

**ADOPTION OF THE BALANCE SCORE CARD AS A STRATEGIC APPROACH
BY LARGE INTERNATIONAL NON GOVERNMENTAL ORGANIZATIONS IN
KENYA**

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DECLARATION

I declare that this is my original work and has not been presented for a degree in any other university or institution.

Sign:

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This project has been submitted for examination with my approval as university supervisor

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DEDICATION

I dedicate this work to my wonderful parents the late Mr. Cyrus J. Wanguku and Mrs. Ann N. Wanguku, my darling and very supportive wife Mrs. Esther N. Kagundu, my siblings Ms. Michelle L.W. Wanguku and Ms. Caroline .M. Wanguku and my nephews Messrs. Calvin W. Wanguku and Messrs. Melvin M. Wanguku as a whole for their constant encouragement, patience and understanding throughout my entire study period.

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ABSTRACT

The Balanced Score Card (BSC) was developed as a comprehensive performance measurement system encompassing a coherent set of financial and non-financial performance measures covering different perspectives of the organization. Later Kaplan and Norton transformed it in 2001 into a strategic management system describing management processes and principles to develop and implement a strategy-focused and aligned management system build on sound, formal accounting principles. BSC was designed to harness the multiple benefits of performance measurement in order to aid organizations in implementing their strategies. This study sought to establish how INGOs have adopted BSC in their strategic planning process. The objectives of this study were to; determine the process followed by the INGOs in adopting the BSC framework in their strategic management and to establish the benefits that accrue to International Non-Governmental Organizations that adopt the Balanced Score Card. This study was carried out using a cross-sectional survey approach. The population of this study was the 850 INGOs operating in Kenya as at 31st December 2012. The target population however, were the 34 large INGOs operating in Kenya where 28 responded. This study only utilized primary data. Primary data was collected using questionnaires to the top management of the INGOs. Descriptive statistics were applied on the closed questions while content analysis was used to analyze data from open questions. The results from the analysis were then presented using tables, pie charts and bar graphs for easier interpretation. Study results indicate that awareness of BSC among the study respondents was very good at 93%. However adoption of the BSC as a performance measurement or strategic management system was poor in the INGOs surveyed at 32%. Reasons provided for BSC application included need to evaluate finance management systems, need to review compliance of policies and procedures by the field offices and need to use a balanced set of metrics to measure the health of field offices supported or affiliated with the INGO. Other reasons included need to expand the INGOs' view beyond the financial metrics and adding other metrics to balance out the equation and advice from management consultants. Challenges in BSC application included adapting the BSC to the organization and internalizing it, need for the process to be led by the highest level of authority, turning the vision into measurable metrics and getting the metrics right. Benefits from the BSC implementation included helping to monitor areas of control weaknesses, helping to determine training required by field projects and measuring extent to which the organization is exposed to risks. Recommendations made include sharing the strategy and action with every member of the organization for successful implementation, having a balanced scorecard with an appropriate mix of outcomes and performance drivers of the company's strategy and reviewing metrics as needed.

CHAPTER ONE

INTRODUCTION

1.1 Back ground of Study

This chapter provides the introduction of the current study. The context of the study, problem statement, objectives of the study and value of the study are discussed in this chapter. The current study aimed to investigate the adoption of the balance score card (BSC) as a strategic approach by international non governmental organizations (INGOs) based in Kenya. The study aimed to determine the process followed by the INGOs in applying the BSC framework in their strategic management and to establish the benefits that accrue to International Non-Governmental Organizations that apply Balanced Score Card

Following its launch by Kaplan and Norton (1992), the BSC was developed as a comprehensive performance measurement system encompassing a coherent set of financial and non-financial performance measures covering different perspectives of the organization. Later Kaplan and Norton (2001) transformed it into a strategic management system describing management processes and principles to develop and implement a strategy-focused and aligned management system build on sound, formal accounting principles.

However, not for profit organizations have been slow in adopting the BSC framework though lately there have been some empirical studies indicating that some not for profit organizations have adopted the BSC framework in their strategic planning (e.g.

Oloruntoba and Grey, 2006; Scholten et al, 2010; Ismail and Sharifi, 2006). This study aims to contribute to understanding the BSC by analyzing the adoption and application pattern of the BSC in the INGOs in Kenya. The adoption refers to the ways the BSC has been received and implemented in these organizations.

1.1.1 Concept of Strategy

Strategy is a multi dimensional concept and various authors have defined strategy in different ways. Chandler (1998) defined strategy as the determination of the basic long-term goals and the objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. Andrews (1987) indicated corporate strategy as the pattern of major objectives, purposes or goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be.

Strategy was depicted by Linn (2007) as the match between an organization's resources and skills and the environmental opportunities as well as the risks it faces and the purposes it wishes to accomplish whereas Pearce and Robinson (2001) depicted its purpose as to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment. Porter (2005) depicted competitive strategy as deliberately performing activities differently and in better ways than competitors.

Ansoff (1965) viewed strategy in terms of market and product choices. According to his view, strategy is the “common thread” among an organization’s activities and the market. Johnson and Scholes (2002) defined strategy as the direction and scope of an organization that ideally matches the results of its changing environment and in particular its markets and customers so as to meet stakeholder expectation. According to Delmar and Shane (2003), strategy is a unified and integrated plan that relates the strategic advantages of the firm to the challenges of the environment and that is designed to ensure that the basic objectives of the enterprise are achieved through proper execution by the organization.

Eisenhardt and Martin (2000) perceive strategy as a pattern or a plan that integrates organization’s major goals, policies and action into a cohesive whole. Pearce and Robinson (2001) defined strategy as the company’s “game plan” which results in future oriented plans interacting with the competitive environment to achieve the company’s objectives. Lambert and Knemeyer (2004) stated that managers develop strategies to guide how an organization conducts its business and how it will achieve its objectives.

1.1.2 The Balance Score Card (BSC)

The BSC assists in identifying the most critical measures for monitoring and developing strategy. The selection of measures should demonstrate the creativity in seeking measures which support strategic direction. BSC is an instrument which translates the mission and strategy of an organization into a broad collection of action metrics and indicators, and which subsequently provides the structure necessary to serve as control and strategic

measurement system (Kaplan and Norton, 2006). In the process of identifying indicators for each of the four perspectives, developing strategy maps, BSC could be utilized for strategic planning.

In the first phase, indicators are identified subsequent to the development and definition of the organization's strategy. In the second phase, it is discovered that it is not enough to simply identify indicators, but that it is necessary that said indicators are extracted directly from the strategic plan in order to identify and explicitly describe the causal relationships with the organization's strategy (Kaplan and Norton, 2006). In other words, the indicators are identified prior to the development and definition of the organization's strategy and as such play a role in the development and definition of the said strategy.

The BSC differs from performance measurement systems in operations management in the way in which strategic alignment is created. BSC designers use a unique management process called cascading to align performance measures with a business strategy (Kaplan and Norton, 1996). The cascading technique emphasizes the existence of strategies at different organizational levels. This technique clearly distinguishes between the business strategy at the corporate level and the manufacturing strategy at the functional level. The cascading process is a systematic approach to align the strategic business objectives to the operational performance measures and actions. During a cascading process, BSC assists business unit managers in the formulation of a strategy that supports the corporate business strategy. BSC performance measures are then derived from the strategies formulated. As a result of this strategic alignment process, BSC comprises controllable,

operations-based financial and non-financial performance measures that are strategically aligned to strategies in the different levels in the organization.

1.1.3 Non-Governmental Organizations (NGOs) in Kenya

NGOs activities are now spread in every corner of Kenya and cover almost every aspect of the economy. There are currently over 6500 registered NGOs employing 150,000 people. It was estimated at the end of 2011 that the wider not for profit sector (including NGOs, self-help groups, women and youth groups) encompassed over 220,000 organizations (NGOs Coordination Board, 2012). It is estimated that the annual income of NGOs was \$2.5 billion, approximately 3% GDP (Brunt and McCourt, 2011). The Government now regards NGOs as true partners in development. NGOs in Kenya gather its membership from regional and national NGOs operating in Kenya and working with a host of CBOs and groups. These NGOs are active in a cross section of sectors including: agriculture, water, education, environment, health, human rights, gender and development, children's rights, poverty alleviation, peace, population, training, counseling, small scale enterprises, disability and many others.

The NGO Council in Kenya is mandated to provide overall leadership to the NGO sector. It champions the key values of probity, transparency, accountability, justice and good governance (NGOs Coordination Board, 2012). It enhances the self-regulation of its members, and assists them to realize their potential in improving services that improve the socio-economical status of Kenyan society in pursuit of sustainable development.

