

**BALANCED SCORECARD AND PERFORMANCE: A CASE  
STUDY OF CO-OPERATIVE BANK OF KENYA**

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**A Research Project Report Submitted In Partial Fulfillment of the Requirement for  
the Award of Masters of Business Administration, School of Business, University of  
Nairobi**

**2014**

## **DECLARATION**

### **STUDENT DECLARATION**

This Management research project is my original work and has not been presented for a degree in any university

Signed \_\_\_\_\_

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### **SUPERVISOR'S DECLARATION**

This management research project has been submitted for examination with my approval as the University of Nairobi Supervisor.

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## **DEDICATION**

This research document is my dedication to my husband Michael, my children Sharleen, Rael and Ben for their undying support and encouragement throughout my course. To my brothers, sister and friends, their moral support has been encouraging.

## **ACKNOWLEDGEMENT**

I wish to acknowledge the efforts of my supervisor Mr.Nyamwange who took time to guide me through the writing of this document. Secondly is to my classmates who assisted me to get the right information for the study and finally to the university of Nairobi at large.

## **ABSTRACT**

The study sought to analyze the use of balanced scorecard as a performance improvement tool at the Co-operative Bank. The specific objectives of the study were to establish the factors affecting implementation of BSC as a performance improvement tool and to determine the impact of BSC on performance at cooperative bank of Kenya. The study used longitudinal analysis/time series analysis. The study also adopted Ex post facto research design. Both primary and secondary data was used. The study used stratified random sampling design. The study analysis was analyzed using quantitative and qualitative analysis. The analysis found that a fifth of the respondents that BSC has triggered increased profits, a fifth indicated it has fueled Increased customer base, a sixth felt that the BSC has been a contributor to advanced technology, a sixth indicated that it has enhanced Professionalism, while a few felt that it has been a key to economic growth a tenth of the population indicated that it enhances Competitive edge. The study found from half of the respondent that there are a number of factors that affect balanced scorecard at cooperative bank of Kenya. The study concluded that balances scorecard is very critical on performances measurement of cooperative bank. The study recommends that: Cooperative bank should integrate framework for describing and translating strategy using linked performance measures in four balanced perspectives: Customer, Internal Processes, Learning and Growth, and Financial. It was recommended that Co-operative Bank of Kenya should engage balanced scorecard as their primary performances measurement tool a factor that will enhance their performance, increase their competitive edge and enhance their customer satisfaction.

## TABLE OF CONTENTS

DECLARATION.....	ii
DEDICATION .....	iii
ACKNOWLEDGEMENT .....	iv
ABSTRACT .....	v
<b>CHAPTER ONE: INTRODUCTION</b> .....	<b>1</b>
1.1 Background to the Study.....	1
1.1.1 Balanced Scorecard.....	2
1.1.2 Performance Management.....	4
1.1.3 Cooperative Bank of Kenya .....	5
1.2 Statement of the Problem.....	6
1.3 Objective of the study .....	8
1.4 Value of the Study .....	8
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	<b>10</b>
2.1 Introduction .....	10
2.2 Performance Management .....	10
2.3 Performance Management Tools.....	13
2.4 Relationship between Balanced Scorecard and Performance .....	14
2.5 Factors Affecting Implementation.....	16
2.6 Summary .....	19
2.7 Conceptual Framework.....	20
<b>CHAPTER THREE: RESEARCH METHODOLOGY</b> .....	<b>21</b>
3.1 Introduction .....	21
3.2 Research Design .....	21
3.3 Data Collection.....	21
3.3.1 Validity.....	23
3.3.2. Reliability .....	24
3.4 Data Analysis .....	24
<b>CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION.....</b>	<b>25</b>
4.1 Introduction .....	25
4.2 General Information.....	25
4.3 Relationship between Balanced Scorecard and Performance .....	25
4.4. Factors Affecting Implementation.....	29
<b>CHAPTER FIVE</b> .....	<b>35</b>
<b>SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS..</b>	<b>35</b>
5.1 Introduction .....	35
5.2 Summary of Findings.....	35
5.3 Conclusion.....	36
5.4 Recommendations.....	37
5.5 Limitations of the Study.....	38
5.6 Suggestion for further studies.....	38
REFERENCES.....	39
APPENDICES.....	43
APPENDIX I: QUESTIONNAIRE.....	43

