve strategic goals, therefore its performance must be monitored to ensure goals are achieved”.
- Deputy GM of Bank Zeta assert that “not measuring the operational performance may create blind spots, because the strategic goals may be achieved accidentally or due to changes in the environment not to superior organizational performance, which can only be evaluated through the operational performance level”.
- Deputy GM of Bank Eta argues that “monitoring and enhancing the operational performance may result in exceeding the set strategic objectives, not only achieving them”.
- Deputy GM of Bank Eta further elaborates that “strategic objectives must be set considering the operational capabilities available or needed, otherwise they will not be achievable”.

Palestinian banks have identified many operational processes that should be usually monitored for performance, which can be categorized as following:

- Banking Operations
- Clients related operations which represent marketing and acquisition, customer care and retention, efficiency and quality of service, and clients' relations.
- Innovation processes which represent Research and Development activities, product development, market research, and automation and delivery channels.
- Reputation related operations which includes society related processes, branding and public relations activities and partnerships management activities.
- Regulatory related processes including compliance, AML and legal processes.
- Employee related processes including employees training and development.

The Palestinian banks have also identified the needed capabilities as follows:

- People capabilities including board of directors, management and staff capabilities.
- Technological capabilities at both operations and delivery levels.
- Sound policies and procedures.
- Strong corporate image.

These identified processes and capabilities match and even add to the ones suggested in the proposed framework based on Kaplan & Norton (2004) strategy map paper. The only difference is related to adding the corporate culture as a capability to the framework. Many of the banks believe that the corporate culture is not a capability that must be monitored for performance, rather it is a capacity and a prerequisite for any successful organizational change, whether at the strategic or operational level. This will be further discussed in section 6.4 of this chapter.

6.4 Needed Capacities

The purpose of this research is to explore the current performance measurement practices in the Palestinian banks and to propose a comprehensive and generic performance measurement framework for them. Consequently, any attempt to measure the readiness of the Palestinian

banks to implement such a framework and validate its applicability in a real environment is premature and should be considered for future researches.

Nevertheless, the researcher sought to take advantage of winning the chance to meet with Palestinian top bankers in office in Palestine to explore their perception over what they think should be done within their institutions to ensure that the performance measurement practices in use that mostly depend on experience and their own perceptions are replaced with a more systematic and institutional process that is practiced on the organizational level, similar to any traditional banking operation. This can be summarized hereunder:

- Vision and leadership by the bank's board of directors and top-management.
- Flexible and accepting corporate culture that embraces positive change.
- Motivated and aware personnel.
- Supporting technological infrastructure which will facilitate the performance measurement process.

These capacities for change are well documented in literature. Cummings and Worley (1995) emphasize that the first two phases in any organizational change are based on creating and communicating a vision by leaders to the whole organization, in addition to motivating the spirit of change through changing the work culture and climate and motivate all involved people. Similarly, Schneider, Brief & Guzzo (1996) argue that a successful change can only occur through applying the needed resources and processes and also by creating the proper culture which leads the employees' actions.

A good practical example can also be located in the interview with the GM of Bank Gamma. When asked about the decision to use non-financial measures, he explained that "it was the chairman and I who decided to use non-financial figures". This example clearly illustrates the role of leadership in deciding on performance measurement practices.

6.5 Revised Framework Design

In order to decide on the revised version of the proposed framework, we will first list all the factors which were discussed in the previous sections, that affect the proposed framework design and how the framework fulfills them and if not, how it will be updated to do so.

6.5.1 Factors in the Current Situation

In a note related to bank size and maturity, it was observed that large and mature banks are more interested in applying multi-perspective performance measurement frameworks and applying financial and non-financial measures in their measurement process, than small and growing banks. Accordingly, the proposed framework must be flexible enough to enable any bank to focus on what matters depending on its current size and maturity.

The proposed framework does indeed allow for this flexibility; since companies reflect what matters to them through deciding on which stakeholders to consider and what strategies to follow. For instance, a bank wishing to focus more on financial measures can simply choose to only consider shareholders' needs, and formulate all its strategies based on them. So, using the proposed framework will automatically result in a performance measurement process that focuses on financial measures more than other measures.

Furthermore, the banks suggested that all measurement activities must start after strategic objectives are set and strategies are formulated, and that the performance measurement process must measure how successful the organization is in implementing its strategies and achieving its goals. This comes consistent with the proposed framework, since the framework suggests cascading objectives to all organizational levels before starting the measurement process, which takes place by selecting measures which have a causal relationship across levels, and measuring them in a bottom up approach to measure how well the strategies are being implemented and objectives are being achieved.

The banks further suggested that operational performance must be monitored since it is responsible for implementing strategies and achieving the strategic goals, which the framework does. However, they divide operational performance measures based on functional silos which as discussed earlier may result in setting irrelevant measures to some organizational levels to solve this problem, the framework will incorporate operational performance based on banking cross-functional processes which according to Neely et al. (2001) and Kaplan & Norton (2004) would produce and deliver value by setting measures that are more relevant and casual.

A main point which the Palestinian banks stressed was related to having periodic review of their performance in light of competition and the business environment. In this regard it is important to stress that competition and the environment in general should not be treated as dimensions or levels in the framework itself; because the entire measurement process must be followed and all strategic and operational dimensions must be formulated and evaluated within the frame of competition and the business environment (Wheelen & Hunger, 2012).

The proposed framework fulfills this requirement through proposing a two-way feedback mechanism where measures at any level provide feedback to the top or lower levels. To use this mechanism effectively, the researcher proposes that banks must set the targets to their measures in light of competition and the business environment. This means that good or bad performance will be assessed based on achievement of targets that are relative to benchmarks of competition and the environment (Sinclair & Zairi, 2000). Using this approach, any feedback from the measurement process will take competition and the environment into consideration, which may result in changes of strategies or operations.

Table 6-2 summarizes the factors affecting the design of the proposed framework based on the current situation, and how the framework fulfill them.

Table 6-2: Factors in the Current Situation (Source: Data Analysis)

Factor	Fulfillment
Bank size and maturity needs	<ul style="list-style-type: none"> • Through deciding on which stakeholders to consider and what strategies to follow
Nature of Performance Measures	<ul style="list-style-type: none"> • Can decide which measures to use through deciding on which stakeholders to consider and what strategies to follow
Strategy comes first, then measurement follows to judge the level of success in strategy implementation	<ul style="list-style-type: none"> • Strategy is part of the framework • Objective setting is cascaded. • Measures must fulfill a casual relation • Measurement occur bottom-up
Measuring Operational Performance	<ul style="list-style-type: none"> • Adding cross-functional processes and capabilities to the framework
Having periodic review of their performance in light of competition and the business environment	<ul style="list-style-type: none"> • Applying a two-way feedback approach • Selecting measures and setting targets relative to reference benchmarks set based on competition and feedback from the business environment

6.5.2 Factors in the Environment

Palestinian banks suffer from environment uncertainty as a result of the unstable political situation caused by the Israeli occupation. This uncertainty requires that they must keep monitoring their financial performance (Hussain, 2003). The proposed framework fulfills this requirement by considering shareholders as a stakeholder which the framework must evaluate the bank's performance in fulfilling their needs.

This uncertainty is also forcing the Palestinian banks to follow risk-based management and control. PMA as a regulator is aware of this uncertainty, and as a result is integrating risk-based management requirements such as AML, provisioning standards and FATCA in their regulations. Accordingly, the framework fulfills this requirement as part of PMA and regulatory processes involvement in the framework perspectives. However, due to the importance of these requirements in the Palestinian context, risk-related processes must be monitored and evaluated for performance aside from the PMA and regulatory processes, therefore all risk-related processes will be isolated as an independent dimension within the internal processes perspective.

Notably and as a result of the political uncertainty, Palestinian banks generally suffer from treasury related problems, due to issues with Israeli currency cash related to lack of investment opportunity and inability to transfer this cash to the Israeli side. This is due to being forced to balance four main currencies, and due to lack of investment opportunities in the local business environment. In response to these problems, the researcher identifies that although this is a national problem that the PMA plays a major role in solving it, yet treasury related processes are very important in the Palestinian context and thus must be included as a standalone dimension in the internal processes perspective of the framework.

In addition to the environmental uncertainty, the fierce competition which the Palestinian banks encounter, adds huge pressure on them to consider non-financial measures in their performance measurement system (Hussain, 2003). This fierce competition is forcing banks to focus more on quality of service, customer satisfaction, providing full service packages and products, enforcing presence online and through technological platforms which facilitates self-service, and allow for global presence at the highest efficiencies and minimal costs, facilitated by the enabling technological advancement related to the banking industry.

The proposed framework does fulfill these requirements, by allowing to involve stakeholders in addition to the shareholders, most importantly customers, who are usually

interested in dimensions other than the financial ones. Besides, involving customer related processes, innovation processes, and people and technological capabilities as dimensions in the operational perspectives of the framework guarantees fulfilling these requirements forced by competition and technological advancement.

Finally, due to importance of the regulatory environment in the Palestinian banking sector, PMA is involved as a key stakeholder, and all related processes are considered within the internal processes perspective.

Table 6-3 summarizes the factors affecting the design of the proposed framework based on the environment, and how the framework will fulfill them.