1.1.4 International Non-Governmental Organizations (INGOs) in Kenya

There are over 850 INGOs in Kenya (NGOs Coordination Board, 2012). Increasingly over the past 30 years, international non-governmental organizations (INGOs) have facilitated aid distribution through delivery of basic services in Kenya. INGOs have also used service delivery as a toehold to facilitate broader objectives of local institution-building and community empowerment through partner relationships with local NGOs. The relevance and importance of the INGO sector is evident in the context of its size and scope.

Kenya is the base of operations for almost all donors and many international NGOs and UN agencies in East Africa. Most large international NGOs also serve as donors, leaving program implementation to local NGOs and community-based organizations (CBOs). Because most NGOs, foreign or Kenyan, receive large amounts of funding from outside donors, their agendas and priorities also affect NGO and CBO programming in significant ways (Brunt and McCourt, 2011).

In the past two decades, the position of INGOs in Kenya has shifted from that of minor and little-discussed players focusing on the welfare of the poor to major, central actors on the national stage of development, receiving, in some cases, more donor funds than the state agencies. In Kenya, this shift arose in part from donor frustration with opaque and inefficient state-based systems for development, which spawned an interest in accountability and governance mechanisms involving non-state actors, including INGOs (Brunt and McCourt, 2011). INGOs have increasingly been seen as more efficient,

effective, flexible and innovative than the government agencies, to be other-oriented and ideologically committed to democracy and participatory pro-poor development, and to be more accountable and transparent than the government. The numbers of INGOs throughout the developing world in general and Kenya in particular have skyrocketed. How these INGOs operate and develop strategies through the BSC framework was the subject of this study.

1.2 Research Problem

BSC was designed to harness the multiple benefits of performance measurement in order to aid organizations in implementing their strategies (Kaplan and Norton, 2001). BSC was developed for business corporations with the aim of creating new non-financial indicators to complement the traditional financial reporting method, but it gradually became a strategic management model that provided a framework for describing and managing strategy in the knowledge economy. The BSC includes a set of measures to monitor organizational performance across four linked perspectives associated with value creation. Each of these four perspectives is linked in a chain of cause-and-effect relationships. Kaplan and Norton (2006) argue that a training program to improve employee skills (the learning and growth perspective) improves customer service (internal process), which, in turn, leads to greater customer satisfaction and loyalty (customer) and, eventually, increased revenues and margins (financial). Without the cause-and-effect relationships that link the BSC perspectives to an organization's strategy, the model becomes like a traditional, backward-looking control process with multiple measures.

Kaplan and Norton (2004) admit that applying the BSC in nonprofit and public organizations is different to that in business corporations because these organizations strive to deliver mission outcomes, not superior financial performance. This is because the success of nonprofit organizations cannot be measured by how closely they keep budgeting spending and attains financial profitability. This indicates that for INGOs in Kenya to apply BSC, there should be significant modifications and adjustments in the BSC model. According to a study by Omollo (2008), some INGOs in Kenya apply the BSC model while others are yet to apply the model in their strategic management. INGOs' levels of capacity and operating environments vary significantly between countries and even within countries, however.

Balance score card model and its application in different sectors has been a subject of various studies in Kenya. Nyaega (2012) studied application of Balanced Scorecard in performance measurement at Essar Telecom Kenya Limited. Gitachu (2012) studied challenges of applications of the Balanced Scorecard in Strategy Implementation at the Kenya Electricity Generating Company while Thuo (2012) studied the challenges of implementation of the Balanced Scorecard strategy at Safaricom Kenya Limited. Kosgei (2011) evaluated balanced scorecard performance management strategy at the Kenya Revenue Authority using Rumelt's framework while Mghanga (2010) studied the application of the balanced scorecard in strategy implementation at the Kenya Commercial Bank. There is a dearth of studies on how BSC has been applied in INGOs in Kenya in strategy formulation and implementation since all previous studies on BSC in Kenya focus on for profit organizations.

This study sought to establish how INGOs have adopted BSC in their strategic planning process. The study answered the question of how the balance score card (BSC) is adopted as a strategic approach by international non governmental organizations (INGOs) based in Kenya.

1.3 Objectives of the study

The objectives of this study were to;

- i) Determine the process followed by the INGOs in adopting the BSC framework in their strategic management.
- ii) Establish the benefits that accrue to International Non-Governmental Organizations that adopt the Balanced Score Card

1.4 Value of the Study

The findings from this study will be of value to theory, policy and practice. The study will reveal to the management of INGOs and other stakeholders such as donors, beneficiaries and Government of Kenya how the application of BSC will enhance the strategic success and sustainability of the civil society. The study would assist INGO in understanding the strategic practices to engage in and help different and diverse INGO's to sustain themselves for the long term. The study would also help other NGOs know the process of applying BSC model successfully, the challenges to overcome and the benefits that accrue from its application.

The results of this study will also be invaluable to researchers and scholars, as it forms a basis for further research. The researcher established that they are very few studies that

have focussed on strategic management in INGOs and lesser studies still that have focussed on application of the BSC model in INGOs. The students and academics would use this study as a basis for discussions on strategic management in INGOs and the applicability of the BSC model in that sector. The study is therefore a source of reference material for scholars, students and future researchers on issues of the BSC applicability and strategic planning in INGOs.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter presents literature review on the balanced score card framework, strategy, strategic management and application of BSC as a strategic planning tool. The chapter is organized as follows. First is the discussion of the concept of strategic management. The BSC framework is then discussed followed by the discussion and review of how BSC is applied as a strategic management tool.

2.2 Theoretical background

This study was based on the new public management (NPM) theory (Hood, 1991). NPM denotes broadly the not for profit policies that aim to modernize and render the not for profit and public sector more effective. The basic tenets of the theory holds that market oriented management of the not for profit and public sector will lead to greater cost-efficiency for governments, without having negative side-effects on other objectives and considerations. Ferlie et al (1996) describe NPM as involving the introduction into not for profit sector of the 'three Ms': Markets, managers and measurement. BSC is a way to introduce market oriented management concepts in the not for profit sector.

In the decades since the new public management (NPM) reforms of the late 1980s and early 1990s, public sector and not for profit organizations around the world have faced increasing pressure to demonstrate effective performance management (Ramia and Carney, 2003). As governments and communities have demanded greater transparency

and accountability in regard to the use of public funds, not for profit sector organizations have turned to private sector strategic and performance management practices as potential means of improving and demonstrating their own performance and accountability.

In particular, there has been a move towards specifying strategic goals, which then form the basis for setting published performance targets against which not for profit organizations must report (Omollo, 2008). There are two generic management forms with some typical management models: a rational management form and a bounded rational management form. Generic rational management is characterized by a maximizing strategy (or the dual problem of minimizing) bottom-up analysis and radical changes (Pearce and Robinson, 2001). Generic bounded rational management models, on the other hand, are typically inclined to satisfice rather than optimize, decompose analysis of problems from aggregate to lower levels, and implement only incremental strategies. Typical models within this generic form of management are, for example, Management by Objectives (MBO), mixed scanning, muddling through, and cost-benefit analysis/policy analysis. While benchmarking and the BSC are both performance measurement models, the former is categorized as “rational” and the latter as “bounded rational”. The reason for this division is that benchmarking typically aims for comparing against best practice and world leading organizations. The BSC and most other performance measurement models typically compare more modestly to an organization’s history or collaborating organizations’ performance.

The ABC and total quality management (TQM) models are basically variants of the generic rational approach to management and organizational decision-making because they take a bottom-up approach in trying to minimize costs or optimize quality. Earlier typical models within this management form are for instance zero-based budgeting (ZBB) and the related and more recently promoted business strategy model known as business process reengineering (BPR). MBO, mixed scanning and muddling through are models that are relatively more pragmatic in their use and therefore have been categorized as bounded rational (Linn, 2007).

It should be noted that management systems in practice often are a blend of different generic strategic management models. These systems utilize different degrees of underlying dimensions as bottom-up versus top-down analysis, and radical versus incremental changes. For instance, several of the models on both sides of the rational/bounded rational dichotomy utilize certain degrees of employee participation in analysis and implementation of prescribed strategies. Benchmarking may be used both in conjunction with TQM as well as with the BSC (Malmi, 2001). Even though the rational models may identify the need for radical changes, these changes may be implemented incrementally.

