A SURVEY ON THE ADOPTION OF THE BALANCED SCORECARD BY SELECTED COMPANIES IN KENYA

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DECLARATION

This Management Research Project is my original work and has not been presented for a degree in any other University.

Signed: .... Date: 05/11/2005

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This Management Research Project has been submitted for examination with my approval as University Supervisor.

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DEDICATION

This study is dedicated to my late parents John Kiragu and Loise Wanjiku; to my brothers Mwangi, Kariuki, Mwai, Ndiritu, Karweru, Waweru and Muruthi; to my sisters, Gathoni and Wangeci .

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To then entire MBA class members 2003-2005, thanks a lot for your,thanks a lot for your companionship.

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ABSTRACT

This study sought to establish the extent to which the Balanced Scorecard (BSC) system is in use in Kenya. Further the study sought to establish the reasons for adopting the BSC and the characteristics of companies using BSC.

To achieve the above, primary data was collected through the use of structured questionnaire. A questionnaire was administered to thirty companies listed at the Nairobi Stock Exchange (NSE) and to thirty other companies not listed in the NSE. Data was collected only from thirty six companies. From the survey it is evident that most companies have adopted the BSC. These companies are local and foreign owned. Sixty-nine percent companies were found to be using BSC. The main reasons for adopting BSC were found to have an effective strategic planning system and an improved control system. It was also established that BSC is used widely as a basis for executives' compensation.

The researcher has established that companies with various characteristics have adopted the BSC. This means that BSC can be used widely across the various companies regardless of their size, turnover and their production technology.

1.0 INTRODUCTION

1.1 Background

A cost and management accounting system should generate information for planning, control and performance measurement (Drury 2004).Planning is the design of a desired future and of effective ways of bringing it about (Ackoff, 1981). According to Seizer (1989) Long-range planning is a systematic and formalized process for purposely directing and controlling future operations towards desired objectives for periods extending one year. According to Drury (2004) .Short term planning is synonymous to budgeting and must accept the environment of today, and the physical, human and financial resources, at present and available to the firm.

Control is the process of ensuring that a firm's activities conform to its plan and that its objectives are achieved (Druker 1964).Performance measurement is a process of assessing progress toward achieving predetermined goals, including information on the efficiency and effectiveness of operations (Drury 2004). "Measurement" is an important concept in performance management (Armstrong and Baron (1998). Deakin (1991) articulated that individuals should be held responsible for their performance and performance of their subordinates

1.1.1 Performance measurement

One of the hallmarks of leading-edge organizations has been the application of performance measurement to gain insight into, and make judgments about the organization and the effectiveness and efficiency of its progress, processes, and people. This is because in large organizations, it is difficult for the head office to directly control all the operations of the organizations. It therefore becomes necessary to divide the company into segments or divisions usually referred to as work units. A work unit (Simons 2000) represents a grouping of individuals who utilize the firms resources and are accountable for performance. According to (Simons ibid) accountability defines the outputs that a work unit is expected to produce and the performance standards that managers and employees of that work unit are expected to meet.

Waweru et al (2003) states that surveys in a variety of countries have shown that most companies have adopted divisionalised organizational structures. The bases for divisionalizations include the nature of products, geographical locations, nature of market served and nature of the activity (function).

1.1.1.1 Responsibility centers

Amey and Egginton (1993) argue that the choice of a performance measure is determined by among others, divisional responsibility and the purpose of the measurement. According to Horngren and Foster (1991) responsibility center denotes the apportioning of responsibility, either collectively or individually but usually the latter, to a particular part of the organization. Management accounting literature suggests that for the purpose of divisional performance measurements, responsibility centers may be classified into several work units.

1.1.1.1.1Cost center

Cost center are those responsibility centers in which responsibility relates to the monitoring of production flows and associated costs flows (Siegel and Marconi 1998). Cost centers may be either standard cost center or discretionary expense centers (Kaplan and Atkinson 1992). Cost centers represent the narrowest span of work unit accountability encountered in most firms (Simons 2000).

1.1.1.1.2 Revenue center

In a revenue center the managerial responsibility relates to monitoring the flows of revenue without explicit attention to cost or uncontrollable at that level. Kaplan (1980 argues that revenue centers exist to organize marketing activities. Kaplan and Atkinson (1992) distinguishes revenue centers that serve as collection points for non-trading organizations.

1.1.1.1.3 Profit centers

Profit centers are characterized by responsibility for both costs and revenues. Whereas a cost center manager need only focus on minimizing costs, a profit center manager must consider the impact of spending levels or revenues and profits (Simons ibid).

1.1.1.1.4 Investment center

These are responsibility centers whose managers and other employees control revenues, costs and levels of investment in the responsibility center (Kaplan and Atkinson 1998). Deakin and Maher (1987) and Hirsch (1994) are of the view that relating profits to capital invested is intuitively appealing because capital resources are scarce and it is important that an evaluation be made of returns that a division is earning on invested capital.

1.1.1.1.5 Strategic Business Units (SBUs)

Baker (1995) defines an SBU as a business area with an external market place for goods and services for which management can determine objectives and execute strategies independent of other business areas. It is a business that could possibly stand alone if divested.

1.1.1.2 Objectives of performance measurement

Review of the management accounting literature provides several measures of divisional performance. These measures are typically financially focused, such as Return On Investment, Residual Income, Accounting profit and sales revenue. A reasonable evaluation of these measures posts the question; **what objectives are these measures expected to**

serve? Solmons (1965) identified here main reasons as to why a measure of a divisional performance would be sought.

a) To guide central management in assessing the efficiency of each unit as an economic entity in order to make divisional viability decisions. These decisions run from decisions of whether to expand, reduce or to discontinue operations of a particular division.

b) To guide the management in assessing the efficiency with which divisional managers discharge their responsibilities in running their divisions

c) To guide divisional manager in making operational or routine decisions (those in respect of daily activities of their own divisions)

Ezzamel (1992) argues that the above objectives of divisional performance measurement are narrow in that; they focus on internal users to the exclusion of external users; and exclude internal users of divisional performance measures below the divisional manger.

Ortman (1975) reports hat the financial analysts who use disclosed segment data derive more accurate estimates of the per-share value of the firms capital. The usefulness of divisional data for external reporting purposes explains the implementation of the international accounting standard (IAS 14) “Segment Reporting”.

1.1.1.3 Performance measures

The management accounting literature suggests that performance measures which are the indicators of performance can be grouped into two broad groups-accounting (financial) measures and non-financial measures. Financial measures have traditionally been used and continue to be the most widely used (Kaplan and Atkinson 1998).

1.1.1.3.1Accounting measures

John and Kaplan (1998) argues that the financial measures of performance are based on practices mandated for external reporting.The most common financial measures of performance include accounting profit, Return On Investment (ROI),Residual Income (RI) Economic Value Added (EVA) and ability to stay within the Budgets (Osewe 1998;Minja 1995;Marriel and Anthony 1966).