## **LIST OF ABBREVIATIONS/ ACCRONYMS**

<b>BSC</b>	Balanced Score Card
<b>CCIA</b>	Co-op Consultancy & Insurance Agency Limited
<b>CPM</b>	Corporate performance management
<b>DMAIC</b>	Define, Measure, Analyze, Improve and Control
<b>EFQM</b>	European Foundation for Quality Management
<b>E-P</b>	Effort-Performance
<b>EPS</b>	Earnings per share
<b>NSE</b>	Nairobi Stock Exchange
<b>PM</b>	Performance Measurement
<b>P-O</b>	Performance-Outcome
<b>ROI</b>	Return on investment
<b>ToP</b>	Theory of Performance
<b>TQM</b>	Total quality management

# CHAPTER ONE: INTRODUCTION

## 1.1 Background to the Study

World over, organizations face great challenges to achieve a competitive edge retain customers and maintain high performance. The solution to this challenge is to constantly innovative to satisfy the ever changing needs of their customers and the markets. Achieving high performance and customers' satisfaction through innovation can strengthen the financial position of the organization but there must me a method to measure such performance.

There are various methods of measuring organizational performance. Researchers believe that traditional performance measurement systems like market share, return-on-investment, and earnings-per-share do not provide the full overview of an organizations' performance (Moriarty and Kennedy, 2002). Nevertheless, Davis and Albright (2004) argue that combining internal and process measures with financial measures could gain an entire organizational picture and better insight into where adjustments are required. To bridge this gap, Balanced Scorecard was developed by Kaplan and Norton (1992).

The balanced scorecard results are only useful if the management reviews them and openly passed on to employees dealing with the execution phase. Communication is the essence in the process of converting visions and strategies into action. Communication can be an effective tool for motivating employees involved in change (Lohman, &Wouters, 2004). A link exists between the balanced scorecard and strategy management to attain firm performance. Firm performance can be long-term profit, customer retention and loyalty and so on (Folan& Browne, 2005). People are sort to be utmost important assets of any organizations, hence having skilled, knowledgeable and courageous/willing workforce is crucial for organizational performance. For the balanced scorecard to function; it is fundamental to assess and measure the employee performance. The people formulating, implementing and executing the balanced scorecard should be competent enough in directing strategy to attain desired results (Makadok, 2001).



### **1.1.1 Balanced Scorecard**

The balanced scorecard is a management framework which, since its inception by Kaplan and Norton in the early 1990s, has been adopted, modified and applied by hundreds of organizations worldwide (Atkinson, 2006). The Balanced Score Card is a strategic planning and management system used to align business activities to the vision and strategy of the organization, improve internal and external communication and monitor organizational performance against strategic goals. It is a performance measurement tool that considers not only financial measures but also customer satisfaction, business process and learning measures (Johnson et al, 2008). Since its introduction in 1990s, the Balanced Scorecard has been widely appreciated and used by corporations around the world (Chan, 2004).

According to Whittington (2006) balanced scorecard as a tool helps organizations to focus on areas relevant to organization's success; it seeks to clarify achieved firm performance relative to the business strategy undertaken. Hence, organizations should develop and monitor sound strategies to capitalize and maintain sounding financial positions. Evans (2012) stated that strategies may be well drawn and presented, but the problem is that strategy is not well communicated to people involved in the execution process. Strategy execution is everyone's business in the organization.