One tool widely advocated as having the potential to support these performance management aims is the BSC. In particular, the BSC is thought to present a multi-dimensional view of performance across different objectives and stakeholders, as is required for many not for profit organizations. Further, the BSC's focus on key

performance indicators (KPIs) directs managerial attention to important drivers of organizational results, and informs performance management by linking these KPIs in causal relationships with desired outcomes (Johnson and Scholes, 2002). Yet, despite this apparent match between the BSC and not for profit performance management aims, very little of the growing body of empirical literature on the use and outcomes of the BSC concerns not for profit sector applications.

2.3 Strategic Management

Strategic management is the art and science of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives (Kanter, 2004). Strategic management, therefore, combines the activities of the various functional areas of a business to achieve organizational objectives. It is the highest level of managerial activity (Collins, 2001). Strategic management is therefore the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives (Pearce and Robinson, 2001). According to McNeilly (2001), strategic management focuses on the total enterprise (Hamel and Prahalad, 1994) as well as the environment in which it operates; the direction management intends it to head (Ansoff, 1965); management's strategic plan forgetting the enterprise moving in that direction; and, the managerial task of implementing and executing the chosen plan successfully.

Strategic actions are influenced by the environmental factors. Changes in the environment will lead to changes in objectives and strategy (Pearce and Robinson, 2001).

The environment is complex and ever changing and it will continue to change rapidly, radically and unpredictably (Porter, 2005). Therefore managers have to keep reviewing their strategy to match the environmental demand. In order to enhance preparedness in handling surprising events an organization needs to augment the timeliness of managerial response to the surprising changes.

2.4 Balanced Score Card and Strategic Management

The BSC was first introduced by Kaplan and Norton (1992) for business corporations with the aim of creating new non-financial indicators to complement the traditional financial reporting method. However, BSC gradually became a strategic management model that provided a framework for describing and managing strategy in the knowledge economy (Kaplan and Norton, 2001). The BSC includes a set of measures to monitor organizational performance across four linked perspectives associated with value creation: financial perspective; customer perspective; internal perspective; and innovation and learning perspective.

Each of these four perspectives is linked in a chain of cause-and-effect relationships. Kaplan and Norton (2006) argue that a training program to improve employee skills (the learning and growth perspective) improves customer service (internal process), which, in turn, leads to greater customer satisfaction and loyalty (customer) and, eventually, increased revenues and margins (financial). Without the cause-and-effect relationships that link the BSC perspectives to an organization's strategy, the model becomes like a

traditional, backward-looking control process with multiple measures. Rickards (2007) hence observed that the relationships are therefore an important aspect of the BSC.

There have been reported increase in the use of BSCs and this is changing the way top managers run their companies. When envisioning a firm's future development, they no longer focus chiefly on monetary success indicators in the financial area. Instead, they now also devote roughly equal attention to non-monetary variables in three (or more) other areas (Rickards, 2007). Those areas typically involve customer relations, business processes, and employees. In addition, the use of BSCs has encouraged executives to be more explicit about the causal linkages they assume to exist among both financial and non-financial variables.

The expanded focus resulting from introduction of BSCs has major consequences for controlling and performance evaluation staffs. To help top management realize its visions, these staffs are assisting in developing appropriate strategies, setting new goals, establishing standards or benchmarks, measuring progress, and reporting results pertaining to both monetary and non-monetary variables.

From the outset, it is important to be mindful of the different roles various levels in the management hierarchy have to play in developing and using BSCs. Based on its vision, executive management sets overall, strategic goals for a company in each of the BSC's areas (Kaplan and Norton, 1996). Together with the middle level management, top management subsequently identifies variables crucial to the firm's success in each area

and establishes standards or benchmarks for them. In this fashion, an enterprise's executives construct a common, numerical, strategic indicator system for use throughout the company.

Since its launch by Kaplan and Norton (1992) the balanced scorecard (BSC) has enjoyed considerable attention in literature from practitioners and academics alike. Initially the BSC was developed as a comprehensive performance measurement system encompassing a coherent set of financial and non-financial performance measures covering different perspectives of the organization (Kaplan and Norton, 1992). Later Kaplan and Norton (2001) transformed it into a strategic management system describing management processes and principles to develop and implement a strategy-focused and aligned management system build on sound, formal accounting principles. Studies suggest that the BSC was received and developed in various ways (Ax and Bjornerak, 2005; Madsen and Windlin, 2006). Academically, such a development pattern is interesting as it gives insight into the drivers behind the dissemination, and possibly institutionalization of a concept. Practitioners may be more interested what interpretations and manners of use occur, so that they may reflect on how to use the BSC themselves.

The balanced scorecard (BSC) has been called one of the most important innovations in strategic management in the twentieth century (Omollo, 2008). It is a strategic management approach to performance measurement and evaluation which is primarily derived from an organization's vision and strategy. The BSC was developed largely in response to deficiencies in previous strategic management approaches. The BSC

approach advocates viewing the organization from four different perspectives: financial, customer, internal processes and learning and growth. For management purposes, metrics (scorecards) are developed and data are collected to analyze each of these perspectives. Initially directed towards profit-oriented businesses (Rickards, 2007), the BSC has since been adopted by many organizations with seemingly diverse objectives from NGOs, universities to hospitals.

Nonprofit activities were traditionally conducted in the context of the traditional bureaucratic model of public administration. Since the early 1980s the not for profit sector has undergone radical reforms that emphasize a for-profit sector style of management for organizational effectiveness and economic efficiency. Since then the nonprofit world has been subject to a series of rapid and far-reaching changes (Ramia & Carney, 2003). These changes include the extensive use of commercialization, competition and contracting out service delivery in nonprofit organizations. For-profit strategic management techniques have also been imported into the nonprofit sector in the attempt to enhance efficiency and effectiveness in the organizations.

Kaplan and Norton (2004) admit that applying the BSC in nonprofit and public organizations is different to that in business corporations because these organizations strive to deliver mission outcomes, not superior financial performance. In other words, the success of nonprofit organizations cannot be measured by how closely they keep to budgeted spending (Goerke, 2003). Kaplan and Norton (2004) claim that they have made significant modifications and adjustments in the BSC model for organizations in the

nonprofit and public sectors. Their claim implies that the modified BSC is equally applicable in INGOs. In the modified BSC model, the financial perspective is replaced by a fiduciary perspective. The fiduciary perspective reflects the objectives of constituents such as donors and taxpayers. Kaplan and Norton (2004) argue that both financial and customer stakeholders need to be satisfied concurrently in nonprofit and public organizations. Therefore, both customer and fiduciary perspectives are located on the same level above the other two perspectives.

Applying Kaplan and Norton's (2006) original argument of the chain of cause-and-effect relationships in the nonprofit context, nonprofit employees and volunteers' skills are improved through training programs (learning and growth perspective). They are then able to deliver better services (internal perspective), which, in turn, simultaneously leads to greater satisfaction from customers (customer perspective) and funding providers (fiduciary perspective). Satisfied customers and funding providers will logically lead to accomplished nonprofit missions (Kaplan and Norton, 2004).

The nonprofit world is, however, rather complex (Kong, 2010). Organizations in different nonprofit fields typically operate in their own unique environments with a significant variation in terms of mission, origin, structure, size, client bases, and financial means (Salamon et al, 2004). The unique characteristic that each sub-sector embraces renders the nonprofit sector even more ambiguous, complex and dynamic. For instance, the objective of a nonprofit organization that advocates animal protection and welfare is very different to that of a nonprofit organization that promotes and preserves historical and

cultural artifacts or responds to disasters. In other words, applying the BSC unquestioningly across the nonprofit sector denies the fact that the sector is very diverse. It is therefore important to study the application of BSC in each sector and the benefits derived thereof.

The BSC allows managers to look at a business in four areas: financial perspective (how the organization is perceived by investors); customer perspectives (how the external customers perceive the organization); internal perspective (what the organization needs to excel on); and innovation and learning perspective (how the organization can continue to improve and create value).

Kaplan and Norton (2001) suggest the best way to develop strategy is a top-down approach in which the strategy should begin with a review of the company mission statement and their core values – their destination. Then the strategy must define the logic of how to arrive at the destination. First, the organization should begin with a financial strategy for increasing shareholder value. Second, it should clearly understand customers' values and needs. Third, with a clear understanding of financial perspective and customers' expectations, it should determine the means to achieve financial and customer goals. Fourth, it must define the core competencies and skills of technologies, and the corporate culture needed to support an organization's strategy.