(i) **Return On Investment**

Drury 2004 reports that ROI is synonymous to the Accounting Rate of Return (ARR) and that it is the most widely used financial measure for a divisional performance. Horngren (1999) is of the view that ROI is most used since it incorporates the major accounting elements; Revenue, Costs and Investment. It provides a useful overall approximation of the success of a firms past investment policy by providing a summary measure of the *ex-post* return on capital invested.(Drury Ibid) Kaplan and Atkinson (1998) also draw attention to the fact that without some form of measurement of the ex-post returns on capital, there is little incentive for accurate estimates of future cash flows during the capital budgeting process.

Surveys in Kenya attest to its widespread use in the country Skinner (1990) (Minja 1995; Osewe 1998; Kaplan and Atkinson 1998;Waweru 1999). ROI is criticized on the basis that being a ratio rather than an absolute measure of divisional performance, it is argued ,can encourage sub-optimisation. RI has been suggested in response to this criticism (Drury et al 2003).

(ii) Residual Income

For the purpose of managerial performance evaluation, RI is defined as controllable contribution net a cost of capital charge on the investment controllable by the divisional manager. In the case of evaluating the economic performance of the division, RI is defined as divisional contribution less costs of capital charge on total investment on assets employed by the division (Drury 2004).RI is relatively visible because different cost of capital percentage can be applied to investment that have different levels of risk (Drury Ibid). RI suffers the limitation of being an absolute measure which means that it is difficult to compare the performance of a division with that of other division or companies of different sizes.

(iii) Economic Value Added

This is an application of the traditional RI, refined by Stern Stewart consulting group in 1990s. A UK survey by EL-Shishini and Drury (2001) reports that 23% of the respondent organizations used EVA to evaluate the divisional performance. The EVA concept extends to traditional RI measure by incorporating adjustments to the divisional financial performance measure for distortions introduced by generally accepted accounting principles. Adjustments are made to the conventional divisional profit measure in order to replace historic accounting data with a measure that attempts to approximate economic profit and assets values. Stern Ibid have stated that they developed approximately 160 accounting adjustments that may need to be made to convert conventional accounting profit into a sound measure of EVA but they have indicated that most organizations will only need to use about 10 of the adjustments. Stern Ibid reports that compared to other financial measures, EVA is more likely to reduce dysfunctional behavior.

(iv) Accounting Profit

There are four version/measures that can be used to measure divisional performance.

a) Variable short-run contribution margin

This is the difference between the division's revenue and variable costs attributable to the division (Kaplan and Atkinson 1992). This measure is inappropriate for evaluating a manager because it does not include fixed costs that are controllable by the manager. This measure is useful in understanding the short-term cost –volume-profit relationship within the division (Kaplan Ibid).

b) Controllable contribution

This is computed by deducting from total divisional revenue all those costs that are controllable by the division manager (Drury 2004). He reports that it is extremely difficult to distinguish between controllable and non-controllable costs. Merchant (1998) prescribes a general guidance of holding managers accountable for those costs that you want them to pay attention to. It provides an incomplete measure of the economic performance of a division, since it doe not include those costs that are attributable to the division but which are not controllable by the divisional manager (Drury Ibid).

c) Divisional contribution

Divisional contribution is computed as controllable contribution less non-controllable expenses that are attributable to a division, and which would be avoidable if the division was closed. It represents the contribution that a division is making to corporate profit and overheads. It is useful only for evaluating economic performance because it includes costs that are not controllable by divisional managers (Drury 2004).

d) Divisional profit

Divisional profit takes into account all costs fixed and variable, controllable or non-controllable- attributable to division. (Drury et al 1993); Skinner 1990; Fremgen and Liao 1981 report that despite the many theoretical arguments against divisional net profit, the empirical evidence indicates that this measure is used widely to evaluate both divisional economic and managerial performance. Drury (2004) citing Joseph et al (1996) states that there are some evidence that suggests that companies hold managers accountable for divisional net profit because this is equivalent to the measure that financial markets focus on to evaluate the performance of the company as a whole.

1.1.1.3.2 Non-Financial Measures

Most of the above financial (accounting measures are criticized of focusing on the short term objectives (Drury et al 2003).They are, therefore inadequate for measuring Performance, as they do not focus on future results that can be expected of present managerial decisions and actions. Financial measures alone are deficient because they can be abused and also purport that financial health is the only goal of the organization (Hirsch 1994).On the same account (Otley 1992) strongly advocates for the use of multiple criteria. Drury (2003) is of the view that the non-financial measures measure those factors that are critical to the long-term success and profits of the organization. These measures (Drury 2003) focus on areas such as competitiveness, product leadership, quality, delivery performance, innovativeness and flexibility in responding to changes.

The contemporary trends in competition, technology and management demands major changes in the way organizations evaluate short and long term performance with the challenge of de-emphasizing the financial measures and encourage the use of indicators that are consistent with long term competitiveness and profitability of the firm, the non-financial measures (Johnson and Kaplan 1987).(Kaplan 1992) suggests that non-financial indicators should be driven by corporate strategy and should include key measures of manufacturing, marketing research and development and human resources development success.

Osewe (1998)in his research on the choice of performance measures used in divisionalised listed companies in Kenya reported that non-financial measures are used to a limited extent. The non-financial measures used are market share, employee turnover, new products introduced, customer related costs, social responsibility costs, efficiency in product delivery, quality improvement and accident frequency. Zena M.(2004) in his study of performance measures for executive compensation schemes in public listed companies in Kenya, reports that 58.3% of the listed companies used non-financial measures in assessing performance of organizations. Based on his findings, Zena ibid also concluded that very few companies used non-financial measures alone.

1.1.2 Performance management

Measurement is not an end (in itself) but a tool for more effective management. The results of performance measurement will tell you what happened, not why it happened, or what to do about it. Leading organizations do not stop at the gathering and analysis of performance data, rather these organizations should use performance measurement to drive improvements and successfully translate strategy into actions. In other words, they use performance measurement to manage their organizations.

Performance management is a strategic and integrated approach to sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors (Armstrong and Baron; 1998).According to Procurement Executives Association (PEA)- USA(1999),it is 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. PEA also defines the following terms which are considered to be components of performance management:-

Performance objective: It is a critical success factor in achieving the organization's mission, vision and strategy, which if not achieved would likely result in a significant decrease in customer satisfaction, system performance, employee satisfaction or retention effective financial management.

Performance goal: a target level of activity expressed as a tangible measure, against which actual achievement can be measured.

Performance measure: A process of assessing progress toward achieving predetermined goals, including information on the efficiency with which resources are transformed into goods and services (outputs), the quality of those outputs (how well they are delivered to clients and the extent to which clients are satisfied) and outcomes (the results of a program activity compared to its intended purpose) and the effectiveness of operations in terms of their contributions to the program objectives. Performance goal: a target level of activity expressed as a tangible measure, against which actual achievement can be measured.

Performance measure: A process of assessing progress toward achieving predetermined goals, including information on the efficiency with which resources are transformed into goods and services (outputs), the quality of those outputs (how well they are delivered to clients and the extent to which clients are satisfied) and outcomes (the results of a program activity compared to its intended purpose) and the effectiveness of operations in terms of their contributions to the program objectives.

Performance measure: A qualitative or quantitative characterization of performance.

Output measure: A calculation or recording of activity or effort that can be expressed in a quantitative or qualitative manner.

Outcome measure: An assessment of the results of a program compared to its intended purpose.