Table 6-3: Factors in the Environment (Source: Data Analysis)

Factor	Fulfillment
Environmental Uncertainty	<ul style="list-style-type: none"> • Fulfilled through short-term financial performance represented by shareholders and their related strategies • Add risk-related processes to the internal processes perspective • Add treasury processes to the internal processes perspective
Fierce Competition and technological advancement in the banking industry	<ul style="list-style-type: none"> • Fulfilled through considering non-financial long term measures through monitoring additional stakeholders to shareholders

	<ul style="list-style-type: none"> • Fulfilled through involving customer related, and innovation processes • Fulfilled through involving people and technological capabilities
Importance of compliance	<ul style="list-style-type: none"> • Fulfilled through involving PMA as a key stakeholder • Fulfilled through regulatory processes

6.5.3 Factors in the Framework Design

Except for the shareholders, the Palestinian banks do not systematically consider the stakeholders in setting their strategic direction and measuring their performance which contradicts the literature which the framework was built on (Neely et al., 2001). However, the discussions with the Palestinian banks' key officials showed that they do recognize the importance of their key stakeholders to the well-being of their business, even if they do not constantly or systematically measure their performance in this regard. This is why the researcher chooses to keep stakeholders as the top perspective in the proposed framework.

Among the list of stakeholders provided by the banks, most of them were already considered in the original framework design. However, slight changes to the list must take place:

- Customers must be substituted by clients. Many Palestinian banks prefer to use this term because it better reflects the strong relationship they try to build with their clients.
- Although most of the banks stressed on PMA as the most important regulatory body, the researcher recommends that other regulatory bodies must also be considered separately from PMA, due to the importance of risk-management and control processes in the Palestinian context.

- Key partners were not previously listed in the original framework design. But since many banks believe they are important in the Palestinian context, they will be added to the list.

On another perspective, Palestinian banks do recognize the importance of measuring operational performance by using a set of relevant measures selected based on strategies and strategic objectives. Accordingly, Palestinian banks have provided a detailed list of operational aspects which must be monitored for performance.

These aspects were categorized by the researcher into six operational processes and four operational capabilities as discussed in section 6.3.3 of this chapter. Most of these processes and capabilities were covered in the original proposed framework and the other few left will be added to the framework based on the following:

- Reputation related processes will substitute society processes, since this is a more general term which covers society and other brand, image and partnership related processes.
- Banks have added an employee related processes dimension, since they consider it essential in maintaining a qualified and motivated human capital necessary for the well-being of the business. This dimension doesn't contradict the originally suggested dimensions and the literature they were built on (Kaplan and Norton, 2004), and also creates a necessary connection at the operational level between the employees, stakeholders and the people capabilities. As such, the researcher chooses to add this dimension to the framework.
- Palestinian banks added corporate image as a capability which must be monitored for performance. This capability comes in alignment with the newly added reputation related processes. It also has roots as a capability in Kaplan and Norton (2004) strategy map. As such, the researcher chooses to add this dimension to the framework.

- Palestinian banks have argued that corporate culture is more a capacity than a capability perspective which the banks must have in order to successfully implement a systematic performance measurement system. Based on this argument and the discussion in section 6.4, the researcher chooses to delete culture from the capabilities perspective, and identify it as a capacity and a prerequisite to a successful performance measurement system implementation.

Table 6-4 summarizes the factors affecting the design of the proposed framework based on discussions related to the original framework design, and how the framework will fulfill them.

Table 6-4: Factors in the Framework Design (Source: Data Analysis)

Factor	Fulfillment
Stakeholders' Perspective	<ul style="list-style-type: none"> • Fulfilled as a perspective. • Customers will be substituted with clients • Partners stakeholder will be added • PMA and regulatory bodies will be maintained
Operational Perspective	<ul style="list-style-type: none"> • Fulfilled as a perspective in the original framework design • Reputation based processes will substitute society processes • Employees related processes will be added • Image capability will be added • Culture capability will be removed

6.5.4 Revised Framework

Based on all the findings and factors discussed thus far, the revised framework which the researcher suggests that Palestinian banking sector may refer to and use is illustrated in figure 6-1.

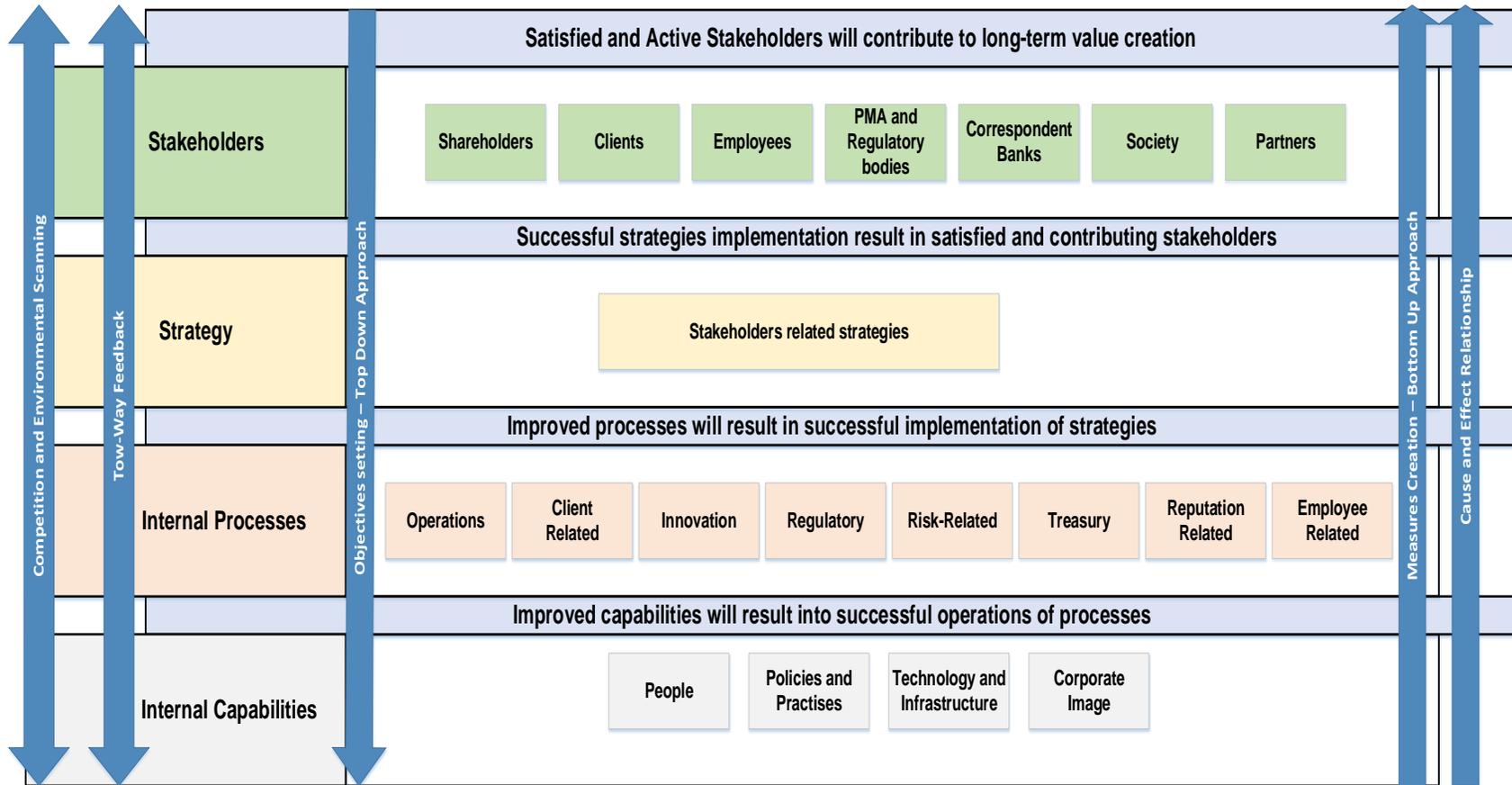


Figure 6-1: Revised Framework (Source: Data Analysis)

Chapter 7: Conclusion and Recommendations

Introduction

This chapter concludes the study and summarizes the outcomes found. It also provides practical and theoretical implications based on the research findings. Finally, it ends with recommendations for further research related to the topic of this study.

7.1 Conclusion

The main purpose of this research is to explore and investigate the current situation of the performance measurement at the Palestinian banks and the business environment they operate in. It also attempts to utilize the findings of this quest to propose a comprehensive multi-perspective framework that provides guidelines for performance measurement in Palestinian banks.

The researcher conducted a thorough literature review that covered the Palestinian financial sector, performance measurement discipline, common performance measurement frameworks, and performance measurement in services and the banking industry.

Based on the outcomes of the said literature review, the researcher suggested a performance measurement framework which is believed to be generic and comprehensive. In order to examine the rationality of the framework, the researcher conducted an exploratory research which investigated the current situation of the Palestinian banks and the environment which they operate in, and how this context affects the proposed framework.

While conducting this research, the researcher adopted a qualitative approach in data collection that is based on semi-structured face-to-face interviews. These interviews were conducted with executives and key officials from the seven Palestinian banks plus an interview conducted with the PMA. Thematic analyses was used in analyzing the collected data and the findings were compared to the said literature and used to update the proposed framework.

Based on this research, it was found that the Palestinian banks are aware of the importance of applying performance measurement both on strategic and operational levels, the importance of considering competition and environment in the performance measurement practices, the importance of continuous reviews and feedback, and the importance of measuring their performance based on multiple internal and external, long term and short term, quantitative and qualitative and financial and non-financial measures. The importance and concentration of these measures differ between banks in terms of the followed/adopted strategies and the current size and maturity level of the bank.

Despite of the awareness of the common practices in the performance measurement discipline, the Palestinian banks are criticized for several weaknesses in their current performance measurement process. These include:

- The process is an improvised process that depends on the current management expertise rather than being a systematic, constant and institutional process.
- The stakeholder perspective is either ignored, not clear or not being used consistently, which limits the long-term value creation; a fundamental benefit of any effective performance measurement system.
- The approach used by many Palestinian banks in setting operational measures by categorizing them based on branches and support functions is reducing the relevance of measures to the corresponding operational level and is resulting in local optimization and negatively affecting the casual relationship between measures.