According to Anand (2011) there are four barriers responsible for failure or successful strategy implementation. These include: vision barrier, people barrier, resource barrier which is misallocation of time, energy, and money to processes that are critical to the organization and lastly the management barrier where by management allocates little time to strategy, and much time to short-term tactical decision-making. Moreover, Kaplan and Norton argued that most companies fail to execute strategies, is because: only 5% of the workforce understands their company's strategy; only 25% of managers have incentives linked to strategy; 60% of organizations don't link budgets to strategy; 86% of executive teams spend less than one hour per month discussing strategy. Thus, a well implemented strategy should be ensured that these barriers are bridged if it were to achieve goals (Kiragu, 2005).

A balanced scorecard that is properly implemented can measure the effectiveness of an organization's strategy through a series of linked performance measures based on four perspectives including customers, finance, internal processes, employee learning and growth (Mucheru, 2008). The balanced scorecard framework is founded on four perspectives; customer perspective, financial perspective, internal business perspective and the innovation and learning perspective (Othman, 2007). The financial perspective is to evaluate whether the company's strategies are translating into bottom-line improvements of the company. Financial measures tend to be historical, and do not reveal the present situation of the business environment and the prospects of the future performance. According to Kaplan and Norton (2009) operational improvements that do not lead to financial success indicate that the implementation of the strategy of an organization needs to be revisited (Roma and Ravi, 2008).

The purpose of the internal business perspective is to determine the key business processes that create and deliver the goods and services of the company to the customers whilst develop measures to ensure that these processes are working well. By focusing on the activities and key processes required, it enhances the company's efforts to excel at providing the value expected by the customers, hence that the measures in the customer perspective will be supported (Atkinson, 2006). Finally the purpose of the innovation and learning perspective is to determine the ability of the company to continually improve and innovate. This is the foundation of any strategy and centers on the human and intangible assets of the company. To increase shareholder value a firm must constantly able to innovate, learn and improve which will result in firm growth (Becker, Huseld and Ulrich, 2001).

The balanced scorecard results are only useful if the management reviews them and openly passed on to employees dealing with the execution phase. Communication is the essence in the process of converting visions and strategies into action. Communication can be an effective tool for motivating employees involved in change (Lohman and Wouters, 2004). A link exists between the balanced scorecard and strategy management to attain firm performance. Firm performance can be long-term profit, customer retention

and loyalty and so on (Folan and Browne, 2005). People are sort to be utmost important assets of any organizations, hence having skilled, knowledgeable and courageous/willing workforce is crucial for organizational performance. For the balanced scorecard to function; it is fundamental to assess and measure the employee performance because the people formulating, implementing and executing the balanced scorecard should be competent enough in directing strategy to attain desired results (Makadok, 2001).

### **1.1.2 Performance Management**

Performance management 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. A leading-edge organization seeks to create an efficient and effective performance management system to: Translate firm vision into clear measurable outcomes that define success, and that are shared throughout the firm and with customers and stakeholders; Provide a tool for assessing, managing, and improving the overall health and success of business systems; Continue to shift from prescriptive, audit- and compliance-based oversight to an ongoing, forward-looking strategic partnership involving firm headquarters and field components; Include measures of quality, cost, speed, customer service, and employee alignment, motivation, and skills to provide an in-depth, predictive performance management system; and replace existing assessment models with a consistent approach to performance management.

The role of performance management in firms like banks is to improve the performance of the same. Performance improvement is organizational change in which the managers and governing body of an organization put into place and manage a program which measures the current level of performance of the organization and then generates ideas for modifying organizational behavior and infrastructure which are put into place to achieve higher output. The primary goals of organizational improvement are to increase organizational effectiveness and efficiency to improve the ability of the organization to

deliver goods and or services. A third area sometimes targeted for improvement is organizational efficacy, which involves the process of setting organizational goals and objectives. Organizations seeking to solve a performance problem frequently implement a specific intervention, such as training, without fully understanding the nature of the problem or determining whether or not the chosen intervention is likely to succeed. Just as often, professionals with a high level of expertise in a specific intervention area see every problem as an opportunity to ply their trade (Johnson, et al, 2006).