According to PEA Ibid,(1999) performance management systems aims at:

- Translating agency vision into clear measurable outcomes that define success, and that are shared throughout the agency and with customers and stakeholders;
- Providing a tool for assessing ,managing and improving the overall health and success of the business systems;
- Continuing to shift from prescriptive, audit and compliance-based oversight to an ongoing, forward-looking strategic partnership involving agency headquarters and success of business system
- Including measures of quality, cost. speed ,customer service and employee alignments, motivation, and skills to provide an in-depth, predictive performance management systems; and ;
- Replacing existing assessment models with a consistent approach to performance management.

1.2 Statement of the Research Problem

"One accurate measurement is worth more than a thousand expert opinions" *– Admiral Grace Hopper".*

"What gets measured, gets attention, what gets measured gets fixed, what you measure is what you get". These are just a few of the clichés often heard in organizations not only in the private sector but in the public sector as well. The relationship between firm's/individuals performance and pay has become one of the most considered features especially in employment contracts. In fact the desirability of incentive pay based on firm's performance has become so widely accepted both in private as well as in the public sector. Rosen (1992) says that as a theoretical matter, the precise form of the optimal compensation contract is complicated while Rosenstein (1990) echoes that the pay for performance is a dynamic structure. Since stakeholders never possess management familiarity with the operations of the firm, they may not be able to evaluate the consequences of those actions they can observe. As a result, they must always rely on reported result as the basis for evaluating manager's performance.

Banker et al (2000) says that the number of firms using non-financial measures for incentive purposes is increasing. Although there are a number of reasons why firms use non-financial performance measures, the primary reason is that some of them are leading indicators of financial performance (Kaplan and Norton 1992;2001). Hemmer (1996) emphasizes that non financial performance measures change the effort allocation of managers, in the sense that these managers become more focused on the long-term impact of their actions. Senior management understands the effect that the measurement systems have on the behavior of managers and employees.

Executives also see different types of data and measures from all aspects of their organizations. How do senior management focus this information and measure the appropriate elements of the business directly related to the overall strategy?

The idea of the balanced scorecard was to focus the measurement seen at the senior level to the few and necessary indicators that show the performance of the organization.It is apparent that the performance measures used by an organization are critical in assessing the "true "performance of the organization. The study is set to provide additional evidence on the subject of performance measurement practices.

1.3 Objectives of the Study

The study sets out to:

1. Determine the extent to which the BSC is in use in Kenya.
2. To establish the reasons for adopting the BSC.

1.4 Significance of the Study

1. The study is expected to assist learning institutions on understanding the user perception of the performance measurement techniques they teach.
2. The study will help the accounting profession in Kenya and its regulatory bodies such as the institute of certified public accountants in Kenya ICPA(K), in attempt to improve information reported in financial statements to consider requiring firms reporting non-financial information in additional to financial information, to enable users assess organizations' performance.
3. This study is also expected to stimulate interest among academicians and encourage further research in management accounting; provide a link between theory and practice.

4. The study is also expected to update the existing body of knowledge on performance measurement to stakeholders of organizations which might intend to implement the BSC.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Evolution of performance measurement.

Drury (2004) citing Johnson and Kaplan (1987) states that the origin of today's management accounting practices can be traced back to the industrial revolution of the nineteen-century. According to Johnson and Kaplan (1987) most of the management accounting practices that were in use in the mid (1980's) had been developed by 1925. Johnson Ibid concluded that the lack of management accounting innovation over the period (1920-1960's) and the failure to respond to changing environment resulted in a situation in the mid (1980's) where firms were using management accounting systems that were obsolete and no longer relevant to the changing competitive environment.Commenting on the inadequacy of the management accounting systems Kaplan (1994) asserts that;

... *"The past 10 years have seen a revolution in management accounting theory and practice. The seeds of the revolution can be seen in publication in the early to mid 1980s that identified the failing and obsolescence of existing cost and performance measurement systems"... (Kaplan 1994).*

Prior to the 1980s management control systems tended to focus mainly on financial measures of performance. During the 1980s much greater emphasis was given to incorporating into the management reporting system those non-financial performance measures that provided feedback on the key that are required to compete successfully in a global economic environment. Drury (2004) reports that it was not clear to managers that the non-financial measures they were evaluated on contributed to the whole picture of achieving success in financial terms.(Sensyshem, 1999) cites that finding a measurement tool that reflects the strategy of the business in addition to indicating how well it performs is a common problem for managers and their advisors.Previous systems that incorporated non-financial measurements used an ad hoc collections of such measures, most like checklists of measures for manager to keep track of and improve than a comprehensive system of linked measurements (Kaplan and Norton 2001).

The need to integrate financial and non-financial measures of performance and identifying key performance measures that link measurements to strategy led to the emergence of the Balanced Scorecard (BSC).

2.1.1 The Balanced Scorecard (BSC)

It is a comprehensive framework that translates the company's strategic objectives into a coherent set of performance measures. Kaplan, Norton (1993).Horngren (1996) defines a Balanced Scorecard as a performance measurement system that strike a balance between financial and operating measure, links performance to rewards and glues explicit recognition to the diversity of stakeholders interest.Simons (2000) looks at the BSC as that performance measure which communicates the multiple linked objectives that companies must achieve to compete based on their intangible capabilities and innovations. The specific objectives and measures of organizations BSC are derived from the firm's vision and strategy (Chow, 1998).

Balance

"Balance suggests a steadiness that results when all parts are properly adjusted to each other, when no one part or constituting force outweighs or is out of proportion to another. **"(Webster's Third New International Dictionary).**

Drury (2004) reports that the BSC was devised by Kaplan and Norton (1991) and refined in later publications (Kaplan and Norton 1993, 1996a, 1996b, 2001a, 2000b).The BSC is a strategic management technique for communicating and evaluating the achievement of the mission and strategy of the organizations. Drury (2004).According to Kaplan and Atkinson (1998), the BSC was developed to communicate the multiple linked objectives that companies must achieve to complete on the basis of capabilities and innovation not just tangible physical assets.The BSC puts strategy, structure and vision at the center of management focus. It also emphasis performance measures, keeping management focused on the entire business processes and helps ensure that critical current operating performance is in line with long-term strategy and customer values.

Kaplan and Norton, (1998) noted that the BSC translates mission and strategy into objectives and measure organized into four (4) perspectives;