Based on the research findings, it was also clear that the Palestinian banks are encountering different environmental factors that affect their performance, hence their performance measurement practices. In general, Palestinian banks operate in an uncertain environment due to the unstable political situation and occupation, which is affecting all environmental, economic, technological; cultural and regulatory aspects.

Due to this uncertainty, Palestinian banks are forced to measure their performance based on both short-term financial measures and long-term non-financial measures which focus on quality of service and technology-based innovations, to follow risk-based management and control practices and to comply with tough regulations and high-standard quality of service, operational and risk mitigating requirements.

Post discussing the findings and comparing them to related literature; the originally proposed performance measurement framework was updated and enhanced to reflect the Palestinian context and at the same time satisfy the discipline standards. As a result, the main components of the proposed framework included:

- Considering the stakeholders, strategic and operational perspectives.
- Cascading objectives to all organizational levels which starts with stakeholders needs, and then formulate strategies and set operational objectives in order to satisfy those needs.
- Selecting measures and setting targets in a bottom-up casual approach, taking into consideration competition benchmarks and environmental changes.
- A continuous and periodic feedback which reflect any competition and environmental changes in the performance measurement process.

Although Palestinian banks are following an approach similar to the proposed framework, this approach is mostly improvised, non-systematic and non-continuous. Accordingly, applying a framework such as the one proposed will not be a straightforward process; it is rather a considerable organizational change which will require the Palestinian banks to own several important capacities, which include:

- Vision and leadership by the bank's board of directors and top-management.
- Flexible and accepting corporate culture that embraces positive change.

- Motivated and aware personnel.
- Supporting technological infrastructure which will facilitate the performance measurement process.

7.2 Practical Implications for the Palestinian Banks

In investigating the current performance measurement practices in the Palestinian banks, it became obvious that the common process is an improvised process that depends on the current management expertise rather than being a systematic, continuous and institutional process. Accordingly the decision makers must take a strategic decision to move into a more systematic and institutional process which spans all the organizational levels.

To do so, key officials and management levels in the Palestinian banks must be trained on the performance measurement discipline. Moreover, Palestinian banks may consider attracting/recruiting talents who are knowledgeable and trained on the performance measurement discipline. These steps will help in creating awareness among employees and promoting a flexible and accepting culture that embraces positive change. In addition, Palestinian banks must invest in technology which facilitates the continuous and electronic monitoring and tracking of performance.

During the interviews, the Palestinian banks stated that they do not use enough non-financial methods in measuring performance as they believe they should. To solve this issue, the banks are advised to conduct specialized training in performance measurement and researches; since these will help in generating deeper insights and knowledge about their performance.

Adding to that, a major limitation to performance measurement is the lack of secondary data “other than financial data” and researches related to the industry from credible sources in the Palestinian context. Accordingly, credible official bodies such as Association of Banks in

Palestine, PMA and the banks themselves must participate in generating this data, classifying it and making it available for use.

In addition and based on data collected from the interviews, it was observed that Palestinian banks do not systematically and continuously attend to their key stakeholders not only in their approach to measure performance, but in their strategic management approach in general. In order to plan for long term sustainability, they must start considering all their key stakeholders based on their priorities in all their planning efforts.

Another observation was related to the way the Palestinian banks divide their operations into branches and support functions. The Palestinian banks must reconsider this approach against process-based operations which span multiple functions because this may be more similar to the reality of banking operations that extent multiple functions, and will help in eliminating functional silos resulting from this approach.

On another note, it has been observed in the Palestinian context that banks utilizing technology in their services, will be the ones to generate most profit in the future. Accordingly, Palestinian banks must formulate or change their strategies to reflect this statement and to invest more in their technological infrastructure and delivery and access channels.

Furthermore, Palestinian banks are required to improve their internal management and control systems by integrating the risk department in all the banking processes, shifting from traditional auditing to risk-based auditing and continuous monitoring compliance. It is expected that the Palestinian banks will be even put under greater pressure in this regard, as PMA continues to require compliance with more international risk-related regulations.

The Palestinian banks must also consider enriching their managerial levels, by attracting talents from diverse backgrounds in addition to talents from within the Palestinian banking sector. This implication appears because it has been seen during the interviews that management in the

Palestinian banks share similar backgrounds and come from same institutions. Although in the case of performance measurement practices applied in the Palestinian banks, the resulting outcomes were positive, however it is expected that this phenomena may limit innovation and resist positive change.

Finally, since social responsibility is very important in the Palestinian context, expectation from the Palestinian banks in this regard are high. However, interviews revealed that most of the Palestinian banks do not consider this as a core activity and a main driver to performance. Accordingly, Palestinian banks should pay more attention to their social responsibility policies and change their attitude towards making it a strategic choice and driver for long-term sustainability.

7.3 Practical Implications for the Regulator

PMA is performing extremely well as a regulator, not only on the local level, but also relative to neighboring countries and the region in general. Nevertheless, several implications are worth pointing out in this regard.

First of all, although Palestinian banks generally decide on what is more suitable for them as a performance measurement system, PMA as a regulator must have a say on this, through a set of instructions and/or regulations related to the subject matter, which enforces the practice of a comprehensive performance measurement. This is particularly important in the Palestinian context due to the uncertainties and instabilities facing the Palestinian banking sector and the inability of the Palestinian authority to provide the needed support in time of crisis, which require PMA to pay more attention to the banks' performance in order to increase the sector stability.

In addition, PMA must pay more attention to regulations related to competition. Although PMA's strategy is to encourage mergers and acquisitions between banks which will reduce competition, still the lack of competition and price-related regulations has added pressure on the source of funds among banks by removing ceilings on deposits rates and adding pressure on the

banks' profits. Enforcing such regulations will reduce the competition on prices/fees and will push towards competition based on quality of service and innovation. Adding to that, PMA must also pay more attention to regulations that are related to technology, this is a requirement in the light of the absence of comprehensive laws and regulations related to offering banking services through technology, such as digital signature and e-money, to name few.

Notably, PMA's strategy is to comply with up to date international regulations and standards, as a means to increase stability and raise confidence in the Palestinian banking sector. However, PMA must pay more attention to the applicability of these regulations in the local Palestinian context before deciding on what international standards and regulations to follow and when they should be followed.

In addition, PMA in its capacity as a regulator, must make more efforts in monetary stability and controlling the money supply; particularly in the absence of a national Palestinian currency and the need to deal with four major currencies. PMA must also make more efforts in finding solutions for transferring the Israeli currency stacking in the Palestinian banks with almost zero investment opportunities, and in helping Palestinian banks in finding and establishing relationships with correspondent banks, especially in US dollars currency.

Finally, while the PMA efforts are positively recognized both on the local and regional levels, the Palestinian banks suffer from outdated laws and regulations that are torn between several versions inherited from Egypt in Gaza Strip and from Jordan in the West Bank. Therefore, PMA must make more efforts with all involved parties in order to update and unify these laws.

7.4 Political Implications

In discussing the banking sector business environment in the Palestinian context, it was obviously noted that factors including the instable political situation and occupation are negatively affecting the performance of all the Palestinian business sectors including the Palestinian banking

sector. Accordingly, it is of vital importance to understand that many of the restraining factors facing the Palestinian banks are caused by a political decision rather than an economic one, and therefore must be negotiated and solved at the political level.

For instance, both the Palestinian banks and the PMA must make sure that Palestinian politicians/decision makers are informed and aware of the importance of several restraining factors such as Israeli currency stacking in the treasury and no national currency. In return, the Palestinian politicians especially negotiation committees must consider these limitations in their negotiations with the Israeli side and spare no effort in achieving gains in this regard.

Additionally, although PMA is required to help Palestinian banks in solving international recognition problems especially those related to correspondent banks, still, additional efforts must be exerted by the Palestinian Authority in all international corridors to properly communicate the safety and stability of the Palestinian banking sector and help in establishing relations with correspondent banks especially in US dollars.

Moreover, due to the political and legal difficulties and sometimes inabilities to provide access to Palestinians living in Area C, Jerusalem and lands occupied in 1948, Palestinian Authority must make additional efforts to create a frame of understanding with the Israeli side about methods to include these areas in the Palestinian financial system.

Besides these segments, there is also the Palestinian expats resulting from occupation. Palestinian banks must work on ways to include this segment in their financial services, and may consider expanding internationally in countries with large expats segment. This must also be supported by efforts from both PMA and the Palestinian Authority to facilitate this inclusion.

Moreover, all Palestinian parties must work closely to end the split between West Bank and Gaza, since it is negatively affecting the entire Palestinian economy, and restraining its performance.

Finally, one of the most important implications suggests that the Palestinian Authority must make extra efforts in encouraging development and sustainable economic sectors, which participate in creating more jobs, lead to true increase in GDP and create more sustainable and long-term investment opportunities; all important factors in helping the Palestinian banking sector to grow and prosper.

7.5 Theoretical Implications

Literature related to performance measurement models and frameworks, concluded that researchers are currently moving their attention from developing new performance measurement frameworks to finding best methods for designing, using, and implementing performance measurement systems that match the context under investigation, by using one or more of the existing models (Goldratt & Cox, 2004). The findings of this research supported this conclusion; since the context for the Palestinian banks have added and altered several components in the proposed framework which was initially designed based on two existing generic models.

The findings in this research illustrate performance measurement practices in the Palestinian context in general, and in the Palestinian banking industry in specific. Due to the lack of research previously conducted in this area, the outcomes of this research are of great importance since they provide insights about the research topic from an exploratory point of view and forms an important basis for any further research related to the performance measurement discipline in the Palestinian context.

Moreover, this research adds to the literature of performance measurement in the unique context of Palestine. The findings show that the Palestinian banking sector is more consistent in its performance measurement practices to literature related to developed countries and to the general performance measurement literature, compared to literature related to performance measurement in developing countries and the region which suggests that banks in this area give

more significance to financial measures, although they use some measures related to customers and other non-financial measures. Examples of such studies include Ahmed et al. (2011) conducted on 27 Pakistani banks, Fakhri et al. (2011) conducted on 55 Libyan banks, and Al-Najar & Khalaf (2012) conducted on Iraqi banks.