Strategic management is not only defining important issues in an organization, but also ensures that they are implemented too (Johnson and Scholes, 2002). BSC is one

possibility for communicating and implementing the strategy. BSC facilitates an outline of the strategy and provides a frame for strategy discussions before implementation of the strategy (Malmi, 2001).

Development of a performance measurement system includes the vision and strategy, the goals of the different views, critical success factors and the metrics. The critical success factors are knowledge, skills, capabilities, resources, features and activities through which the organization prospers. They link the goals of the organization to the strategies. A well-written strategic plan describes clearly whether the organization is successful. The plan may measure intended future outcomes either quantitatively or qualitatively, but it always defines threshold criteria for achieving success (Whittington, 2001). BSC is a tool to communicate and control the implementation of strategy. When implementing BSC you can actually implement strategy at the same time. BSC can be implemented in many kinds of organizations and every organization has its own special features during the process.

To select metrics for BSC requires a considerable amount of work. Building BSC and metrics selection cannot be delegated to one person. Neither is it enough that old metrics are classified according to new perspectives. However, benchmarking seems to be a useful tool. According to Kaplan and Norton (1996), a typical project to start up BSC utilization requires four months. There should be one single process owner, but the company management needs to participate actively. In implementation of the BSC, the importance of clear strategic objectives, cause and effect relationships between strategy

and measures and management commitment to the implementation process are emphasized. The process manager of the BSC implementation should have a clear understanding of the meaningfulness of the whole implementation process and its steps.

2.5 Benefits of BSC Adoption

A BSC enhances the quality of a firm's controlling system in numerous ways. First, through choice of appropriate variables, the BSC can incorporate many familiar management principles in a single instrument (Rickards, 2007). Among others, these principles may include elements of: customer-oriented organization; employee empowerment; just-in-time production and logistics; lean management; a learning organization; reengineering; risk management; stakeholder management; time for innovation; time management; total quality management; and value-based activity management.

Second, with a BSC, the controlling system's focus expands beyond the analysis of historical financial data. By encompassing a broader view of the company's goals, the controlling system at once becomes more balanced and more future-oriented. That is because customer relations and the quality of business processes as well as employee commitment and capacity for innovation will influence the enterprise's success in coming years. By giving an early warning system, the controlling system helps managers to detect potential business threats in time to initiate effective counter measures.

Third, by providing a means for disaggregating the strategy through the organization's hierarchy, a BSC ensures that top management's strategic goals pervade the entire enterprise as per findings from a study by Kong (2010). At the same time, though, subordinate managers can tailor the BSC to their respective units by adding operational goals, variables, and indicators as needed. That establishes a flexible, formal interface between the firm's strategic and operational controlling. Moreover, with a BSC, managers easily can direct their attention to those variables affecting the company's success at any given organizational level.

Fourth, the empirical information reported on BSCs makes progress toward goal attainment readily apparent. Assuming management and the controlling staff disaggregate and quantitatively measure the strategic and operational goals, numerical indicators, and standards. This information also facilitates performance comparisons among an enterprise's various units and across firms.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to carry out the study. The chapter considers in detail the methods that were used to collect the primary data required to satisfy the study objectives. In this chapter, the research design, population size and sample size are discussed. Data collection methods and data analysis techniques are also discussed in this chapter.

3.2 Research Paradigm

The study applied the interpretivist research paradigm. Interpretivism contends that only through the subjective interpretation of and intervention in reality can that reality be fully understood (Kothari, 2004). The study of phenomena in their natural environment is key to the interpretive paradigm, together with the acknowledgement that researchers cannot objectively measure some constructs that involve human interpretations (Cooper and Schindler, 2006). The paradigm contends that there may be many interpretations of reality, but maintain that these interpretations are in themselves a part of the scientific knowledge that is being pursued. In this study, the effect adoption of BSC as a strategic tool in INGOs is in some way affected by the subjective perception and interpretation of the situations affecting its application and the context of the INGOs. The study therefore used a questionnaire which the subjects used interpret how BSC has been applied in the organizations, their benefits and challenges.

3.3 Research Design

This study was carried out using a cross-sectional survey approach. This enabled the researcher to analyze how BSC is applied in International NGOs in Kenya and the benefits that are derived by various INGOs that apply the concept. Doyle (2004) observed that a survey research refers to a body of techniques for collecting data on characteristics, attitudes, thoughts, and behavior by obtaining responses from individuals to a set of prepared questions.

Cooper and Schindler (2006) also indicated that a survey is a measurement process used to collect information during a highly structured interview – sometimes with a human interviewer and other times without. Since this study intended to conduct interviews with top level managers in INGOs, this approach seemed the best suited for this study. Data measurements in this study was through rating scales where respondents were required to rate based on their experiences on BSC in their INGOs. The study applied a 5 point likert scale.

3.4 Population

The population of this study was the 850 INGOs operating in Kenya as at 31st December 2012 (NGO Coordination Board, 2012). The target INGOs however, were the 34 large INGOs operating in Kenya. Large INGOs are classified as such by the NGO coordination board as those who support large social projects and give support to other NGOs. There was no sampling in this study as all the large INGOs in Kenya participated in the survey.

3.5 Data Collection

This study only utilized primary data. Primary data was collected using questionnaires to the top management of the INGOs. The questionnaire was self administered. The questionnaire was distributed to the top managers who participate in strategic planning in each of the 34 large INGOs in Kenya.

The questionnaire was designed to address the research questions. It had 15 questions that sought to establish adoption of BSC, reason for (not) adopting BSC, benefits accruing from BSC adoption and challenges encountered in BSC implementation. The questionnaire consisted of both open and close-ended questions. Close-ended questions included likert type questions that were intended at weighing perceptions of respondents on the factors under study. Open questions aimed at getting deeper information from the respondents about BSC adoption, challenges, benefits and any refinements to BSC model.

The research questionnaire was piloted to test for content validity and reliability. Sample for the pilot testing was randomly selected from the INGOs. Five respondents were selected to participate in the pilot testing. Validity means that the questionnaires are measuring what they are expected to measure. The researcher relied on the supervisor to determine face validity of the questionnaires. Content validity according to Gall et al (2007) tells whether an item measures or describes what is supposed to measure or describe. Mugenda and Mugenda (2003) indicated that content validity indicates whether all important aspects of the variable under study are covered. The researcher determined

content validity of the questionnaires through the results and comments of the pilot study. Items that failed to measure the variables they were intended to measure were modified or discarded.

According to Best and Khan (2002), a test is said to be reliable to the degree that it measures accurately and consistently yields comparable results when administered a number of times. The researcher used cronbach alpha technique of measuring reliability. The reliability of the scales that were used was assessed and the reliability was 0.83 which surpassed the benchmark of 0.7.

3.6 Data Analysis

Analysis of data started with sorting out the questionnaires and establishing that they were correctly filled. Only correctly filled questionnaires were considered for analysis. After sorting, data from the questionnaires was coded into Statistical package for social sciences (SPSS) which aided in analysis.

The data and information obtained through the questionnaire was analyzed either through descriptive statistics or content analysis depending on the type of data collected. Descriptive statistics were applied on the closed questions while content analysis was used to analyze data from open questions. Descriptive statistics used were percentages, mean scores and frequency distributions. The results from the analysis were then presented using tables, pie charts and bar graphs for easier interpretation.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses data analysis, findings and a discussion of the findings. Section 4.2 discusses data collection and analysis while section 4.3 discusses the findings. Lastly is section 4.4 which provides a discussion of the findings.

4.2 Data Collection and Analysis

Data was collected through questionnaires which were sent to senior management employees of the targeted INGOs. The survey targeted 34 INGOs but was able to successfully collect questionnaires from 28 INGOs. This was a return rate of 82% which was considered adequate for the research purposes. The top employees who answered the questionnaires included Regional Directors, Operations managers, Grant managers, administration managers and country directors among others. The analysis presented in the following sections is as per the 28 returned questionnaires.

4.3 Findings

This section provides the findings of the study. The findings are presented based on the general information collected and the research objectives.

4.3.1 General Information

Some general questions involved the INGOs and the respondents were asked to establish whether the targeted INGOs were surveyed and whether the questionnaires were filled by

the targeted respondents. Respondents were required to indicate their positions in the INGOs targeted and results are presented in Table 4.1.