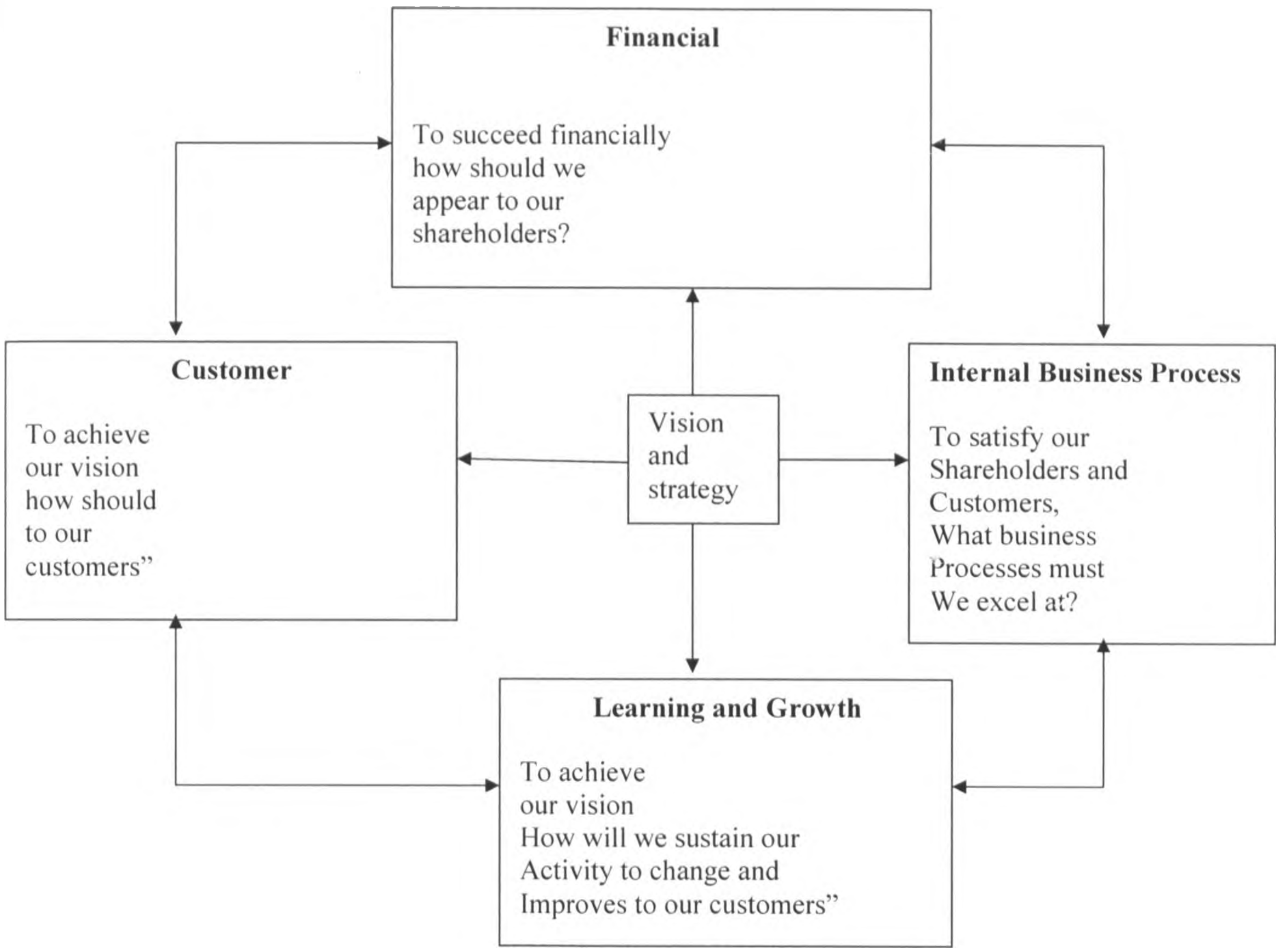
- Customer perspective - How do customers see us?.
- Internal business process perspective (What must we excel at?
- Learning and growth perspective (Can we continue to improve and create value?
- Financial perspective (How do we look to shareholders?)

Kaplan and Norton (1992, 1996b) argue that the chain of course and effect should pervade all the four perspective of BSC. The assumption is that the measures of organization learning and growth are assumed to be drivers of the internal business process processes. The measures of these processes are in turn assumed to be the drivers of measures of customer perspective, while those measures are in the drivers of financial perspective. Drury (2004) is of the view that BSC consists of two types of performance measures.

Lagging measures: These are the financial (outcome) measures within the financial perspective that are the results of past actions.

Leading measures: These are drivers of future financial performance; non – financial measures relating to customer, internal business process and learning and growth perspectives.

The balanced scorecard



Source: Kaplan and Norton 1996b

2.1.1.1 The Customer Perspective

In this perspective of the BSC managers should identify the customer and market segments in which the business unit will compete. It captures the ability of the organization to provide quality products, effectiveness of their delivery and overall customer service and satisfaction.

It includes several generic objectives and measures that relate to customer loyalty and the outcomes of the strategy in the targeted segments. The core objectives could be increasing market share, customer satisfaction, customer acquisition, customer profitability and value proportions.

2.1.1.2 Internal Business Perspective

This perspective evaluates the efficiency and effectiveness of the firm's processes. In this perspective, manager identifies the critical internal processes for which the organization must excel in implementing its strategy. The measurers under this perspective should focus on the internal processes that are required to achieve the organization's customer and financial objectives.Drury (2004) citing Kaplan Ibid identifies the principal internal business processes as innovation processes, operation and post-service sales processes.

Kaplan Ibid suggests such measures as:

- % of sales from new products.
- Time to developing next generation of product
- New product introduction versus competitions
- Reworks, yields, returns.
- Break even time.

2.1.1.3 The learning and growth perspective:

This perspective focuses on the ability to change and improve and will be reflected in employee's capabilities, information system capabilities, employee motivation, empowerment and alignment (Kaplan Ibid). They suggested such measures as number of suggested improvements per employee, annual employee turnover as measures under this perspective.

2.1.1.4 The financial perspective

This perspective focuses on firm's financial goals. At strategic business unit level, operating profit return on investment, residual income, and economic value added were suggested by Kaplan Ibid. It is generally agreed that every business organization is in business to make a profit. Other financial objectives include revenue growth, cost reduction, and asset utilization.

Kaplan Ibid rejects the view that financial measures are unnecessary on the grounds that improvements in the operational measures are not automatically followed by an improvement in the financial measures. Kaplan is of the view that financial measures provide a feedback on whether improvements in operational performance measures are being translated into improved financial performance.

2.1.2 The Balanced Scorecard as a Strategic Management System tool

Kaplan and Norton (1996b) describe how innovative companies are using the measurement focus of the successful to accomplish the following critical management processes.

1. Clarifying and translating vision and strategy into specific strategic objectives and identifying the critical drivers of the strategic objectives.

2. Communicating and linking objectives and measures, likely once all the employees understand the high level objectives and measures, they should establish local objectives that support the business units global strategy.

3. Plan, set targets and align strategic initiatives. Such targets should be over a 3-5 year period broken down on a yearly basis so that progression targets can be set for assessing the progress that is being make towards achieving the longer term targets.

4. Enhancing strategic feedback and learning so that managers can monitor and adjust the implementation of their strategy, if necessary, make fundamental changes to the strategy itself.

They approach strategy as choosing the market and customer segments the business unit intends to serve, identifying the critical internal processes that the unit must excel at to deliver value to customers in the targeted market segments, and selecting the individual and organizational capabilities required for the internal and financial objectives.

2.1.3 Benefits and Limitation of the Balanced Scorecard Approach

Drury 2004 cites some of the major benefits that can be attributed to the balanced scorecard approach are ;

1. The scorecard brings together in a single report four different perspectives on a company's performance that relate to many of the disparate of the company's competitive agenda such as becoming customer oriented, shortening response time, improving quality emphasizing team-work, reducing new product launch times and managing fro the long term.

2. Many organizations collect some performance measures relating to each of the four perspectives but they are typically presented in several different large reports that often prove to be unhelpful because they from information overload.