According to Baker (2000) Performance is out of alignment with work expectations when there is unproductive, and/or disruptive on-the-job behavior that is not consistent with the purpose, focus, primary duties and responsibilities of a position as described in the position description. Awareness of this behavior may arise from ongoing comments, complaints or observations about a person's job-related behavior or performance. Unacceptable performance may also be observed as a single incident, depending on the situation. In today's workplace, performance improvement and the role of performance management is an increasingly popular topic. A study by Creeman (2008) Business pressures are ever-increasing and organizations are now required to become even more effective and efficient, execute better on business strategy, and do more with less in order to remain competitive. While human resources professionals clearly understand the importance of optimal performance management, they often face significant internal obstacles.

### **1.1.3 Co-operative Bank of Kenya**

The Co-operative Bank of Kenya Limited is incorporated in Kenya under the Company's Act and is also licensed to do the business of banking under the Banking Act. The Bank was initially registered under the Co-operative Societies Act at the point of founding in 1965. This status was retained up to and until June 27th 2008 when the Bank's Special General Meeting resolved to incorporate under the Companies Act with a view to complying with the requirements for listing on the Nairobi Stock Exchange (NSE). The Bank went public and was listed on December 22 2008. Shares previously held by the 3,805 co-operatives societies and unions were ring-fenced under Coop Holdings Co-

operative Society Limited which became the strategic investor in the Bank with a 64.56% stake.

The Bank runs three subsidiary companies, namely: Kingdom Securities Limited, a stock broking firm with the bank holding a controlling 60% stake; Co-opt rust Investment Services Limited, the fund management subsidiary wholly-owned by the bank; and Co-op Consultancy & Insurance Agency Limited (CCIA), the corporate finance, financial advisory and capacity-building subsidiary wholly-owned by the bank. The cooperative bank vision is to be the leading and dominant Kenyan bank with a strong countrywide presence, playing a central role in the co-operative movement and providing relevant and innovative financial services to our customers for the optimum benefit of all our stakeholders. The banks Mission is to offer value-added financial services to our chosen market segments with special emphasis on the co-operative movement through a highly effective network of service points, excellent customer service and a highly motivated team of qualified personnel. The Co-operative Bank is owned by over 154,942 shareholders (as at 2011 close). Out of this, Coop Holdings Co-operative Society Limited owns 64.56%, with the rest held by other investors. As at the close of 2011, Co-op Bank had a staff establishment of 3,193 employees.

## **1.2 Statement of the Problem**

The introduction of performance management of commercial banks has some important roles in the commercial banks. Since the Balanced Scorecard was invented in 1990s, it was received a wide range of use and promotion in the global business community, and some of the major international banks have successfully used the Balanced Scorecard, which makes its performance increase greatly. A study by Feltham (2004) indicated that the effective measurement system is an integral part of a process of business strategy execution in Cooperative Bank of Kenya. Intangible assets amount to about 75 % of company's value (Kaplan and Norton, 2003). The creators of the BSC argue that in the information age, Banks require new capabilities for competitive success, such as customer relationships, product innovation, customized products, employee skills, motivation, and information technology. Another study by Mwaura (2010) found that by

including all critical success factors in the performance measurement system, the banks such as Cooperative Bank will have a better idea of how to achieve its goals. However, according to Onyango (2012) financial measures characterize a bank in the context of financial cycle (from the capital inflow until the receipt of income on active operations). This approach presents marketing researches, new products development and employee development among others as the only costly activities. These processes and related intangibles, such as customer loyalty or staff knowledge and skills, are characterized with nonfinancial indexes. There are many successful commercial banks and financial service companies among the adopters of balanced scorecard including; Unibanco (Brazil), DnB Nord Bank (Scandinavian and Baltic region), Nordea Bank (North Europe and Baltic region), Chemical Bank (USA), KeyCorp (USA), Bank of Tokyo-Mitsubishi (Japan), Wells Fargo Bank (USA), Lloyds TSB Bank (UK) and others (Norton, 2006)