Table 4.1: Job Position of Respondents

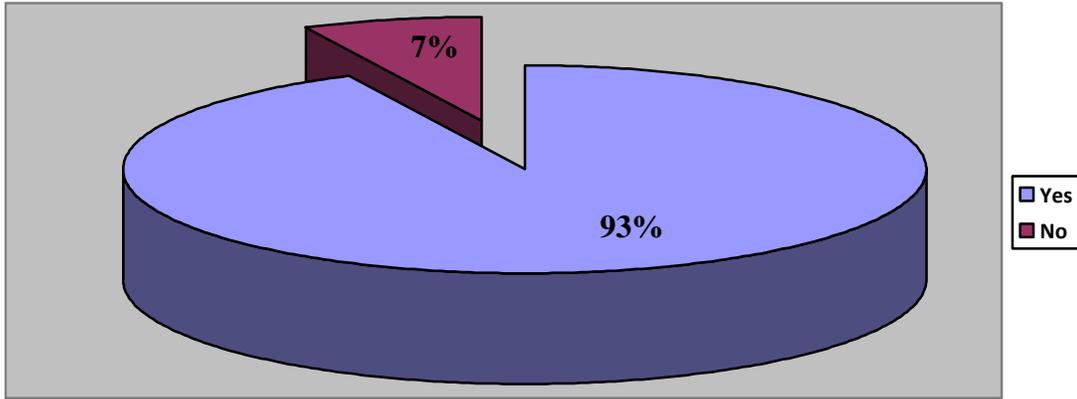
Position	Frequency	Percent
Regional Director	3	11
Country Director	3	11
Operations manager	4	14
Administration Manager	4	14
Finance manager	3	11
Grants manager	3	11
Others	8	28
Total	28	100

Source: Field Data

Results indicate that the respondents to the questionnaires were very varied with operations managers (14%) and administration managers (14%) being the most. Other respondents included grants managers (11%), regional directors (11%) and country directors (11%). These results indicated that the respondents were expected to be knowledgeable on the matter of what performance management or strategic management tools that the INGOs applied.

Awareness of BSC was another factor that was enquired in this survey. Respondents were required to indicate whether they were aware of BSC.

Figure 4.1: Awareness of BSC by Respondents



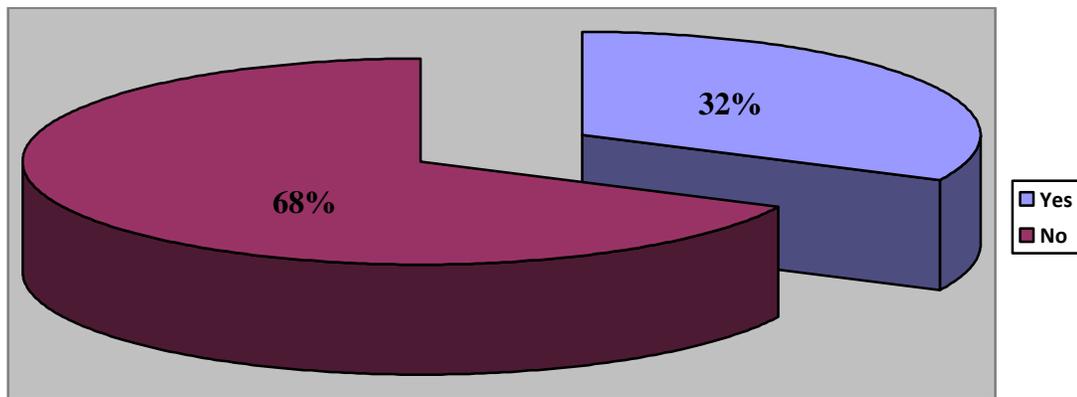
Source: Field Data

Study results indicate that two respondents (7%) were not aware of BSC while 26 respondents (93%) were aware of BSC. Those two respondents that were not aware of BSC belonged to those INGOs that had not adopted BSC in their performance management or strategic planning.

4.3.2 Adoption of BSC by INGOs

This research study had an objective of establishing the adoption of BSC as a strategic management tool by INGOs in Kenya. Respondents were required to indicate whether their organizations adopted BSC and the results are presented in Figure 4.2.

Figure 4.2: Adoption of BSC by INGOs



Source: Field Data

Responses indicated that BSC was applied by 32% of the surveyed INGOs in Kenya while 68% did not apply BSC. No INGO was indicated to have adopted BSC and stopped using it later.

Reasons for adopting BSC that were provided by the respondents whose organizations adopted BSC included need to evaluate finance management systems in the field offices and to review compliance of policies and procedures by the field offices. Respondents also indicated that BSC was adopted to use a balanced set of metrics to measure the health of field offices supported or affiliated with the INGO. Some respondents also indicated that BSC was adopted to expand the INGOs' view beyond the financial metrics and adding other metrics to balance out the equation. One respondent indicated that the INGO adopted BSC after the approach was suggested by their consultants helping with the strategic planning process. This respondent indicated that the consultants indicated that the balanced scorecard would help the INGO to better align the operational activities with the vision and strategy of the organization. BSC was implemented in this organization to provide a more accurate appraisal of where the INGO is headed and how it is performing on all facets of its operations. Using the BSC to facilitate reporting requirements was another implementation reason cited by current users.

When asked to indicate how long the INGO has been implementing BSC, respondents had varied responses which are presented in Table 4.2.

Table 4.2: Time Length of BSC Implementation

Position	Frequency	Percent
Less than 1 year	3	34
1 – 2 years	1	11
2 – 3 years	2	22
3 – 4 years	1	11
5 years and above	2	22
Total	9	100

Source: Field Data

Study results indicate that 34% (3) of the INGOs had applied BSC for less than 1 year. These were the organizations which were in the process of implementing BSC. Only 2 organizations had applied BSC for over 5 years.

4.3.3 Modification of BSC Framework

Respondents were required to indicate whether BSC framework was modified during implementation to fit the particular INGO. Results indicate that all INGOs had modified the BSC framework to their specific contexts. One respondent indicated that instead of listing objectives, the INGO has controls areas. Procedures are then listed under each control area and assigned a score in percentage and summed per control area. A summary score per each control is created and summed up to measure the overall performance.

Some fundamental changes to the four basic measurement perspectives were another modification that was established from the survey. One respondent indicated that the INGO had used an approach based on six categories, which were clearly related to the four measurement categories originally formulated by Kaplan and Norton (1996). These categories are: Revenue and funding; Resource allocation (including budgets); Donors

and Board members; Product and service recipients; Internal operations, and; Staff development.

Another modification to the original framework was mentioned in aligning the BSC framework to the international vision and mission of the INGO. One respondent indicated that the BSC framework had to be aligned to the INGO's vision and mission. This included establishing how many metrics to use, getting the KPIs and implementing the BSC.

4.3.4 Challenges of BSC Implementation

Respondents were asked about the challenges that the organization faced in adopting BSC. Adapting BSC to the organization and internalizing it was the main challenge mentioned. This is because BSC is a generic framework but to make it beneficial for a particular organization, it has to be modified and adapted for the particular organization.

Another challenge in adopting BSC mentioned by the respondents was that the process needs to be led by the highest level of authority and be coordinated down the different levels. This made it challenge due to the busy schedules of top level authorities.

Another challenge mentioned by one respondent was turning the vision into measurable metrics and getting the metrics right. The respondent indicated that the first new process is translating the vision which helps managers build a consensus around the organization's vision and strategy. There are inherent challenges when the vision and

mission are not very clear or they are ambiguous. These don't translate easily into operational and measurable metrics that provide useful guides to action at the local level. For people to act on the words in vision and strategy statements, those statements must be expressed as an integrated set of objectives and measures, agreed upon by all senior executives, that describe the long-term drivers of success. One respondent indicated that for BSC to work, metrics need to be relevant and clear. They should be depicted with visual indicators that are easily understood. In addition, metrics need to be collected at the ideal frequency for making decisions, and defined in such a way that the measurement can be consistently applied across the organization, even if their targets of performance differ. A system that has sloppy or inconsistently defined metrics will be vulnerable to criticism by people who want to avoid accountability for results. Another challenges related to having measurable metrics was the case of having different metrics for different contexts in the INGOs. This is because INGOs operate in different countries or regions where the same metrics cannot be applicable due to the difference in operating environments.

Another challenge observed from the survey was having efficient data collection and reporting systems to cater for non-financial data for the non-financial perspectives. The organization as indicated by one respondent have to deliberately plan to define the vital few metrics and commit the resources to automate data collection and subsequent reporting to achieve good results. Unfortunately, one respondent indicated that collecting metrics data sometimes consumes too much time and energy, which makes it challenging for the data to be captured.