3. The approach provides a comprehensive framework for translating a company's strategic goals into a coherent set of performance measures by developing the major goals for the four perspectives and then translating these goals into specific performance measures.

4. The scorecard helps managers to consider all the important operational measures together. In enables managers see whether improvements in one area may have been at the expenses of another.

5. The approach improves communications within the organization and promotes the active formulation and implementation of organizational strategy by making it highly visible through the linkage performance measures to business unit strategy.

The balanced scorecard has also been subject to frequent criticisms. Most of them question the assumption of the cause and effect relationship on the grounds that they are too ambiguous and lack a theoretical underpinning or empirical support. The empirical studies that have been undertaken have failed to provide evidence on the underlying linkages between non-financial data and future financial performance (America Accounting Association Financial Accounting Standards Committee, (2002). Other criticisms relate to the omission of important perspectives like an employee perspective, environmental impact perspective. It should be noted, however, that Kaplan and Norton presented the four perspectives as a suggested framework rather than a constraining straitjacket Drury (2004).

There is nothing to prevent companies adding additional perspectives to meet their own requirements but they must avoid the temptation of creating too many perspectives and performance measure since one of the major benefits of the balanced scorecard is its conciseness and clarity of presentation.

2.2 Criticism on current performance measurement practices

Drury (2004) argue that a performance measure that is not a good indicator of what is desirable to achieve the organizations objectives might actually encourage employees to take actions that are detrimental to the organization. He strongly holds that "what you measure is what you get" and that management concentrates on improving the performance measures even when they are aware that their actions are not in the firms best interests. Rappaport (1978) holds that less understood is why senior managers incentive plans should rely so heavily on financial measures of performance (earnings per share growth, return on capital in excess of minimal rate of return) rather than operating measures more consistent with the long-term health of the firm. Ordinarily performance measures are used for performance evaluation (the subjective process of judging the quality of performance. Although 100% accuracy is not essential, measurements should be sufficiently accurate for the purposes required and else may lead to management mis-evaluating performance (Drury Ibid). Anderson (1991) pointed out that managers are very competitive people who keep score and like to win even at the expense of the companies long-term goals.

Where performance is self measured and reported, there is a danger that measures will be biased. (Merchant,1990).The financial performance measures Rerun-on investment (ROI), Residual Income (RI) ability to stay within the budget, Economic Value Added (EVA) focus mainly on controlling behavior that is quantifiable and easily measurable and ignore those that are less quantifiable.

Drury (2004) is of the view that using accounting measures such as ROI and EVA as performance measures may lead myopic orientation of management. The techniques that management use to improve financial performance measures (putting pressure to employees, reduce expenses) are unlikely to have much impact on the financial measure in the short run and will become apparent in future periods. The financial measures are also criticized for dealing with the current reporting period but performance measure should focus on future periods/results that can be expected from a firm's present actions. To overcome the shortcoming of financial performance measures, the attempt to lengthen the performance measurement period has been used. However, it suffers the criticism that rewards are tied to the performance evaluation. And if they are provided a long time after actions are taken, there is a danger that they will lose much of their motivation effect.

An attempt has also been used to include non-financial measures that measure those factors that are critical to the long-term success and profits of the organizations to avoid over reliance on financial measures. The argument for this has been that if managers focus excessively on the short-term, the benefits from improved short-term financial performance may be counter balanced by deterioration in the non-financial measures. Such non-financial measures as competitiveness, product leadership, productivity, quality delivery performance, innovation and flexibility in responding to changes in demand) should produce a broad indication of the contribution of a manager's current actions to the long-term of the organization.

Otley (1995) pointed out that any single measurement will have myopic properties that will enable managers to increase their score on this measure without necessarily contributing to the long-run profits of the firm. Otley Ibid is of the view that perhaps the reason why financial measures are popular is because they provide an apparent comprehensive measure of performance,(by denominating all operating and performance measures in dollars). Real or physical measures are not the solution because they are local measures that are difficult or impossible to aggregate into a single overall measure.

The accounting literature appear to support the fact that neither the financial measures nor non-financial measures alone do reflect to both the short-term performance of an organization and at the same time give an indication of future financial performance and strategic health of a firm as a result from current actions.

2.3 Previous Studies on the adoption of the balanced scorecard.

Survey indicates that even though the balanced scorecard did not emerge until the early 1990s, it is now widely used in many countries throughout the world (Drury 2004).A US survey by silk(1998) estimated that 60% of Fortune 1000 firms have experimented with the balanced scorecard .In UK, a survey of large divisionalised companies (annual sales turnover in excess of $100 million) by El-Shishini and Drury (2001) indicated that 43% used the balanced scorecard at the divisional level. Pere (1999) reported a 31% usage rate of companies in Finland in a further 30% in the process of implementing the BSC.A survey in Sweden, Kald and Nilsson (2000) reported that 27% of major Swedish companies have implemented the approach. Other studies by Oliver and Amat (2002) and Speckbacher et al (2003) respectively report widespread usage in Spain and German-speaking countries (Germany, Austria and Switzerland). Chow et al (1997) reports that major companies adopting the balanced scorecard include KPMG Peatmarwick, Allstate Insurance and AT &T.

In terms of perspectives used Malmi (2001) conducted a study involving semi-structured interviews in 17 companies in Finland. He found out that 15 companies used the four (4) perspectives identified by Kaplan and Norton and two (2) companies added a fifth one-an employees perspective.A study by Olve et al (2000) found that 15-20 performance measures are customarily used. There is also evidence that the balanced scorecard approach is linked to incentive pay for the senior executives.

Prior to a study in Kenya by Waweru (1999), on the management accounting practices in the publicly quoted companies in Kenya , most studies concentrated on inventory management and measurement of divisional performance. In his study Waweru Ibid sought to determine the management accounting practices, identifying the reports that are produced and their frequency as well as determining the extent to which these quoted companies applied quantitative management accounting practices. Based on the findings of his study, he concluded that there is a widespread application of management accounting practices amongst the publicly quoted companies in Kenya. The study also indicated that management accountants in Kenya produced weekly, monthly and yearly reports essentially for decision making purposes.

The study did indicate little application of the quantitative management accounting techniques amongst the publicly quoted companies in Kenya.

Drury (2000) repots that survey on management accounting in UK and USA has shown that the approaches outlined in textbooks are not widely used in practice. The study in Kenya by Waweru Ibid agrees with these two studies. In his MBA project Minja (1995) tried to establish whether divisionalized companies do measure performance, objective of performance measurement and the performance measures used. The results indicated that the objective of performance measurement to include (control, profitability, planning and strategy implementation, managerial performance, investment decision and managerial remuneration. The study also reported accounting profit, return on investment, residual income and sales revenue as the main measurement indicators.

Another study in Kenya by Osewe (1998) on the factors guiding the choice of performance measures in practice and the association between organization characteristics and performance measurement, concluded that most firms favored financial measures to non-financial measures. The study by Waweru Ibid arrived at similar findings.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Population of the study

The population of the study was all the approximately 116,814 registered companies with offices/ operations in Kenya as at 30^{th} April 2005. This was taken with the understanding that all business organization measure performance of their businesses and makes decisions based on performance results, and hence the need to understand the effectiveness of the measures they use as well as the need to move from measurement to management of performance.