Additionally, this research validates “in the Palestinian context” the most important literature conclusions related to the performance measurement discipline such as: the needed link between performance measurement and strategy (Kaplan & Norton, 2004; Neely et al., 2001), measuring operational performance (Franco-Santos et al., 2007; Tangen, 2004), the need to include multiple financial and nonfinancial dimensions in the measurement process (Cumby & Conrad, 2001) and the link between performance measurement and the macro-environment (Hussain & Houqe, 2002).

The only main component which the Palestinian banks didn't consider as part of their strategic management and performance measurement processes is the importance of starting with the stakeholders' needs in any strategic and performance measurement activity, which contradicts the proposed framework and the related literature (Crowe, 1999; Neely et al., 2001). Although the researcher chose to keep this perspective as part of the framework, there is no evidence in this research related to whether this perspective is needed or not in the Palestinian context, unless further validation is done on this regard.

Another important finding in this research suggested that there is a relationship between the performance measurement practices adopted by an organization and its size and stage of maturity. This research concludes that large and stable organizations are more interested in applying a comprehensive and multi-dimensional performance measurement system, than smaller and growing organizations which are more interested in financial performance. This finding stresses the literature which states that many of the existing multi-perspective performance measurement frameworks such as the BSC, are more suitable to well performing

and stable organizations which are looking for long term sustainability (Rillo, 2004; Striteska & Spikova, 2012).

Finally, this research shed light on important capacities that Palestinian banks must have as factors which support the implementation of a systematic and institutional performance measurement system. Among the most important factors are vision and leadership, aware and motivated staff, proper infrastructure and inviting and supportive culture. This finding suggests that as it is important to implement a comprehensive and systematic performance measurement process, it is even more important to put needed capacities in place which are prerequisites for a successful implementation.

7.6 Recommendations for Future Research

This study provided insights about the performance measurement practices in Palestinian banks, the business environment they operate in, and the challenges they face. It also proposed a comprehensive performance measurement framework based on the related literature and the findings of the analysis of the data collected during the interviews. Based on the gathered data and the findings of this study, there are several further studies which can be conducted.

First, the proposed framework in this research identified the main dimensions to be included, however it did not discuss the measures themselves to be used within each of these dimensions. A research may be conducted to identify a list of commonly used measures in the Palestinian banking sector, based on each of the proposed dimensions. This will be helpful for the banks when deciding on which measures to use during the framework implementation process.

This research also suggested a framework, but did not discuss how the framework will be implemented. Accordingly, a research is needed to identify the stages and phases needed to implement the framework. This research may include guidelines related to selecting measures,

setting targets based on environment and competition, implementing the measures, and using the outcomes of the measurement process in managing the organization's performance.

Additionally, one of the research findings suggested capacities which must exist before applying the proposed framework. However, the research did not discuss whether these capacities exist in the Palestinian banks or not. Therefore, a research is required to explore the readiness of the Palestinian banks to implement the proposed framework.

Finally, once the readiness is measured, prerequisites are identified, common measures are defined, and implementation process is developed, the framework needs to be put under test in order to be validated and updated. This can take the form of multiple case studies which take place inside the Palestinian banks in the actual setting. This research may validate the framework and all its perspectives and dimensions, by implementing the framework and benchmarking the bank's performance prior to and after the framework is implemented. The outputs of this research can then be used to validate, update and enhance the proposed framework.

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ANNEX I: Performance Measurement Frameworks

I.1 Sink and Tuttle Framework (Sink & Tuttle, 1989)

One of the early attempts to develop a multi-dimensional PMS is the Sink and Tuttle framework illustrated in figure I-1. The framework suggests that an organization's performance is the result of a complex interactions between seven dimensions:

- Effectiveness: measures effectiveness as the ratio of actual output to expected output.
- Efficiency.
- Quality.
- Productivity: Ratio of output to input.
- Quality of work life: an important dimension in a well performing system.
- Innovation.
- Profitability: The stakeholders' ultimate goal.

Despite of the importance of the dimensions included in this framework, this model lacks several characteristics of what a decent PMS should be. For example, the framework doesn't establish a clear causal relationship between its dimensions. It also doesn't provide any link with strategy nor a clear mechanism for organizational learning. Lastly, the model ignores several important dimensions such as flexibility and customers' perspectives (Tangen, 2004). The strengths and weaknesses of Sink and Tuttle's framework are summarized in table I-1.

Table I-1: Sink and Tuttle Framework Strengths and Weaknesses (Source: Data Analysis)

Strengths	<ul style="list-style-type: none"> • Specifies what the measures and dimension should look like and cover
Weaknesses	<ul style="list-style-type: none"> • Lacks the casual relationship between dimensions • Lacks the connection with strategy • Lacks support for Organizational learning and continuous improvement • Ignores important dimensions such as the customer perspective • Limits the definitions of the dimensions to certain ratios and checkpoints

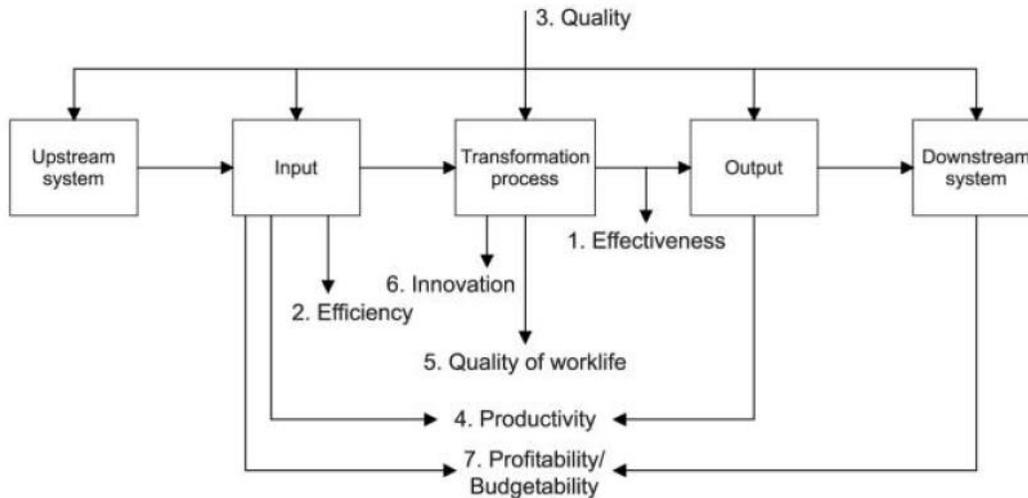


Figure I-1: Sink and Tuttle Framework (Source: Sink & Tuttle, 1989)

I.2 Performance Measurement Matrix (Keegan et al., 1989)

The performance measurement matrix was proposed by Keegan et al. (1989). This framework integrated different dimensions of performance in generic forms, such as internal and external and cost and non-cost dimensions. The framework is illustrated in figure I-2.

The Performance measurement matrix was criticized for the lack of structure and details, in addition to being not well packaged relative to other frameworks such as the Balanced Scorecard. Further, this matrix doesn't present a causal or explicit link between the dimensions included in the framework; making it very complex to implement and understand (Neely et al., 2001). Table I-2 summarizes the performance measurement matrix strengths and weaknesses.

Table I-2: Performance Measurement Matrix Strengths and Weaknesses (Source: Data Analysis)

Strengths	<ul style="list-style-type: none"> • Specifies what the measures and dimensions should look like
Weaknesses	<ul style="list-style-type: none"> • Lacks the casual relationship between dimensions • Lacks the connection with strategy • Lacks the structure and details, making it complex to use and implement

I.3 Results and Determinants Framework (Fitzgerald et al., 1991)

Results and determinants framework was developed by Fitzgerald et al. (1991) as an advanced flavor of the performance measurement matrix, in order to surpass its limitations.

The results and determinants framework suggests that there are two types of performance measures in any organization, those that are related to the results including competitiveness and financial performance, and those which represent the determinants of the results including quality, flexibility, resource utilization and innovation. This framework argues that the results are obtained as a function of past business performance which is determined by the specific performance determinants, i.e. results are lagging indicators whereas determinants as leading indicators (Neely et al., 2001). The results and determinants framework is presented in figure I-3.

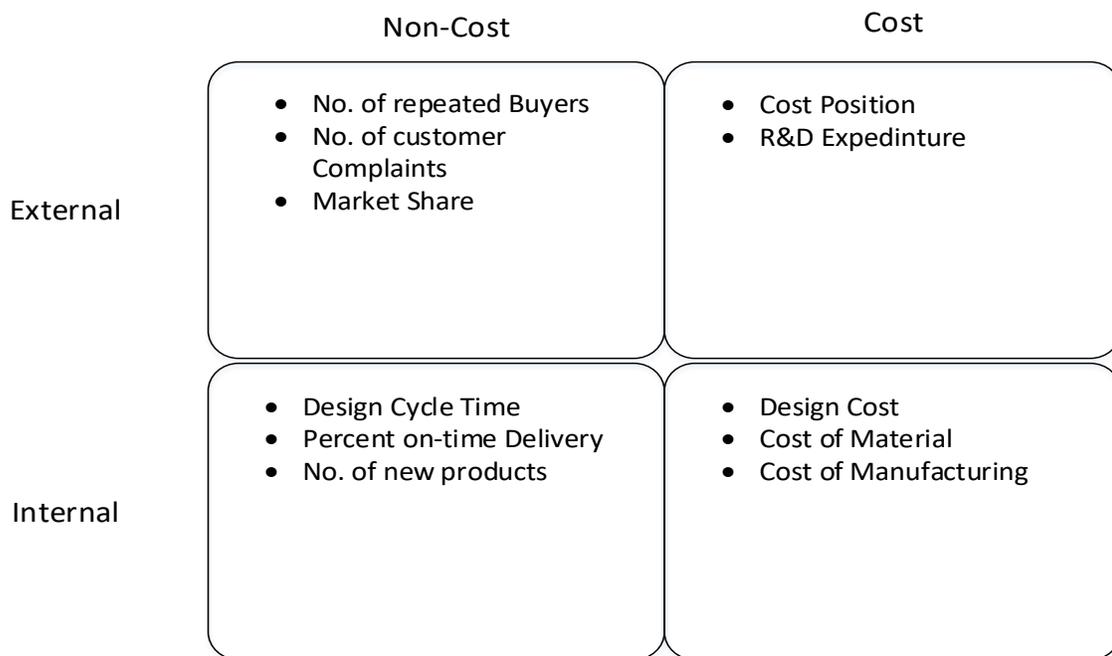


Figure I-2: Performance Measurement Matrix (source: Keegan et al., 1989)

While the results and determinants framework reflected the concept of causality and provided an explicit link between the leading and lagging dimensions, the framework lacks the connection with strategy, and ignores the links and interactions among dimensions under the

same category of leading or lagging dimensions. Table I-3 summarizes the strengths and weaknesses of Results and Determinants framework.