Understanding the attitudes of employees towards BSC is critical to the success of the bank as employees are the driving force behind organizational set targets as well as effective implementation of internal bank system changes. Co-op bank has been faced with performance measurement challenges due to traditional performance measurement tools (Mucheru, 2008). According to Opiyo (2010) after the problem was noticed in 2007, there was a need for a new, more strategic approach to performance management. The bank's rationale was that financial measures, besides reflecting on past decisions, tend to motivate short-term behavior at the expense of the long-term strategic view. The bank's internal analysis highlighted the need for improved performance management framework and systems. It was established that the bank's strategies were not clearly formulated, communicated or linked to in-year plans; accountabilities were not clearly defined; consequences of failing to deliver against the plan were unclear; performance monitoring relied very heavily on detailed financial metrics alone; and financial targets were set at easily achievable levels rather than setting stretched targets difficult but not impossible to achieve. As a result, a tailor made BSC was designed to address these performance measurement challenges. The argument was that BSC could lead to improved revenue by increasing market share, which could be achieved by higher customer retention. Customer retention could be achieved by improving customer

satisfaction, which could be achieved by better customer service. Better customer service could perhaps result from more motivated and satisfied employees.

However, in practice, many organizations find implementation of a BSC framework more difficult than they initially expected (Franco and Bourne, 2003). There is also lack of empirical evidence that explores BSC impact (Franco and Bourne, 2003) especially on employees despite the argument of Waal (2002; 2004), that important precondition for any successful implementation of BSC is to involve employees in the development and implementation of the scorecard. It is against this backdrop that the study sought to answer the following questions: what are the impacts of BSC on performance at cooperative bank of Kenya? And what are the factors affecting implementation of BSC as a performance improvement tool?

### **1.3 Objective of the Study**

The study sought to analyze the use of balanced scorecard as a performance improvement tool at the Co-operative Bank. Establish the factors affecting implementation and to determine the impact of BSC on performance at co-operative bank of Kenya.

### **1.4 Value of the Study**

The study will be of great benefit to; the cooperative bank of Kenya where the study shall carried out. This will help the bank recognize the importance of the balanced scorecard as a performance measurement tool on employee performance. The study will enhance use of modern methods of performance measurement and use of innovation to improve the performances of the bank.

The commercial banks, microfinance institutions and other businesses will benefit from the study because the findings shall be derived from cooperative bank employees which have almost similar operating environment likes such financial institutions. The financial institutions will be able to learn the importance of balanced scorecards as a performance measurement tool on employee performance. This will be a critical stride towards organizational performance and development.

The future researchers who will carry out a similar research will benefit from the already compiled literature and information gathered about the use of balanced scorecard as a performance measurement tool on employees in banks. The study will provide such future researcher with information on the gaps that need to be filled and how they should be filled. Later in the study there will be suggestion on the areas of research that need to be covered. Therefore, researcher will know what to carry on with next in extension to the investigation on balanced scorecard as a performance measurement tool

The study will be an additional to the body on literature available on balanced scorecard as a performance measurement tool. This will help in building on literature that is necessary as a body on knowledge especially in this field and provide more wide scope of knowledge in different perspectives.



## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter covers literature on balanced scorecard as a performance measurement tool. The chapter covers for relevant theories relating to the topic, empirical review and conceptual framework.

### **2.2 Performance Management**

Many organizations struggle with performance management because their system consists of little more than a form managers use to conduct annual employee evaluations. This doesn't work because performance management should be an ongoing conversation between supervisors and employees that supports the accomplishment of strategic objectives. Rather than only considering the process once a year, managers should be using it year-long to set clear objectives evaluate results and deliver continual feedback to employees about their performance. Balanced score cards are the better option for performance management in the modern banking industry. With objectives cascading down throughout the four perspectives of the organization, a strategy is considered "balanced." The Scorecard portion consists of leading and lagging metrics that the company, or even departments and individuals can be evaluated on to determine whether they are on track. By forcing executives to put as much thought into performance management as the financial objectives of the organization and tying performance management goals all the way up to the mission and vision of the company the strategy map solves the performance dilemma (Othman, 2007).