3.2 Sample of the study

A sample of 60 companies was taken based on convenience. This comprised of 30 Quoted companies and 30 private companies. This sample was not taken statistically but it was in consideration of time and resource constraints. Similar approaches were used by Nzule (1999), Minja (1995) and Osewe (1998). Private companies are known to have been pioneers in adopting certain management accounting practices. (GM adopting ABC systems) and hence if only the listed companies were sampled, for this study the findings may not be conclusive (Shank and Govindarajan 1989).It was expected that these companies face changing and challenging global management accounting practices (reliance in information technology rather than physical resources and hence and a need for an effective performance measurement to attain competitive advantage.

3.3 Data description and collection method

The study relied basically on a primary data. The data was collected using a semi structured questionnaire to attain in-depth understanding of the aspect of the BSC. The questionnaire was administered through personal interview supplemented with "drop and pick" method. The questionnaire was addressed to the corporate accounting personnel especially the management accountants or where the management accountant does as not exist, the questionnaire was addressed to the financial accountants, internal auditors, with bias to those involved in performance measurement. This was considered appropriate as suggested by Fremge (1972) that performance measurement is with the province of management accountants.

3.4 Data Analysis

The data was analyzed using descriptive statistics, tables, percentages, proportion and means. The analysis was tied to each objective to reach reliable conclusions. This data analysis technique was suggested as appropriate because of the qualitative nature of the data and also for the reason that it had been used successfully in other surveys studies. (Waweru,1999; Osewe 1998; Nzule 1999; Minja 1995; Coat, Riskwood and Stancey (1996).

3.5 Validity of Research Method

A field study allows for an in-depth understanding of observations and a great involvement with the organization under study (Coats et al; 1996). This enhances reliability and a more scope of information is covered (Nzule, 1999, Waweru; 1999).

Gonvens et al (1994) assert that academicians in accounting or at least a significant proportion of them need to place less emphasis "detached" mathematical analysis, laboratory tests and move into the declining field where they can focus on studying how practitioners perceive the world of accounting. This approach was used by Drury et al; 1993, Scapens et al in his studies of the application of accounting theory to practice, Lyne and Andrew (1996). Waweru; 1999, Nzule; 1999, Minja ;1995, and Osewe; 1998 employed similar approaches in their studies in Kenya.

CHAPTER FOUR

4.0 DATA ANALYSIS

4.1 Introduction

The findings of the research were analyzed in accordance with the objectives of this study as set out in section 1.3. A total of 60 questionnaires were sent out to respondents. Thirty–six responses were received, (60%) response rate. This was considered enough for the data analysis. The interpretations and conclusions are arrived at in this context.

4.2 Characteristics of Respondents

The general features of the companies studied are set in terms of industry classification, ownership, date of incorporation, asset base, turnover level, product/ service provisional processes, company growth position and source of competition. The above features greately influence the management decision making in different ways and therefore affect the performance measurement practices. The same may influence the decision to adopt BSC. These characteristics are summarized in tables 1 to 8.

Table 1 **Industry Classification**

Industry Class	No. of Companies	Percentages	Cumulative percentage
Agriculture	5	14	14
Manufacturing/ Assembly	17	47	61
Finance /Investment	10	28	11
Commercial/ Service	4	11	100

The companies studied are grouped into four main categories as shown in the table above. The findings of the study are biased towards manufacturing with forty seven(47%), followed by those in finance and investment (28%), agriculture (14%) and finally those in commercial and service industry (11%).

Table 2 **Ownership**

Type	No. of Companies	Percent	Cumulative Percent
Local	22	61	61
Foreign	7	20	81
Others	7	19	100

The ownership of the companies was based on location of management control .Seven (19%) had multiple control and were classified as others.

Table 3 Years of Operation

Years	No. of Companies	Percent	Cumulative Percent
1 -10	2	5	5
10 -20	5	14	19
20 -30	10	28	47
30 -40	5	14	61
Over 40	14	39	100

The number of years of operation tells us whether a firm is mature or not in which case it might have an influence on the growth position of the companies studied. This can also be linked with the source of the competition posed to a company. At different stages of the growth of a company the strategies adopted could differ and this may greatly have an influence on the decision to adopt the BSC. The classification use above was based on a ten-year interval in which companies in the same group were assumed to have similar characteristics that could influence the adoption of BSC.

Table 4 **Asset Base**

In Kshs.	No. of Companies	Percent	Cumulative Percent
Up to 500 Million	7	19	19
500 Million -1 Billion	6	17	36
1 Billion -5 Billion	16	44	80
Over 5 Billion	7	20	100

The asset base of a company indicates the level of resources invested. BSC is concerned with the management of the resources invested in the entity's operations.

The asset base's size is also an indicator of the investment's risk and the higher the amount of investment the higher the risk. The study ascertained whether the decision to adopt BSC had any association with the asset base of the companies sampled. The asset base is known to influence turnover, technology to be employed in production, which are indicative measures of the level of activity and affects the profitability levels of the company. BSC enhances the efficiency and effectiveness with which companies can manage their long term performance.

Table 5 Turnover

In Kshs.	No. of Companies	Percent	Cumulative Percent
Up to 500 Million	8	22	22
500 Million -1 Billion	6	17	39
1 Billion -5 Billion	16	44	83
Over 5 Billion	6	17	100

The company's level of turnover was grouped using similar class like the asset base. Turnover is a measure of the volume of activity in the company. The volume of production is a key driver of overheads. Turnover could be an indicator of an entity's lagging performance trend. This therefore makes turnover an important characteristic in the study of performance practices (BSC).

Table 6 Growth

Growth Position	No. of Companies	Percent	Cumulative Percent
Growing	10	28	28
Maturing	4	11	39
Established Player	21	58	97
Declining	1	3	100

Thirty six responses were received. Ten (10) companies (28%) described their growth position as "growing'. Four (4) companies (11)% were in the maturing category, twenty one (21) companies (58)% were established players while only one (3)% was declining and planning to close its operations within an year.

The growth position is influenced by the age of the company and is linked to the source of competition that a company faces. Strategic management accounting is concerned with the competitive forces that shape the strategies adopted by the companies. The information needs at the various growth positions differ. Therefore the performance measure practices adopted should as much as possible serve this purpose if the strategies are to operate effectively.

Table 7 Source of Competition

Source of Competition	No. of Companies	Percent	Cumulative Percent
New entrants	0	0	0
Existing big Players	29	81	81
Challengers	7	19	100
None	0		100

Thirty –six responses were received, out of which no company (0) % cited that new entrants are not competitors in their industry. Twenty-nine (29) (81)% have their source of competition as originating from existing big players in their industry and seven (7) companies or (19)% from challengers while none described itself as a sole payer in its business operations. Competition from new entrants into the American markets forced them to rethink their performance measurement systems. With superior measurement systems new entrants can take away existing business by capitalizing on inefficiencies. It is therefore important that a study on the adoption of BSC compares the performance measurement practices with the source of competition to the companies under study.