Table I-3: Results and Determinants Framework Strengths and Weaknesses (Source: Data Analysis)

Strengths	<ul style="list-style-type: none"> • Establishes a causal relationship between the leading and lagging dimensions
Weaknesses	<ul style="list-style-type: none"> • Ignores the link between dimensions inside the same category • Lacks the connection with strategy

Dimensions of measurements		Types of Measures
Results	Financial Performance	<ul style="list-style-type: none"> • Profitability • Liquidity • Capital Structure • Market Ratios
	Competitiveness	<ul style="list-style-type: none"> • Relative Market Share • Sales Growth • Customer Related Measures
Determinants	Quality	<ul style="list-style-type: none"> • Reliability • Appearance • Cleanliness and tidiness • Communication • Access • Availability • Security • Competence
	Flexibility	<ul style="list-style-type: none"> • Volume Flexibility • Delivery Speed Flexibility • Specifications Flexibility
	Resource Utilization	<ul style="list-style-type: none"> • Productivity • Efficiency
	Innovation	<ul style="list-style-type: none"> • Performance of the innovation process • Performance of the individuals innovation

Figure I-3: Results and Determinants Framework (Fitzgerald et al., 1991)

I.4 SMART Performance Pyramid (Lynch & Cross, 1991)

A Major feature in a good PMS is its ability to establish a clear link between performance measures at the different levels of an organization, so that all organization levels work towards common goals, through a relevant set of performance measures and targets.

A good example of such a framework, is the SMART performance pyramid developed by Lynch & Cross (1991). The purpose of this framework is to link an organization's strategy to its operations, through cascading the strategic objectives to all organizational levels, and the measuring in a bottom up approach (Tangen, 2004).

The performance pyramid contains four levels. These levels address the external efficiency of an organization (*to the left side of the pyramid*) and its internal efficiency (*to the right side of the pyramid*).

The first level of the pyramid provides a definition to the corporate vision. This level is then divided into business unit level with relevant objectives. The second level of individual business unit objectives are separated into short term financial objectives and long term market objectives. The third level of business operating systems links the business-units objectives and the operational objectives through a set of objectives related to productivity, flexibility and customer satisfaction. Finally, performance areas are identified to establish the operational and departmental objectives. While objectives cascaded to all organizational levels, measures are then populated through the four levels in a bottom-up approach (Tangen, 2004). SMART performance Pyramid is illustrated in Figure I-4.

There are several strengths in the Performance Pyramid framework. Ghalayin, Noble & Crowe (1997) explains that the main strength of the performance pyramid is its ability to cascade strategic objectives into operational performance measures. Neely et al. (2001) suggests that this framework identifies explicitly the difference between internal and external efficiency factors of

the business. However, this framework doesn't suggest how to measure performance at each level, and does not suggest a mechanism for feedback, organizational learning or continuous improvement (Ghalayini et al., 1997). The strengths and weaknesses of the SMART Performance Pyramid framework is explained in table I-4.

Table I-4: Smart Performance Pyramid strengths and weaknesses (Source: Data Analysis)

Strengths	<ul style="list-style-type: none"> • Establishes a causal relationship between the dimensions • Establishes a link between strategy and operations • Considers internal and external environment
Weaknesses	<ul style="list-style-type: none"> • Doesn't provide any mechanism to identify key performance indicators. • Doesn't support organizational learning and continuous improvement

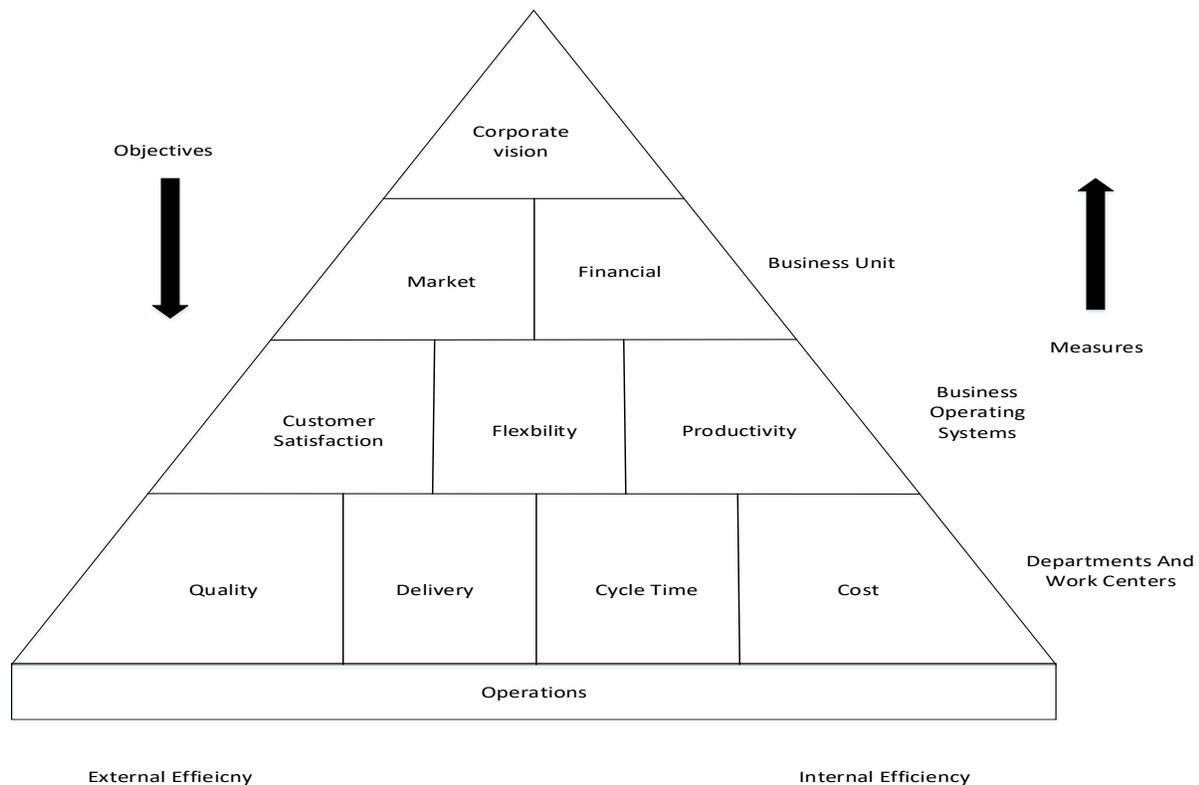


Figure I-4: SMART Performance Pyramid (Lynch & Cross, 1991)

I.5 Balanced Scorecard (Kaplan and Norton, 1992; 1996; 2004)

The Balanced Scorecard (BSC) is considered the most well-known PMS, and was developed in early 1990s by Robert Kaplan and David Norton.

BSC is a framework that is used for measuring performance and as a strategic management tool. The BSC does through facilitating envisioning process and its corresponding strategies and objectives, and translating them into targets and set of measures. The generic BSC framework looks at the organization from four strategic perspectives (illustrated in Figure I-5):

- The Financial perspective (How we see our shareholders): This perspective provides lagging indicators that provide the ultimate definition of an organization's success, through describing how a company creates sustainable growth in shareholder value.
- The customers' perspective (How do our customers see us): this perspective measures the organization's success with targeted customers, which is considered a basic component in financial success of the organization. This perspective measures the lagging indicators of customer success, including satisfaction, retention and acquisition. Moreover, it defines the value proposition for the target segments.
- Internal Business Perspective (what we must excel at): This perspective is responsible for creating and delivering the value proposition for the target segments. Accordingly, this perspectives include leading performance indicators for subsequent improvements in customer success and financial results.
- Innovation and learning perspective (How can we improve): This perspective describes how improvements in people, technology, and organizational climate are combined together as leading indicators for internal processes, customer success and financial performance.