Once a scorecard is in place to manage performance, employees see how their job makes a difference to your company by illustrating how their tasks contribute to departmental goals, which drive financial accomplishments that push the company closer to its vision. This lays the foundation for clear performance expectations and the elimination of ambiguity concerning employee priorities. With a complete scorecard in place, employees know where they stand, and can easily determine what areas they can contribute to the success of an organization's strategy. Employee evaluations and status

reports, now focused on the results of the scorecard give supervisors and employees structure for evaluation and coaching, and help keep everyone informed.

Performance management is critical measures of performance improvement. The use of performance improvement techniques can benefit all areas of a business. Improving the efficiency, reputation, and scope of a business requires that all elements of the company work together fluidly. This interdependence can be a wonderful thing when managed correctly, but also means that what seems like an isolated problem in office supplies or employee communications can manage to gum up the works of the entire enterprise. Many performance improvement theories suggest breaking down the workplace into categories, such as employees, supply chain, demand chain, and job training, to help isolate performance issues with greater ease (Mucheru, 2008).

A continually functioning improvement system can benefit the workplace in a variety of ways. By improving external issues, such as customer satisfaction, financial performance, and business reputation, internal issues such as worker morale can be positively affected. This can create a positive cycle of work and evolution, as motivated and happy employees are more likely to contribute more, work harder, and participate in improvement programs. By creating an improvement program that visibly rewards success and actively encourages the input and help of employees at all levels, a business may be able to create a positive environment in which improvement goals are welcomed and heartily integrated (Datar et al, 2001).

According to Kiragu (2005) one of the vital components of implementing any quality control system is to measure whether there have been any effects: negative or positive. Six Sigma performance measurements is a review process that should be conducted on a regular basis. Developed by Motorola in 1986, Six Sigma is a quality control mechanism that is applied to various business verticals. Although it was originally conceived of in the manufacturing industry, it has slowly evolved to include use in all other industries as well. A study by Meyer (2002) indicated that Six Sigma focuses primarily on streamlining processes, to ensure that the desired output of those processes is achieved every time. This is done by making the process as constant as possible, and thereby

reducing the number of defects. Reducing defects is immediately obvious with physical products; however, with service industries, it is not quite so simple. Therefore Six Sigma defects were redefined to encompass any output that did not tie into what the client wanted.

The Theory of Performance develops and relates six foundational concepts to form a framework that can be used to explain performance as well as performance improvements. To perform is to produce valued results. A performer can be an individual or a group of people engaging in a collaborative effort. Developing performance is a journey, and level of performance describes location in the journey. Current level of performance depends holistically on 6 components: context, level of knowledge, levels of skills, level of identity, personal factors, and fixed factors. Three axioms are proposed for effective performance improvements. These involve a performer's mindset, immersion in an enriching environment, and engagement in reflective practice (Othman, 2007).

Expectancy theory identifies three factors that play an interactive role in motivation. The rest of these factors, Effort-Performance (E-P) expectancy, concern the individual's perception that effort is positively correlated with performance. The higher this E-P expectancy is, the more motivated the individual will be to exert effort. To be more precise, Vroom defines E-P expectancy as the subjective probability that an action or effort (E) will lead to an outcome or performance (P). As we will discuss below, it is this factor that distinguishes expectancy theory from the commonly used theoretical model in economics and is therefore the focus of this study (Mucheru, 2008). The second factor is the so-called performance-outcome (P-O) expectancy, also referred to as instrumentality. It concerns a person's expectation that his remuneration is closely tied to his level of performance. This factor also has a positive effect on motivation to exert effort (Pearce and Robinson, 2004).