4.3 Performance measures used

4.3.1 Customer perspective

Table 8 Measures used by respondents

MEASURE/ METRIC	FIRMS USING	FIRMS NOT USING
Customer satisfaction survey	33	3
No. of customers referred by existing customers	24	12
Sales to new customers	26	10
No. of complains from Customers	29	7
Customer profitability	21	15
Sales representatives' feedback Reports	30	6
MEAN USAGE	**27**	**9**

Of the selected measures, the customer satisfaction surveys is the most widely used with 92% of the sampled companies using it. The other measures also largely used are sales representatives feedback reports, complains from customers, sales to new customers, number of customers referred by new customers and customer profitability in that order. On average seventy five (75%) of the companies are keen on the ability of the company to create satisfied and loyal customers in the targeted segments.

4.3.2 Internal business processes

Table 9 Measures used by Respondents

MEASURE	COMPANIES USING	COMPANIES NOT USING
Customer needs survey	35	1
new customer surveys	25	11
Identify new markets for products	32	4
Identify emerging needs for customers	24	12
Customer preference surveys	24	12
Price sensitivity surveys	25	11
Percentage of sales from new products	23	13
Number of reworks, scraps, returns by customers	18	18
Break even time for new products	17	19
MEAN USAGE	**25**	**11**

Of the thirty six responses received, on average sixty nine (69%) of the companies use the measures addressed by the questionnaire. The mostly used measures were customer needs survey with thirty five(35) companies (97%) usage followed by identification of new market measure used by thirty two (89%) using it. Of the questions addressed by the questionnaire, the leased used measures are the break even tome for new products and the number of reworks, scraps or returns by customers with 50% and 47% usage respectively. Internal business process perspective of the BSC identifies the critical processes for which the company must excel in implementing their strategy (ies). The measures used in the questionnaire were a mix of innovation processes, operational processes and post sales service processes.

4.3.3 Learning and Growth perspective

Table 10 Measures used by Respondents

MEASURE/ METRIC	FIRMS USING	FIRMS NOT USING
Employee satisfaction survey	25	11
Employee turnover rate statistics	25	11
Employee productivity statistics	26	10
Performance appraisal reports	36	0
Employee skill level assessments	29	7
MEAN USAGE	**28**	**8**

The measures of learning and growth ensure that the organization continues to have satisfied and loyal customers in the future and that it continues to make excellence use of its resources. These measures stress the importance of investing for future in areas other than investing in assets and new product research and development (which are included in the innovation process of the internal business perspective). The group studied indicated that generally all companies do maintain performance appraisal reports. Of the thirty six responses received, twenty –nine companies (80%) carry out employee skill level assessment, followed by employee productivity statistics, employee satisfaction survey and employee turnover rate data with 72%, 50% and 50% respectively. On average seventy seven (77%) of the study group use those measures of the BSC which identify the infrastructure that the company must build to create long-term growth and improvement.

4.3.4 Financial perspective

Table 11 Measures used by respondents

MEASURE/ **NOT** **METRIC**	**FIRMS USING** **USING**	**FIRMS** **USING**
Growth in sales / revenue	35	1
Growth in market share	32	4
Growth in operating profits	34	2
Return on investment	35	1
Cost reduction achievement level	30	6
MEAN USAGE	**33**	**5**

Literature has it that the financial measures indicate and also provide a feedback on whether improvements in operational performance measures are being translated into improved financial performance. The financial measures summarize the economic consequences of strategy implementation. The study group indicated that companies use one or more of the financial measures addressed by the questionnaire with thirty five (97%) using return on investment and growth in revenue/ sales. Followed by this is growth in operating profits, growth in market share and cost reduction level measures with 94%, 89% and 83% usage respectively. On average ninety two (92%) of the companies used one or more of the measures addressed by the questionnaire.

4.4 Reasons for adopting the performance measurement system

A total of six possible key reasons (objectives) of implementing BSC were addressed by the questionnaire with respondents given an option of indicating any other reason/objective not captured by the questionnaire.

The main reasons for adopting the BSC was given as getting an effective strategic planning system and the need for an improved control system/ performance measure with ninety (90%) and eighty –one (81%) response rate. Other reasons given for adopting the BSC are need for employee motivation, increased demand by customers for high quality products and a search for a better basis executive compensation .This is consistent with the literature by Drury (2004) that the BSC approach provides a solution to the need for a comprehensive framework for translating a companies strategic goals into a coherent set of performance measures by developing major goals which are then translated into specific measures.

Table 12 Reasons for adopting the BSC

Measure / Metric	TGL	ME	TLE	NA	Mean	Std Dev
Effective strategic planning	25	11	0	0	2.69	0.46
Improved control system	22	14	0	0	2.6	0.48
Improve performance measure	14	17	5	0	2.25	0.68
Better basis for executive Compensation	5	15	12	4	1.58	0.86
Increased customer demand for high quality products	16	10	6	4	2.06	1.03
Increased employee motivation	14	13	7	2	2.08	0.89
					2.19	

The same were represented on a four (4) "Likert Scale" of To A great Extent (TGE) ,To a Moderate Extent (ME), To a Little Extent (TLE), Not Applicable (NA), Numerical values were assigned of 3,2,1 and 0 respectively to reflect the importance attached to each objective/reason.

These numerical values were then used to calculate the weighted score and standard deviation of responses relating to each objective. In general all the objectives of a performance management tool (BSC) in the questionnaire are considered to have prompted these companies to adopt the BSC as indicated by the mean score of **2.19**. A score of (2.69) on effective strategic planning indicate that ninety (90%) of the companies that have implemented the BSC for this reason/ achieve this objective. On the reason to get a better basis for executive compensation, a score of (1.58) indicate that approximately 53% of the companies use it as a basis for compensating their executives.

CHAPTER FIVE

5.0 CONCLUSIONS, RECOMMEDATIONS AND LIMITATIONS OF THE STUDY

5.1 SUMMARY AND CONCLUSIONS

From the study, it was evident that approximately sixty-nine percent (69%) of the companies use financial and non- financial measures of performance in measuring the organizational performance. In addition most of the companies do link the financial and non-financial measures.

It was also evident that although many companies do not call their performance measurement tool by the name Balanced Scorecard, their practices in performance measurement do model those of the balanced scorecard. In my opinion most companies opt for the balanced scorecard because it includes all aspects of performance: Financial measures, internal business processes, learning and growth and the customer perspective measures. In addition it appears that most companies are aware that financial measures alone can not be depended upon to capture performance measures for such variables as efficiency, innovation and customer satisfaction.

In the present world, characterized by scarce resources, global competition, companies should continuously look for factors that significantly contribute towards retaining market share, through growth in business as well as ensuring customer satisfaction. Non financial measures therefore assist companies to come up, with strategies of evaluating their competitive advantage.

The research study results indicate further that most of the companies that have adopted the BSC have been in existence for a number of years and most of them having been in existence for over forty (40) years.

The study results indicate that any company could adopt BSC as a strategic performance measurement tool.

The main reasons for adopting BSC were to obtain an effective strategic planning system as well as an improved control system. Other reasons given were , to get a better performance measure, better basis for executives compensation and increased employee motivation..

5.2 RECOMMENDATIONS

Companies that have adopted BSC appear to exhibit more effectiveness in strategic planning, improved control and increased employee motivation. These being some of the critical objectives of a performance management system, I would recommend that all companies that seriously endeavor to reduce the effects of a lean performance measurement system to adopt the BSC.