Another challenge mentioned was monitoring of metrics to ensure that the organization move towards the intended targets. Monitoring gives the organization the capacity for what one respondent called ‘strategic learning’. Existing feedback and review processes focus on whether the organization, its departments, or its individual employees have met their targeted goals. With the balanced scorecard at the center of its management systems, an organization can monitor short-term results from the four perspectives which is a challenge due to the multiplicity of measurable metrics.

4.3.5 Benefits Accruing from BSC Adoption

Only nine of the 28 surveyed INGOs indicated current use of the BSC, so their views form the basis for identifying its perceived benefits. Respondents were required to rate the usefulness of the BSC in their organization. The overall rating was on a scale of 1 to 5 (with 1 being “not useful” and 5 being “very useful”). These nine respondents varied somewhat in their ratings which are presented in Table 4.3.

Table 4.3: Usefulness of BSC

Rating	Frequency	Percent
3	2	22
4	5	56
5	2	22
Total	9	100

Source: Field Data

Study results in Table 4.3 indicate that most of the respondents (56%) from the INGOs which had implemented BSC gave a rating of 4. The other respondents gave a usefulness

rating of 3 (22%) and 5 (22%). The mean rating of 4 provides a strong indication that current BSC users perceived the BSC to be highly useful in their organizations.

Responding on how BSC has been useful, respondents indicated that it has been useful in helping to monitor areas of control weaknesses, helping to determine training required by field projects and measuring extent to which the organization is exposed to risks.

Another respondent indicated that rather than focus on sectors and specific outcomes which can be unrelated, BSC focuses on core systems and processes for an overall impact and achievement. It also allows the INGOs to be more flexible in their strategy than ever before.

On usefulness of BSC, another respondent indicated that the BSC provides focus and clear lines of accountability providing the ability to measure the achievement of agreed outcomes. Other responses on usefulness of BSC indicated that it facilitates communication across the entire organization and enhances understanding of vision, mission and strategy. BSC was also reported to be useful through tying the vision, mission and strategy to the goals and objectives of individuals and departments concerned. Other benefits included helping define clear metrics for better and more objective performance management and facilitating a clear understanding of the reasons behind strategic initiatives. BSC was also reported to act as an effective basis for resource allocation with focus on both managing current performance as well as long- term value and also is used to establish clear governance frameworks and review mechanisms.

The survey results also indicated that the BSC gives management a concise set of information to gauge performance and direct improvements. It enables more comprehensive reporting to the INGO stakeholders and informs staff as to how successful the organization has been. One respondent indicated that BSC is designed to fit since the INGO does not try to produce a ‘return on investment’ as a company. However, the respondent indicated that there are huge benefits from the INGO, which while identifiable, are hard to quantify. BSC as a multiple stakeholder perspective management tool helps clarify key measures which can tell if a strategy is working.

Respondents were required to indicate whether they considered the BSC to be a valid performance management tool for not for profit organizations. Rating was on a scale of 1 to 5 (1 indicating ‘not at all valid’ and 5 indicating ‘extremely valid’). The results are presented in Table 4.4.

Table 4.4: BSC as a Performance Management Tool

Rating	Frequency	Percent
3	2	22
4	5	56
5	2	22
Total	9	100

Source: Field Data

Study results in Table 4.4 indicate that most of the respondents (56%) from the INGOs which had implemented BSC gave a rating of 4. The other respondents gave a validity rating of 3 (22%) and 5 (22%). The same rating was given on the validity of BSC as a strategic management tool. The mean rating of 4 provides a strong indication that current

BSC users perceived the BSC to be highly valid as a performance management system and also as a strategic management tool.

Respondents were required to give explanations to their ratings on BSC in performance measurement and strategic planning. Survey results showed that some respondents indicated that INGO's have strict reporting objectives required by donors and determine future funding which makes BSC suitable for them. BSC was also reported by the respondents to improve the organizational capacity hence improving competitiveness. Study results also indicated that BSC can be used to monitor subgrantee performance by anyone other than the grants manager. BSC was also mentioned to be used to monitor performance at field offices by HQ by anybody not necessarily the HQ accountants.

Respondents' responses also revealed performance measurement to be the main perceived benefit of BSC use together with strategic management and reporting. BSC was important in helping to track the performance over all critical activities over time. BSC was also reported to help with a more genuine understanding of the different dimensions of strategic decision making. Survey responses also indicated that targets were set through BSC that directed the INGO performance towards achieving its organization's objectives in areas beyond simple financial outcomes.

Study results also indicate that BSC provides more performance metrics which are applicable to the NGO operational environment. By going beyond traditional measures of financial performance, the concept has given a generation of managers in the NGO world

a better understanding of how their organizations are really doing. These non-financial metrics are so valuable mainly because they predict future revenue performance rather than simply report what's already happened.

Responses from the study also indicated that BSC enables INGOs to move beyond the conventional vision and discover BSC's value as the cornerstone of a new strategic management system. Used this way, the BSC addresses a serious deficiency in traditional management systems of the inability to link an organization's long-term strategy with its short-term actions.

Responses also indicated that most measurement metrics are financial in nature which does not agree with the mode of operation of INGOs. Most strategic management systems have operational and management control systems which are built around financial measures and targets. This bears little relation to the company's progress in achieving long-term strategic objectives. Thus the emphasis most companies place on short-term financial measures leaves a gap between the development of a strategy and its implementation. BSC bridges this gap and its applicability is very suitable to NGO environment. Organizations using the balanced scorecard do not have to rely on short-term financial measures as the sole indicators of the organization's performance. The scorecard lets them introduce four new management processes that, separately and in combination, contribute to linking long-term strategic objectives with short-term actions.

4.4 Discussion

4.4.1 Comparison with Theory

BSC was reported in this study to provide focus and clear lines of accountability providing the ability to measure the achievement of agreed outcomes. BSC was also reported to facilitate communication across the entire organization and enhances understanding of vision, mission and strategy. BSC was also reported to be useful through tying the vision, mission and strategy to the goals and objectives of individuals and departments concerned. Other benefits included helping define clear metrics for better and more objective performance management and facilitating a clear understanding of the reasons behind strategic initiatives. These findings concur with assertion by Kaplan and Norton (2001) who transformed BSC into a strategic management system describing management processes and principles to develop and implement a strategy-focused and aligned management system build on sound, formal accounting principles. This indicates that BSC in the INGO's enables them to implement their strategies successfully.

Study results indicated that all the INGOs had modified the BSC to fit to their unique contexts. This modification included having controls rather than objectives, having more perspectives than the four outlined in the BSC framework and having performance indicators that relate to the specific organization. This agrees with the observation of Kaplan and Norton (2004) who claimed that significant modifications and adjustments in the BSC model were required for organizations in the nonprofit and public sectors. Their claim implies that the modified BSC is equally applicable in INGOs after modification.

Some fundamental changes to the four basic measurement perspectives were another modification that was established from the survey. One respondent indicated that the INGO had used an approach based on six categories, which were clearly related to the four measurement categories originally formulated by Kaplan and Norton (1996). These categories are: Revenue and funding; Resource allocation (including budgets); Donors and Board members; Product and service recipients; Internal operations, and; Staff development.

A challenge in adopting BSC mentioned by the respondents was that the process needs to be led by the highest level of authority and be coordinated down the different levels. This made it challenge due to the busy schedules of top level authorities. This finding agrees with the observation of Kaplan and Norton (1996) who indicated that based on its vision, executive management sets overall, strategic goals for a company in each of the BSC's areas and coordinates all business units. Failure to support BSC by top management will ultimately lead to failure in the BSC implementation. The study findings also agree with assertions by Madsen and Windlin (2006) who observed that together with the middle level management, top management subsequently identifies variables crucial to the firm's success in each area and establishes standards or benchmarks for them. In this fashion, an enterprise's top executives construct a common, numerical, strategic indicator system for use throughout the company.

A challenge mentioned in the survey was turning the vision into measurable metrics and getting the metrics right. There are inherent challenges when the vision and mission are not very clear or they are ambiguous. These don't translate easily into operational and

measurable metrics that provide useful guides to action at the local level. This concurs with what Kaplan and Norton (1996) indicated in relation to the BSC implementation. In implementation of the BSC, the importance of clear strategic objectives, cause and effect relationships between strategy and measures and management commitment to the implementation process are emphasized or else the success of the BSC is compromised.