This framework ensures that the financial perspective and its driving perspectives are given equal importance, since these four perspectives need to be balanced. The balance refers

to the equality between the different perspectives involved in the framework (Striteska & Spickova (2012). These perspectives weren't randomly selected; rather Kaplan and Norton provide many motives behind selecting them in specific, such as:

- They provide a link between the organization's performance and its drivers (Striteska & Spickova, 2012).
- They provide a causal relationship between the lagging indicators which represent the business bottom line and the leading indicators which represent the driver of performance. Kaplan & Norton (2004) explain that enhancing the intangible assets of people, technology and organization climate, will lead to enhanced process improvement, which will in turn drive success for customers and enhance the financial results, either directly or through the customers' perspective.
- The BSC reduced the information overload through shifting the measurement process focus to data related to the four perspectives involved, allowing the organization to focus on what is important (Kaplan & Norton, 1992).
- While the BSC reflects many attributes of what a good PMS should be including a double-loop feedback mechanism which allows for two-way feedback between the perspectives and the strategy, the most important attribute remains the explicit link of measurements to the organization's strategy, which is expressed in the form of strategy maps (Kaplan & Norton, 2004). A strategy map is a diagram which connects strategy to the measurement process by connecting strategic objectives with relevant perspectives in an explicit cause-and-effect relationship. After the strategic map is developed and strategic objectives are set in a causal relationship crossing the four perspectives of the Balanced Scorecard. The scorecard is developed in a way that guarantees the chosen measures and targets, and their corresponding initiatives and programs are set to achieve the strategic objectives, and measure the progress towards them. An example of a generic strategic map is

illustrated in figure I-6, and a sample Balanced Scorecard that is developed based on a strategic map is illustrated in figure I-7.

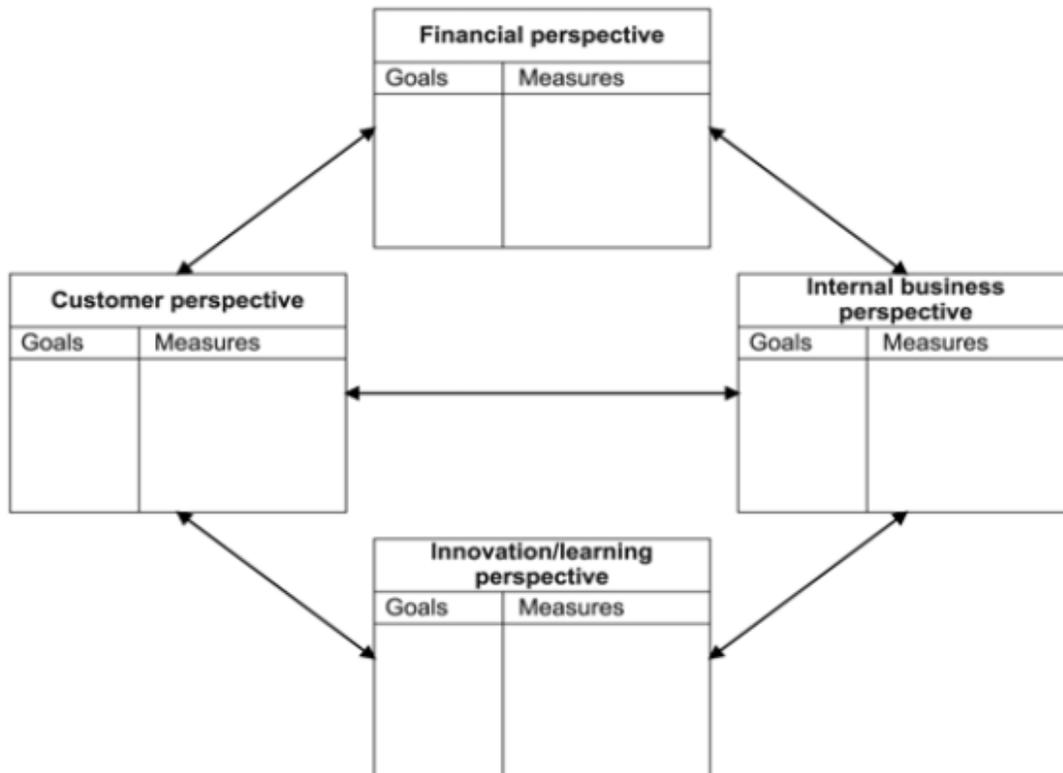


Figure I-5: The BSC (Source: Kaplan & Norton, 1992)

Despite the popularity, several authors have identified several limitations of the BSC.

These limitations include:

- Ghalayini et al. (1997) argue that BSC is useful for senior managers seeking to have an overall view of performance, and is not intended to be used at the operational level.
- Neely et al. (2001) argue that BSC provides little guidance on how to identify and use measures, and that it doesn't consider the important perspectives such as competitors' perspective, other interest groups and the external environment, which limits the framework's comprehensiveness.

- Rillo (2004) argues that there is a time lag between causes and their effects that is not considered in the BSC.
- Otley (1999) argues that the one way linear cause and effect relationship between the BSC perspectives is considered a simplification of reality, which might not be accurate or true in many cases.
- Kanji (2002) argues that the hierarchical top-down set-up used in the Balanced Scorecard approach creates problems in implementation, since it limits internal communication, motivation, and employees' contribution to performance measurement, because it views employees as doers not contributors.
- Rillo (2004) says that BSC is only suitable for healthy and relatively stable organizations, therefore, whenever the organizations need more insightful and profound re-engineering process, the BSC in its current form won't be able to provide useful results.

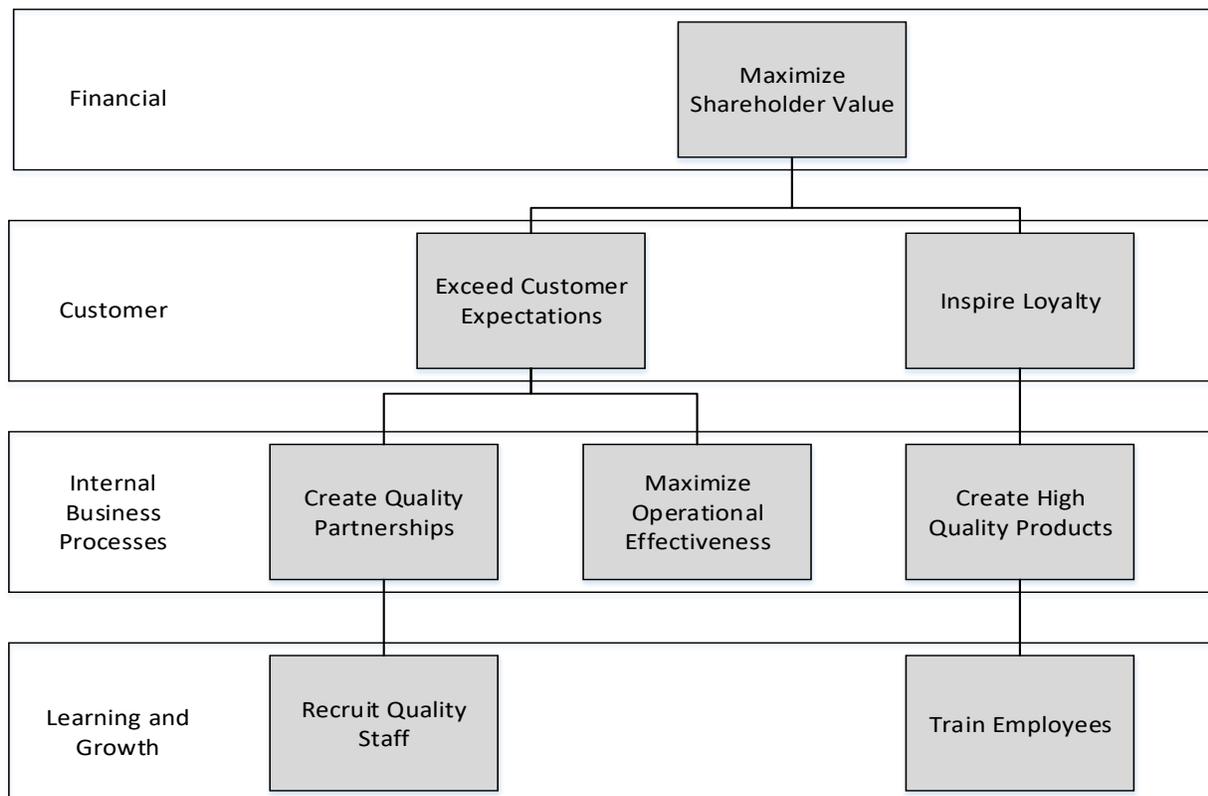


Figure I-6: A Generic Strategic Map (Source: Wikipedia)

	<ul style="list-style-type: none"> • The casual relationship is not true in all cases, and ignores the time lag between the leading and lagging factors • Suitable only for stable organizations
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I.6 European Foundation for Quality Management Excellence Model (EFQM, 1992)

The EFQM Excellence Model was first introduced in 1992 as a framework for assessing organizations for the European Quality Award. Currently, this model has become one of the most widely used frameworks in Europe, and serves as the basis for the majority of quality awards. Nowadays, The EFQM Excellence Model serves as a tool which provides a systematic and comprehensive view of the organization's performance, through providing information for self-assessment, benchmarking, and identifying areas for improvement (EFQM, 2006).

The EFQM framework is based on nine criteria, divided into two groups: enablers and results. Enablers include people management, leadership, resources and processes, policy and strategy. Results include customer satisfaction, people satisfaction, and impact on business and the society.

The enablers represent what the organization does to achieve the results criteria, which in turn provides feedback to improve the enablers, allowing for a detailed causality structure that is more comprehensive than most of other frameworks such as the BSC. The model measures success in achieving objectives of each dimension included in both criteria by providing a score that is based on degree of excellence of followed approach and degree of deployment or scope (Dror, 2008). This score is measured based on an assessment questionnaire.

The EFQM framework enjoys many strengths compared to other frameworks. For instance, EFQM includes a broad area of enablers and results which allow for a more comprehensive causal relationship. The framework also offers a holistic view of the organization,

making it suitable for both self-assessment and for benchmarking. The framework further provides a strong support for organizational learning and continuous improvement, through a cyclical and continuous methodology of determining required results, planning and development, deployment, assessment and review.