There is also a need to educate all the management and organizational members from all the departments that do not directly deal with financial activities, on how their activities affect the overall company performance in the long run.

5.3 LIMITATIONS OF THE STUDY

1. Some companies considered the questions against their policies and hence could not fill hence reducing the number of respondents.
2. Most people have a negative attitude towards filling the questionnaires and treat them with a lot of suspicion making it difficult to obtain a higher response rate.

3. The questionnaires bias. The research relied on primary data through the administration of questionnaires. It is likely that respondents misunderstood some questionnaires or gave biased opinions.
4. The results are limited to a sample of thirty six companies. in other countries, the researches on adoption of the BSC had higher samples of respondents. The sample reduces the robustness of the findings.

5.4 SUGGESTION FOR FURTHER STUDY

1. A study could be done to identify the problems faced when implementing the balanced scorecard.
2. It is argued that case study approach is vastly superior to the general questionnaire based study. A case study can be undertaken by picking a few large companies and carry out a comprehensive in-depth study on the aspects involved in this study.

APPENDICES

APPENDIX I: QUESTIONNAIRE-PERFORMANCE MEASUREMENT

N/B. This study regards the use of the measurement system and the information obtained will be confidential and will be used for academic purposes only.

A. GENERAL COMPANY INFORMATION

1. Name of the company------------------------------------

2. What is the industry classification of your company?

Agriculture ( )

Commercial & service ( )

Finance and industry ( )

Manufacturing/Assembly ( )

3. Describe the ownership of your company.

Local ( )

Foreign ( )

Subsidiary ( )

Other specify ( )

4. How long have you been in Kenya? ----------Years.

5. Describe your asset base.

Up to Kshs 500 million ( )

500-1 Billion ( )

1-5 Billion ( )

10 Billion and above ( )

6. Describe your annual turnover

Up to Kshs 500 million	( )
500-1 Billion	( )
1-5 Billion	( )
Above 5 billion	( )

7. Describe your product/service provisional process

Labour intensive---------%

Automated----------------%

8. Describe the companys growth position in your industry.

Growing	( )
Maturing	( )
Established player	( )
Declining	( )

9. Who are your main competitors?

New entrants	( )
Existing big player	( )
Challengers	( )
None	( )

SECTION B: PERFORMANCE MEASUREMENT SYSTEM.

1. Do you measure performance in your organization?

Yes	( )
No	( ) (Tick as appropriate)

2. If YES in (1) above, what performance measures does your company use?

Financial Measures only	( )	
Non-financial measures only	( )	
Both financial and non-financial	( )	**(Tick as appropriate)**

3. Does your performance measurement system enable you to have the following information?

	YES	**NO**
• Customer satisfaction survey reports	( )	( )
• Number of new customers referred	( )	( )
by existing customers	( )	( )
• Sales to new customers	( )	( )
• Number of complains from customers	( )	( )
• Customer profitability	( )	( )
• Sales representative feedback reports	( )	( )

4. In your organization, do you conduct /measure the following?

	YES	NO
• Customer needs surveys	( )	( )
•		
• New customer surveys	( )	( )
• Identify new markets for products	( )	( )
•		
• Identify emerging needs of existing customers	( )	( )
• Customer preference surveys	( )	( )
• Price sensitivity surveys	( )	( )
• Percentage (%) of sales from new products	( )	( )
• Number of reworks , scraps and returns by Customers	( )	( )
• Break even time for new products	( )	( )

5. Does your organization maintain/ measure the following?

	YES	NO
• Employee satisfaction surveys	( )	( )
• Employee turnover turn-over rate statistics	( )	( )
• Employee productivity statistics	( )	( )
• Performance appraisal reports	( )	( )
• Employee skill level assessments	( )	( )

6. Does your organization use the following measures?	YES	NO
• Growth in sales /revenue	( )	( )
• Growth in market share	( )	( )
• Growth in operating profits	( )	( )
• Return on investments	( )	( )
• Cost reduction achievement level	( )	( )

7. Do you normally link the financial and non financial measures before reporting the overall performance?

Yes	( )
No	( ) (Tick as appropriate)

8. To what extent could you attribute the following as the reasons (factor needs) as to why you adopted the performance measurement system in your organization?

KEY: **TGE**- To a great extent, **ME** - To a Moderate Extent, **TLE**- |To a little extent; **NA**- Not applicable.)

	TGE	**ME**	**TLE**	**NA**
Effective strategic Planning	( )	( )	( )	( )
Improved Control system	( )	( )	( )	( )
Improved performance measure	( )	( )	( )	( )
Better basis for executive compensation	( )	( )	( )	( )
Increased customer demand for high quality products	( )	( )	( )	( )
Increased employee motivation	( )	( )	( )	( )

Other reasons (please list them?---

----

9. What name have you given to the performance measurement system in your organization?

a) Management performance reporting system ( )

b) Balanced scorecard ( )

c) Performance measurement system ( )

d) Performance review system ( ) Tick as appropriate

e) Others (please specify) ....

Thank you for your time and effort in filling this questionnaire.

Position in the organization ....

Signature ....

APPENDIX II: COMPANIES LISTED AT THE NAIROBI STOCK EXCHANGE

- **MAIN INVESTMENT MARKET SEGMENT (MIMs)**

Agriculture

1. Unilever Tea Ltd
2. Kakuzi Ltd
3. Rea Vipingo Plantations Ltd
4. Sasini Tea and Coffee Ltd

Commercial and Allied

1. Car & General (K) Ltd
2. CMC Holdings Ltd
3. HutchingsBiemer Ltd
4. Kenya Airways Ltd
5. Marshalls (E.A) Ltd
6. Nation Media Group
7. Tourism Promotion Services Ltd
8. Uchumi Supermarkets Ltd

Finance & Investment

1. Barclays Bank Ltd
2. CFC Bank Ltd
3. Diamond Trust Bank Kenya Ltd
4. Housing Finance Co. Ltd
5. I.C.D.C Investments Ltd
6. Jubilee Insurance Co. Ltd
7. Kenya Commercial Bank Ltd
8. National Bank of Kenya Ltd

9. National Industrial Credit Bank Ltd
10. Pan African Insurance Holdings Ltd
11. Standard Chartered Bank Ltd

Industrial &Allied

1. Athi River Mining Ltd
2. BOC Kenya Ltd
3. Bamburi Cement Ltd
4. British American Tobacco Kenya Ltd
5. Carbacid Investments Ltd
6. Crown Berger Ltd
7. Olympia Capital Holdings Ltd
8. E.A Cables Ltd
9. E.A Portland Cement Ltd
10. E.A Breweries Ltd
11. Sameer Africa Ltd
12. Kenya Oil Company Ltd
13. Mumias Sugar Company Ltd
14. Kenya Power And Lighting Company Ltd
15. Total Kenya Ltd
16. Unga Group Ltd

- **ALTERNATIVE INVESTMENT MARKET SEGMENT (AIMS)**

1. A. Baumann and Company Ltd
2. City Trust Ltd
3. Eaagads Ltd
4. Express Ltd
5. Williamson Tea Kenya Ltd
6. Kapchorua Tea Company Ltd
7. K. Orchards Ltd

8. Limuru Tea Company Ltd
9. Standard Group Ltd

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