4.4.2 Comparison with other Studies

Research findings indicate that BSC was applied by 32% of the surveyed INGOs in Kenya while 68% did not apply BSC. This agrees with findings from a study by Northcott and Taulapapa (2011) which established that though BSC has gained widespread acceptance as a useful performance management tool for business organizations, its applicability in the not for profit sector is limited. The study by Northcott and Taulapapa (2011) indicated that out of the 48 responding not for profit organizations, only eight (16.67 per cent) were current BSC users. Most of the not for profit organizations do not use BSC due to a lack of strategic orientation which may be more common in the not for profit sector, where no competitive market exists and many longer-term operating requirements are imposed by legislation or policy rather than directed by management. This finding points to a potential reason why BSC implementation may be perceived as less beneficial in not for profit sector contexts.

Reasons for adopting BSC included need to evaluate finance management systems in the field offices and to review compliance of policies and procedures by the field offices. BSC was also adopted to use a balanced set of metrics to measure the health of field

offices supported or affiliated with the INGO and expand the INGOs' view beyond the financial metrics and adding other metrics to balance out the equation. These findings agree with results from a study by Rickards (2007) which established that the use of BSC has encouraged executives to be more explicit about the causal linkages they assume to exist among both financial and non-financial variables. Ramia and Carney (2003) had similar findings that the not for profit sector has undergone radical reforms that emphasize a for-profit sector style of management for organizational effectiveness and economic efficiency. Since then the nonprofit world has been subject to a series of rapid and far-reaching changes including application of strategic management systems like the BSC. This explains why the INGOs in this study implemented the BSC to facilitate strategic management, performance measurement and reporting requirements. Kong (2010) established that for-profit strategic management techniques have also been imported into the nonprofit sector in the attempt to enhance efficiency and effectiveness in the organizations. This explains why the INGOs surveyed had adopted BSC framework in their performance management and strategic planning.

Another modification to the original framework was mentioned in aligning the BSC framework to the international vision and mission of the INGO. One respondent indicated that the BSC framework had to be aligned to the INGO's vision and mission. This included establishing how many metrics to use, getting the KPIs and implementing the BSC. This agrees with previous studies such as Ax and Bjornerak (2005) and Madsen and Windlin (2006) who reported that the BSC has been received and developed in

various ways. This was reported to enable institutionalization of the concept depending on the context of the organization.

Study results indicated that there were many challenges that the organizations faced in adopting BSC. Adapting BSC to the organization and internalizing it was the main challenge mentioned. This is because BSC is a generic framework but to make it beneficial for a particular organization, it has to be modified and adapted for the particular organization. This agrees with the findings from a study by Kong (2010) who established that the NGO sector is complex and applying a generic strategic management system can be problematic and many challenges need to be overcome. Kong (2010) observed that coordination and good communication organization wide were important to engage employees in any strategic management system.

Having efficient data collection and reporting systems to cater for non-financial data for the non-financial perspectives was another challenge observed from the survey. The organization as indicated by one respondent have to deliberately plan to define the vital few metrics and commit the resources to automate data collection and subsequent reporting to achieve good results. Unfortunately, one respondent indicated that collecting metrics data sometimes consumes too much time and energy, which makes it challenging for the data to be captured. This agrees with results from a study by (Rickards, 2007), who observed that BSC was originally developed for management purposes where metrics (scorecards) are developed and data are collected to analyze each of these perspectives. Initially directed towards profit-oriented businesses the development of

metrics and measurement were indicated to be very important processes in BSC implementation by (Rickards, 2007).

Study results indicate that most of the respondents (56%) from the INGOs which had implemented BSC gave a rating of 4. The mean rating of 4 provides a strong indication that current BSC users perceived the BSC to be highly useful in their organizations. Responding on how BSC has been useful, respondents indicated that it has been useful in helping to monitor areas of control weaknesses, helping to determine training required by field projects and measuring extent to which the organization is exposed to risks. BSC focuses on core systems and processes for an overall impact and achievement. It also allows the INGOs to be more flexible in their strategy than ever before. This result concurs with what Rickards (2007) observed. Rickards (2007) established that through choice of appropriate variables, the BSC can incorporate many familiar management principles in a single instrument and hence make the strategic planning process flexible and manageable.

Study results indicated that the BSC was an effective basis for resource allocation with focus on both managing current performance as well as long- term value and also is used to establish clear governance frameworks and review mechanisms. Omollo (2008) had similar findings and observed that BSC is a strategic management approach to performance measurement and evaluation which is primarily derived from an organization's vision and strategy.

The BSC was also reported to give management a concise set of information to gauge performance and direct improvements. This agrees with findings from a study by Kong (2010) that with a BSC, the controlling system's focus expands beyond the analysis of historical financial data. By encompassing a broader view of the company's goals, the controlling system at once becomes more balanced and more future-oriented. The study established that the BSC enables more comprehensive reporting to the INGO stakeholders and informs staff as to how successful the organization has been. This indicates that the BSC as a multiple stakeholder perspective management tool helps clarify key measures which can tell if a strategy is working.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section provides the summary of findings. In section 5.2, summary of findings are presented while in section 5.3 conclusions are provided. Section 5.4 presents recommendations that are made in the study after considering the study findings.

5.2 Summary of Findings

This section provides a summary of the major study findings. Study results indicate that awareness of BSC among the study respondents was very good at 93%. However adoption of the BSC as a performance measurement or strategic management system was poor in the INGOs surveyed at 32%. Study results established that 68% of the INGOs surveyed did not apply BSC.

Various reasons were provided as to why the INGOs applied the BSC including need to evaluate finance management systems in the field offices, need to review compliance of policies and procedures by the field offices and need to use a balanced set of metrics to measure the health of field offices supported or affiliated with the INGO. Other reasons included need to expand the INGOs' view beyond the financial metrics and adding other metrics to balance out the equation and one INGO had implemented the BSC from advice by its management consultant.

All the INGOs had modified the BSC before implementing it. Some modifications include having control areas in place of objectives, having more perspectives rather than

the four prescribed and some INGOs had aligned the BSC framework to the international vision and mission of the INGO.

Various challenges were reported by the INGOs in the BSC implementation. These included adapting the BSC to the organization and internalizing it, need for the process to be led by the highest level of authority, turning the vision into measurable metrics and getting the metrics right. Other challenges included having measurable metrics, having efficient data collection and reporting systems to cater for non-financial data, and monitoring of metrics to ensure that the organization move towards the intended targets.

Various benefits from the BSC implementation were established from the survey. Study results indicate that most of the respondents (56%) from the INGOs which had implemented BSC gave a rating of 4. The mean rating of 4 provides a strong indication that current BSC users perceived the BSC to be highly useful in their organizations. Areas where the BSC had been useful included helping to monitor areas of control weaknesses, helping to determine training required by field projects and measuring extent to which the organization is exposed to risks. Other benefits reported from the survey included BSC focussing on core systems and processes for an overall impact and achievement. BSC was also indicated to allow the INGOs to be more flexible in their strategy than ever before. The BSC provides focus and clear lines of accountability providing the ability to measure the achievement of agreed outcomes. Other responses on usefulness of BSC indicated that it facilitates communication across the entire organization and enhances understanding of vision, mission and strategy. BSC was also

reported to be useful through tying the vision, mission and strategy to the goals and objectives of individuals and departments concerned. Other benefits included helping define clear metrics for better and more objective performance management and facilitating a clear understanding of the reasons behind strategic initiatives.

Study results indicate that most of the respondents (56%) from the INGOs which had implemented BSC gave a rating of 4 providing a strong indication that current BSC users perceived the BSC to be highly valid as a performance management system and also as a strategic management tool.

5.3 Conclusion

From the study findings, the following conclusions are made. First, application of the BSC in the INGOs is limited. However, the few INGOs that have implemented the BSC indicate it to be a useful management tool. Application of the BSC in the NGO sector requires a modification of the framework to suit the particular needs of the NGO.

There are various challenges however, that are encountered in BSC implementation. These include lack of top management support, failure to have effective metrics, failure to connect strategy to the BSC and failure to monitor the metrics effectively. However, the BSC implementation can be done successfully if managers take a careful and thoughtful approach to the process.

There are various benefits that accrue to an INGO that has implemented the BSC which includes flexibility, innovative applications in reporting and enabling of effective

strategic planning. Although Kaplan and Norton (1996), in the architecture of the BSC, identify four perspectives, these are not a bound prescription. The Balanced Scorecard should be in fact a "dress made to measure" for every specific organization. To effectively represent the firm's strategy it is necessary to identify and develop specific indicators for every stakeholder category. In some cases it is also useful to consider other stakeholders in addition to the classical ones (shareholders, customers and employees).