Nevertheless, EFQM has several weaknesses as a performance measurement tool. First, the categories for measurement are very broad that it would be very hard to define the measures and the targets (Neely et al., 2001). Second, the framework collects data through questionnaires rather than depending on actual data which most other frameworks such as BSC do (Dror, 2008). Moreover, while the framework provides a continuous and cyclical feedback methodology from the results to the enablers, the framework lacks a double-loop feedback and ignores the time lag between the enablers and the results. Finally, while the essence of many other frameworks is to connect the performance measurement system to the strategy, similar to what can be seen in the BSC and its corresponding strategy map, the EFQM doesn't explicitly provide a link with strategy, and rather build its objectives and measures based on total quality management standards (Dror, 2008). The summary for the EFQM strengths and weaknesses can be found in table I-6.

These shortcomings in the EFQM framework has led scholars to conclude that due to the holistic view of the organization which the framework can provide, the EFQM excellence model can rather be used as an assessment tool for the organization's success in achieving its objectives, or to check whether the company is on the right track. This means that the EFQM model can be used in conjunction with the organization's performance measurement system rather than using it as an independent measurement framework (Pestic & Dahlgaard, 2013). When implemented and/or adopted, it shall be aligned with the organization's performance measurement system. This act of intelligence within the organization shall be performed in order to confirm or deny findings, by conducting a self-assessment job through the appropriate and relevant criteria of the EFQM excellence model (Pestic & Dahlgaard, 2013).

Table I-6: EFQM Excellence Model Strengths and Weaknesses (Source: Data Analysis)

Strengths	<ul style="list-style-type: none"> • Suitable for self-assessment and benchmarking • Feedback loop which supports continuous improvement and organization learning • Establishes a comprehensive causal relationship between the enablers and the results criteria • Considers multiple dimensions through its nine criteria of enables and results
Weaknesses	<ul style="list-style-type: none"> • Not suitable for communication among the organization's levels • Lacks the connection with strategy • The casual relationship ignores the time lag between the cause and effects. • Criteria is too broad making defining measures and targets a complex process • Depends on assessment questionnaires rather than actual data

I.7 Kanji Business excellence model (Kanji, 2002)

Kanji Business Excellence Measurement System (KBEMS) was developed by Gobal Kanji (2002) as an attempt to solve many of the drawbacks in the existing performance measurements systems such as the BSC. The KBEMS is based on Kanji's Business Excellence Model (KBEM) and Kanji's Business Scorecard (KBS), which consists of several performance criteria or dimensions that correspond to the critical success factors which must perform well in order for an organization to succeed. The business excellence in Kanji's KBEMS context refers to satisfying all of the organization's stakeholders simultaneously and obtaining a comprehensive evaluation of the organizational performance.

These two systems which constitute the KBEMS model, both form, respectively, Part A and Part B of performance, and should be applied simultaneously and holistically, since they both determine the overall performance of an organization. Part A consists of 10 dimensions that measure the performance internally according to the view of managers and employees. Part B on the other hand consists of 5 more dimensions which assess performance from the perspective of the external stakeholders such as customers, suppliers, government, financial institutions and society (Kanji, 2002). Kanji's KBEMS model is illustrated in figure I-8.

According to Kanji (2002) Part A measures the performance from the internal perspective of an organization through 10 dimensions of performance which include:

- Leadership: measures the extent to which the leaders of an organization promote quality, development, coordination and team work, communication and strategic management.
- Delighting the customers: determines the extent to which the organization listens to its external and internal customers.
- Management by Facts: measures the extent to which the organization uses the performance measurement system to improve its key offering and processes.
- People Based Management: measures the extent to which the organization develops its people and provides them with the necessary skills to perform well.
- Continuous Improvement: measures the extent to which the organization continuously searches for improvement opportunities.
- Customer Focus: measures the extent to which the organization monitors and improves its customers' satisfaction.
- Process Improvement: measures the extent to which the organization continuously examines and improves its key processes towards quality.
- People Performance: measures the extent to which the organization utilizes teams and removes performance and improvement barriers.

- Improvement Culture: measures the extent to which the organization fosters a culture of continuous improvement.
- Performance Excellence A: measures the organization's bottom line of performance including financial performance, customer demand, sound short term and long term strategies, and position against competition.

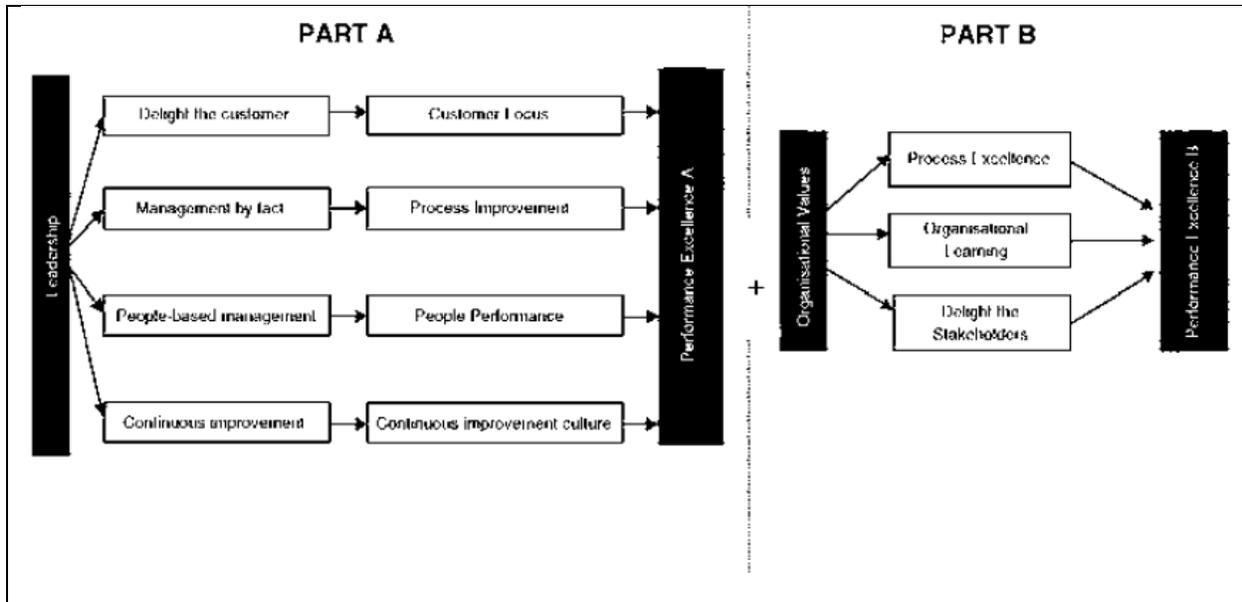


Figure I-8: Kanji's KBEMS (Source: Kanji, 2002)

While the KBEMS part A measures performance from an internal perspective, Kanji (2002) explains that Part B dimensions measures the organization's perspective from the external stakeholders view. These dimensions include:

- Organizational values: measure the extent to which the stakeholders feel that an organization has sound mission, values, policies and strategies which organize the relationship with them.
- Process excellence: measures the extent to which the stakeholders feel that the organization offers high quality products and smooth services.

- Organizational learning: measures the extent to which stakeholders feel that the organization continuously offers innovative products and services, and has a culture of continuous learning.
- Delight the stakeholders: measures the extent to which stakeholders feel that the organization listens to them and have an ethical conduct.
- Performance Excellence B: measures the extent to which stakeholders feel that the organization provides good value for money, and has a healthy financial situation and a good overall reputation.

In order for an organization to measure its performance using all of the above listed dimensions, Kanji (2002) explains that an organization will need to collect data about all these dimensions through a set of questionnaires, which will give each dimension a score between Zero to Hundred (0-100). The average score for both parts A and B is then averaged and multiplied by 10 to get the final score. The maximum score is 1000, however an organization achieves a score over 600 can be regarded as having a good performance, while an organization achieving a score over 800 can be regarded as enjoying an excellent performance.

Kanji's KBEMS model offers several key strengths as a performance measurement system. Striteska & Spickova, (2012) argue that KBEMS is a multi-perspective framework which combines financial and non-financial dimensions, considers the assessment of all key stakeholders, considers key critical success factors, and provides a unique feature of highlighting the management blind spots through determining the difference between the internal perspective of management and the external perception of key stakeholders.

Nevertheless, KBEMS still has several shortcomings. Striteska & Spickova, (2012) argue that the framework is primarily designed for senior management to provide them with an overall evaluation of performance. This overall performance evaluation makes the framework more suitable for benchmarking and self-assessment rather than performance measurement and as

such can be used in conjunction with other performance measurement frameworks to prove or deny their findings. This overall performance evaluation makes it also difficult to use this framework in measuring performance on the operations level or to communicate the strategy and measures to lower levels of the organization through relevant measures. Besides, the framework uses questionnaires rather than actual data in its evaluation (Kanji, 2002) and doesn't provide a clear connection to strategy or explicit feedback loops which allow for continuous improvements, making the framework hard to develop and implement on the organization level. Key strengths and weaknesses of the framework are summarized in table I-7.