### **2.3 Performance Management Tools**

Performance management tools are resources that are utilized by performance management teams and management personnel to evaluate and hopefully enhance the performance of employees in the workplace. The idea with this type of tool is to accurately assess the skills and talents of each employee in relation to the tasks associated with the position currently held by that employee. When successful, the performance evaluations provide a clear understanding of the areas in which the employee excels as well as areas in which additional training or education would increase the employee's ability to manage tasks associated with his or her work (Baker, 2002).

There are several common performance management tools that can be used in just about any environment. One of the basic tools for this type of process is creating an ongoing series of review systems that allow both the employee and the manager or HR contact to evaluate current performance in the workplace. The performance evaluations require that both parties review job performance and engage in dialogue regarding the perceived performance level of the employee in relation to company standards and also solicit input from the employee on his or her perception of the performance, the support of the company in terms of empowering the employee to perform assigned tasks, and any ideas the employee may have for increasing his or her proficiency in the workplace (Mucheru, 2008).

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Organizations that embrace the Studer philosophy tap into the natural passion and principles of what inspires staff to dedicate their lives to the organization and builds upon these strengths to support staff in making a difference. Studer is structured in Five Pillars: service quality, people, finance, and growth (Herbert and Theodore 2010)

Baldrige provides a comprehensive systems approach to sustainable quality excellence by building leadership skills that align thinking and strategies in the following components of management: leadership; strategic planning; customers and community; measurement, feedback and knowledge management; workforce and culture; operational processes; and outcomes, impact. Each component is interconnected and plays a role in the organizational environment. When the above components are prioritized and aligned by skilled leadership, an organization optimizes their likelihood for success as service gaps are minimized and communication linkages are enhanced (Herbert and Theodore 2010)

Lean performance embraces “Work smarter, not harder” is the underlying theme of organizations that have successfully implemented a Lean performance management framework as they demonstrate workflow processes that are simple and meaningful, eliminate waste and improve productivity and patient care. The end result is a cultural transformation that aligns strategy, culture, and execution that can improve internal and external communications, reduce staff stress and tensions, increase patient satisfaction, and provide overall cost savings to an organization (Herbert and Theodore 2010)

## **2.4 Relationship Between Balanced Scorecard and Performance**

Performance is the final result of all activities. In evaluating performance the emphasis is on assessing the current behavior of the organization in respect to its efficiency and effectiveness. The appropriate performance measurement tool should be relevant to the strategic goals of the organization and accountable to the individuals concerned, focus on measurable outputs and verifiable. Corporate performance management (CPM) is discussed from two points. Operational CPM and Analytical CPM and Operational CPM addresses the business process needs of executives and financial managers. Analytical CPM addresses the reporting and analysis needs of executives, managers and staff

through all levels of an organization, as well as vendors, suppliers and partners (Kiragu, 2005).

According to Meyer (2002) The concept of Balanced Scorecard is relevant in the present era of emerging intense global competition where the organizations are facing increasingly knowledgeable and demanding customers and activist shareholders which has changed the competitive environment from competition based on ability to invest in and manage physical (or tangible) assets to competition based on knowledge and the ability to exploit intangible and soft assets (like human capital, information systems, intellectual capital, brand development, research and development etc.).

The concept of 'Balanced Scorecard' was first introduced in the journal "Harvard Business Review" (January-February 1992) by Robert S. Kaplan and David P. Norton. The basic idea behind the introduction of the Balanced Scorecard was that the traditional financial measures (like ROI, EPS etc.) alone cannot provide a clear and comprehensive performance target or focus attention on all the critical areas of the business that bear significant impact on its long-term survival, growth and development, rather it requires a balanced presentation of financial as well as operational measures (Mucheru, 2008). The Balanced Scorecard is an organizational framework for implementing and managing strategy at all levels of an enterprise by linking objectives, initiatives and measures to an organization's strategy. The scorecard integrates financial measures like ROI, RI, Dividend yield, EPS etc. with other key performance indicators around customer perspectives, internal business processes and organizational growth, learning and innovation (Baker, 2000).