The BSC is a valid performance management and strategic management tool. The BSc has innovative applications in strategic management, performance measurement and in the reporting process. The BSC is a tool for management and not only for performance measurement. Considering the BSC as a guide in the reporting process, its use highlights the achievement of goals, the correctness of the key actions and the causes of success and failure.

5.4 Implications of Results

The findings in this study imply that although the Balanced Scorecard concept is found to be useful in many large INGOs, care should be taken when it is implemented as it as first designed for profit making organizations. The findings of this study expand the boundary of knowledge regarding implementation of the Balanced Scorecard, revealing that factors leading to successful use of the Balanced Scorecard in large INGOs which can be borrowed by even smaller INGOs. However, though these factors are necessary to ensure BSC application in the not for profit sector, they are not sufficient to guarantee success.

Frequent strategy changes that require revision of the Balanced Scorecard is another important factor that determines the success or failure of implementation.

This study indicates the potential benefits and challenges of introducing and developing the balanced scorecard within not for profit organizations. The results of this study may be useful for other INGOs that are implementing or about to implement the Balanced Scorecard, by aiding them in recognizing potential limitations before investing more time and effort. The results also suggest that to implement the Balanced Scorecard, care should be taken, especially in the case of having metrics and where the strategy is still not well determined and likely to be changed significantly and frequently. These findings can be extrapolated to apply to other types of organizations, even large public organizations that are operating in a rapidly changing political environment.

5.5 Recommendations

The study findings have various implications in the applicability of BSC in the not for profit sector. The following recommendations are made following the study results. First, the study findings indicated that the BSC is implemented on a small scale in the INGOs in Kenya. Those that apply the concept have challenges that hinder its implementation. INGOs should change and adopt new strategic management tools to enhance the accomplishment of their goals towards their stakeholders.

Secondly, to be effective, the Balanced Scorecard, including strategy and action to support implementation, must eventually be shared with every member of the

organization. If there is no deployment system that breaks high level goals down to the sub-process level where actual improvement activities reside, significant process improvements throughout the organization fail to generate bottom line results.

Third, a good balanced scorecard should have an appropriate mix of outcomes and performance drivers of the company's strategy. Therefore, when the organization constructs too few measures in each perspective, it fails to obtain a balance between outcomes and performance drivers or non-financial and financial indicators. Delegation of the project to middle management and defining the project as performance measurement is described as one of the most common causes of failure, by missing focus and alignment to implement strategy. This is a process that can only be led from the top.

Fourth, scorecards work best when they are reviewed frequently enough to make a difference. If a metric value changes on a monthly basis and the variables within the control of management can be affected on a monthly basis, then the metric should be reviewed on a monthly basis. Additionally, metrics review meetings should follow a standard agenda, with clearly defined roles for all attendees and an expectation that follow through on any agreed upon actions will be monitored at each meeting.

Finally, metrics need to be relevant and clear. They should be depicted with visual indicators that are easily understood. In addition, metrics need to be collected at the ideal frequency for making decisions, and defined in such a way that the measurement can be consistently applied across the firm, even if their targets of performance differ. A system

that has sloppy or inconsistently defined metrics will be vulnerable to criticism by people who want to avoid accountability for results which will eventually lead to failure.

5.6 Suggestions for Future Research

The potential for the BSC to support the performance and strategic management of not-for-profit organizations is well recognized in the reviewed literature. It is also acknowledged amongst the respondents who participated in this research. However, this study like many other studies conducted in other countries has revealed low rates of BSC adoption amongst NGO sector organizations. Further, the findings suggest that perceived BSC utility is dominated by performance measurement and reporting, while the strategic management role of the BSC remains under-exploited by many of its users. The key to understanding this disconnect between the BSC's perceived potential and its actual usage lies in uncovering the challenges that impact its NGO sector implementation. This study has identified challenges that appear particularly pronounced in the INGOs and has highlighted their significance for both practice and theory. To date, empirical research on the BSC has been heavily orientated towards the private sector. But, as not-for-profit organizations increasingly seek ways to improve their performance management practices, a growing need exists to understand the issues and challenges of BSC implementation in that sector also. The findings of this study point to several avenues for future research in this area.

First, an implication of this study is that where not-for-profit organizations are perceived to lack strategic direction. The potential for the BSC to support decision-making and

performance improvement may not be recognized. Future research could therefore examine the link between strategic planning, communication of strategy, and the effective use of the BSC in not-for-profit organizations.

Second, the general absence of commercial sensitivities and competition amongst INGOs coupled with the BSCs potential to present a multi-dimensional picture of performance, means it is perceived as a useful external reporting tool in this sector. Future studies could therefore examine how BSC use impacts on reporting practices in the not-for-profit sector.

Third, empirical studies of BSC architecture and adaptation could examine the key implementation challenges identified by this study: what BSC dimensions might be appropriate, how measures can be designed to capture important qualitative outcomes, and steps for identifying the customer and achieving a multi-stakeholder approach in not-for-profit sector contexts.

Lastly, this study revealed that the inability to incorporate useful causality relationships within not-for-profit sector BSCs presents a barrier to its efficacy as a strategic management tool. The empirical identification and validation of assumed BSC causality relationships is an important area for future research in public sector contexts, therefore. Scholarly attention to these and other under-examined aspects of practice is likely to enhance theory development and provide guidance to not-for-profit sector managers seeking to harness the performance and strategic management potential of the BSC.

5.7 Limitations of the Study

This study had few limitations biggest of which was the subjective nature of instruments. The inability to directly apply analytical models to many real-world situations means that a normative criterion against which to evaluate judgments and decisions will often be absent. For example, there is no normative model for performance evaluation scores, so the researcher could not assess the accuracy of the participants' evaluations in this study. However, pilot testing was applied to ensure that measurement scales were reliable.

Another limitation of the study was that it was focussed on how balanced scorecard has been applied in large INGOs. The application of BSC was limited and the usable questionnaires in the study were few. Therefore the findings may not apply to other smaller NGOs. To deal with this limitation, further study is required in other smaller NGOs as the balanced scorecard is a multifaceted tool with various applications in strategic management and in different organizational contexts.

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APPENDICES

Appendix I: Questionnaire to International NGOs Operating In Kenya

The Balanced Score Card (BSC) is a performance measurement and a strategic management system developed by Robert Kaplan and David Norton in the 1990s. The BSC is designed to translate and organization's mission statement and overall business strategy into specific and quantifiable goals and to monitor the organization's performance towards achieving those goals.

This research is titled 'adoption of the Balance Score Card (BSC) as a strategic approach by international non governmental organizations (INGOs) based in Kenya. Please be informed that your completion of this questionnaire confirms your consent to participate in this research.

Please respond to the questions as directed:

1. Please Indicate the name of this INGO
2. What is your position in this INGO?
3. Are you aware of BSC?
Yes []
No []
If your answer is 'Yes', go to question 4. If 'No', go to question 15.
4. Does your organization currently use BSC?
Yes []
No []
If your answer is 'Yes', go to question 8. If 'No', go to question 5.
5. Has your organization ever implemented BSC?
Yes []
No []
If your answer is 'Yes', go to question 6. If 'No', go to question 15.
6. As far as you know, what were the reasons for discontinuing BSC?
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(Please go to question 15)

7. Please note any reasons, as far as you are aware, why your organization has never implemented the BSC?

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(Please go to question 15)

8. As far as you are aware, please outline the reasons for implementing balanced score card in your organization

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9. How long has your organization been implementing BSC?

- Less than 1 year []
- 1-2 years []
- 3-4 years []
- 5 years and above []

10. What problems or difficulties (if any) did your organization encounter during implementation of the BSC? Please list and provide comments where you can.

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11. Has the BSC been modified to suit your organization?

- Yes []
- No []

If 'Yes', list the modifications

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12. How would you rate the usefulness of the BSC in your organization? Please circle your choice (1 indicating 'not useful' and 5 indicating 'very useful').

1 2 3 4 5

If you indicated that BSC has been useful, please give some examples of how it has been useful

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13. In general, do you consider the BSC to be a valid performance management tool for not for profit organizations? Please circle your choice (1 indicating 'not at all valid' and 5 indicating 'extremely valid').

1 2 3 4 5

Please provide comments:

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14. In general, do you consider the BSC to be a valid strategic management tool for not for profit organizations? Please circle your choice (1 indicating 'not at all valid' and 5 indicating 'extremely valid').

1 2 3 4 5

Please provide comments:

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15. Thank you for completing this questionnaire. If you would like a summary of the findings from this survey, please indicate your name and address in the space provided below or attach your business card

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