Table I-7: Kanji's KBEMS framework strengths and weaknesses (Source: Data Analysis)

Strengths	<ul style="list-style-type: none"> • Suitable for self-assessment and benchmarking • Considers multiple dimensions • Considers all stakeholders • Considers key success factors • Helps in identifying blind spots and highlights improvement areas
Weaknesses	<ul style="list-style-type: none"> • Not suitable for communication among the organization's levels • Lacking support for continuous improvement and organization learning • Lacks an explicit connection with strategy • Criteria is too broad making defining measures and targets a complex process • Depends on assessment questionnaires rather than actual data

I.8 Performance Prism (Neely et al., 2001)

The Performance Prism is one of the youngest performance management frameworks. It was developed by Neely et al. (2001). It builds on the strengths of existing frameworks like the Balanced Scorecard, but with some major upgrades aimed at addressing many of the existing

limitations in these frameworks. Performance Prism adopts a stakeholder centric approach of performance measurement which argues that while shareholders remain the most important stakeholder to many organizations, considerations must still be made to other key stakeholders. Neely et al. (2001) explain that the motives behind developing the Performance Prism framework are:

- Organizations in today's business environment, will probably not be able to create shareholder value without creating stakeholder value, and as such, organizations need to adopt an inclusive approach to management which considers the needs and wants of all stakeholders. (Crowe, 1999).
- Organizations can't solely focus on one or two primary stakeholder groups and ignore other stakeholders. For example, while the BSC focuses only on shareholders and customers, other key stakeholders might exist. Hence, an organization will need to consider them while measuring its performance.
- Organizations use performance measurement and performance measures to help tracking whether it's moving towards the right direction, which is usually the satisfaction of its key stakeholders. Accordingly any performance measurement system must start with key stakeholders before strategies are set, since strategies are not the organization's final destination, but are rather, the route which the organization chose to follow in reaching out to its final destination of satisfying its key stakeholders.
- Most performance measurement frameworks ignore the changes that must be made to the organization's strategies, processes and capabilities in order for an organization to meet its strategic goals and satisfy its key stakeholders.
- Even frameworks which consider stakeholders as part of the performance measurement process, they only consider how to satisfy the organization's stakeholders, and ignore the fact that stakeholders must contribute to the organization and as such, performance

measurement must consider whether stakeholders are delivering what the organization expects and needs from them.

Neely et al (2001) explains that the Performance Prism starts with stakeholders, rather than strategies, reflecting the fact that organization's strategies should respond to its stakeholders, and as such the selection and prioritization of the stakeholders and their needs takes precedence over strategies. Once needs and wants of key stakeholders are identified, strategies and their corresponding processes and capabilities are designed and integrated to achieve organizational goals and deliver value to the key stakeholders. The Performance Prism also recognizes that during the process, stakeholders have obligations to fulfill towards their organization, making the relation between the organization and its stakeholders reciprocal.

Therefore, the Performance Prism has five facets, Stakeholder Satisfaction Stakeholder Contribution, Strategies, Processes, and Capabilities. Neely et al (2001) illustrate that the framework is represented in the form of a prism, because a prism refracts light and uncovers the hidden complexities of the simple appearance of the white light. In this same way, the Performance Prism uncovers the hidden complexities of performance measurement inside an organization, through its multiple and interlinked facets. These facets are explained hereunder and illustrated in figure I-9:

- Stakeholder Satisfaction: the needs and wants of key stakeholders. Key stakeholders may include shareholders, customers, employees, suppliers, regulators, investors, intermediaries and pressure groups.
- Stakeholder Contribution: the obligations of stakeholders toward the organization. For example, while customers expect to be satisfied with an organization's offering, the organization expects the customers to be both loyal and profitable.
- Strategies: must be formulated and integrated in order to satisfy the stakeholder's needs and wants.

- Processes: processes which the organization needs to put in place to successfully implement strategies.
- Capabilities: capabilities –people, Policies and practices, technology and infrastructure – we need to successfully operate our processes.

Neely et al. (2001) explain that in order to create stakeholders value, strategies must be put in place. This shall result into stakeholders' satisfaction. These Strategies should be tracked through a set of measures and a performance measurement system in order to assess whether the strategies an organization has chosen to follow, are being communicated within the organization and implemented successfully. They affirm that in order for these strategies to be implemented successfully; key organization's processes must be aligned with them, through set of measures which identify what needs to be improved in order to make the key processes competitive, distinctive and aligned with the corresponding formulated strategies. According to Neely et al (2001), these processes can't be operated effectively and efficiently, without a set of distinctive capabilities which consist of people, technology, infrastructure and policies and procedures. These capabilities will enable the organization to deliver value to key stakeholders better than competition. The Performance Prism model of delivering stakeholder's value is illustrated in figure I-10.



Figure I-9: Performance Prism Facets (Source: Neely et al., 2001)

This Performance Prism approach of stakeholders' centric performance measurement, builds on the strengths of previous frameworks such as the BSC, and provides many other strengths to organizations implementing the model. According to Striteska & Spikova (2012), not only that Performance Prism recognizes the importance of all key stakeholders and their contributions to the organization, it also maintains an integrated and telescopic relationship between all the framework perspectives, making all levels of the organization aligned together toward goals, and as such streamlining communication, and encouraging contribution and organizational innovation. They proclaim that the Performance Prism framework provides solid background for identifying and selecting performance measures that depends on the organization's strategies and its key stakeholders.

These strengths however don't come without any limitations. For example, the framework doesn't offer much about how the performance measures are going to be realized and how the framework will be implemented, and little information is provided regarding the processes of designing the system. Accordingly, this makes it difficult and complex to implement (Striteska & Spickova, 2012). Key strengths and weaknesses of Performance Prism are listed in table I-8.

Table I-8: Performance Prism framework strengths and weaknesses (Source: Data Analysis)

Strengths	<ul style="list-style-type: none"> • Double-loop feedback • Establishes a link between measurement and strategy • Considers multiple dimensions of performance • Provides a mechanism to communicate the measures to all levels • Considers all stakeholders • Select measures based on stakeholders and strategies
Weaknesses	<ul style="list-style-type: none"> • Not clear how to design and implement • Suitable only for stable organizations

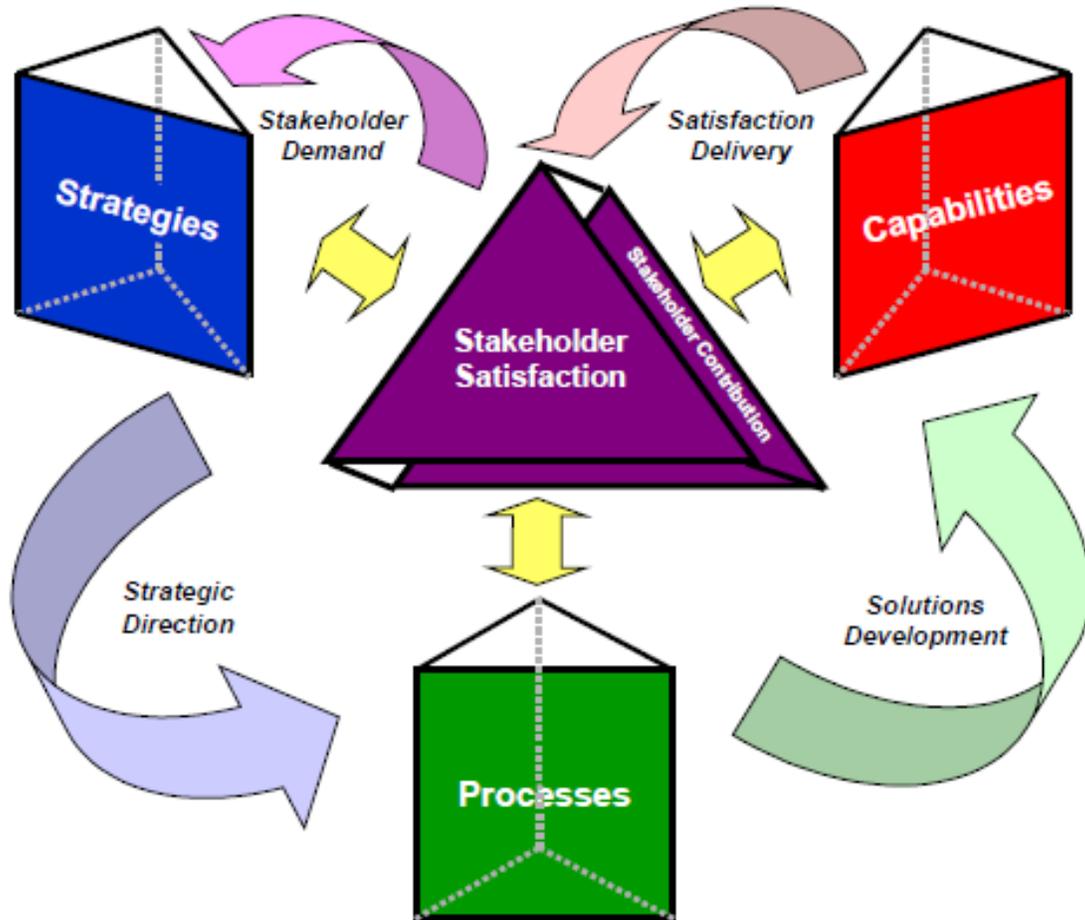


Figure I-10: Delivering Stakeholders Value (Source: Neely et al., 2001)

ANNEX II: Interview Questions

Current Situation

1. Would you kindly tell about your own experience with your Bank's concept of performance and how it is measured?
2. What practices and tools are used in measuring the bank's performance? What is your own evaluation of them?

Banking Sector Environment

3. I am interested to know your assessment (opinion(s)) of the Palestinian banking sector environment?
4. In your opinion, what factors do you consider as enabling and those as restricting to your bank's performance?
5. Would you kindly elaborate about the Palestinian context from the political situation and occupation perspectives, and how do they affect your bank's performance and performance measurement practices?

Framework Design

6. Assuming that you think performance measurement is important to your bank, what makes for a good and comprehensive performance measurement framework (i.e., mix of elements)?
7. Could you identify the main stakeholders influencing your bank and describe the impact they have in terms of their relationship with your bank? What role should they have in performance measurement?
8. How do you believe a strategy formulation and implementation should fit in a performance measurement system?

9. How do you believe internal processes and capabilities should fit in performance measurement system?
10. What are the main internal processes and capabilities which you believe should be considered in a performance measurement framework, in order to improve the bank's performance? Which of these do you currently consider in your performance measurement process?

Needed Capacities

11. What capacities do you believe the bank should have in order to successfully implement a comprehensive performance measurement system?