To measure overall corporate performance, goals are set for each of these perspectives and then specific measures for achieving such goals are determined (Baker, 2002). Each of these perspectives is critical and must be considered simultaneously to achieve overall efficiency and effectiveness and to succeed in the long-run. If any area is either overemphasized or underemphasized, performance evaluation will become 'unbalanced'. In this way, the aim of the concept is to establish a set of measures-both financial and

non-financial through which a company can control its activities and 'balance' various measures to effectively track performance. Thus, the Balanced Scorecard represents a fundamental change in the underlying assumption about performance measurement and strikes a balance between short-term and long-term objectives, between financial and non-financial measures, between outcome and process measures, between lagging and leading indicators and between internal and external perspectives (Datar, Kulp and Lambert, 2001).

## **2.5 Factors Affecting Implementation**

Increasing competition, changing external demand as well as roles of business forcing the enterprises to examine and improve their strategies and management systems. The first condition to improve, and ultimately to achieve, business excellence, is to develop and implement a system for performance measurement (PM) (Kanji, 2002). Performance measurement system has changed a lot in comparison to the past. The measurement results are real just when the comparisons apply between similar items. In traditional performance measurement approach, the most important goals of evaluation are performance measurement while modern approach has focused on evaluated growth and development capacity (Niknazar, 2009). Peter Drucker in 1954 argued that one potential solution was to introduce "balanced" sets of measures. "Market standings, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility" are appropriate performance and attitude, and public responsibility" are appropriate performance criteria (Neely, 2005). Modern evaluation system results in satisfaction improvement, efficiency improvement, and finally improvement in effectiveness of organizational activities (Norton, 2009)

At the end of 1980, numerous articles were published in European and American managerial journals criticizing the efficiency of corporate performance evaluations methods. In 1978, the researches of American accountant management society showed that 60% of total 260 financial managers and 64 executive managers of USA firms were dissatisfied by their performance measurement systems. Kaplan and Norton in a research

with 12 companies identified BSC approach and opened new doors to evaluate organizational performance by this managerial innovation (Kaplan and Norton, 2009). The first generation of BSC was a set of metrics which could prepare an integrated view of business for the management. Balanced Scorecard was containing financial metrics- results of past activities- and operational metrics such as customer, internal processes, and learning and growth metrics (operational metrics which motive financial performance in future) (Kaplan and Norton, 1992).

A well designed balanced scorecard should be able to describe company operational strategies through the objectives and measures the firm have chosen (Niven, 2007). According to Kaplan and Norton, successful companies to assess their performance not only use financial measures but also assess their organization based on their other three perspectives, i.e. customer, internal processes, and learning and growth. Companies in each of these four perspectives, determine their goals and objectives for evaluating success in each perspective, measures and targets; and identify quantitative goals for all of these measures for the period considered. Then the executive actions and initiatives to achieve these objectives and programs are planning and implementing (Kaplan and Norton, 2008).

Traditionally, the focus of performance measurement has been on financial measures only. By the late 1980s, studies had shown that historic financial data is not enough to satisfy the PM in the new economy because of the increasing complexity of organizations and the markets in which companies compete (Kennerley and Neely, 2002). This is because financial reports are now less indicative of shareholder value. As pointed out by Cumby and Conrod (2001), sustainable shareholder value is instead driven by non-financial factors, such as customer loyalty, employee satisfaction, internal processes, and an organization's innovation. The general BSC model is looking at organizations from four strategic perspectives: the financial, the customer, the internal processes, and the learning and growth, all of them need to be balanced. The balance means the equability between the short-term and the long-term goals; required inputs and outputs; internal and external performance factors; and financial and non-financial



indicators (Striteska, 2010). The choice of these perspectives is not random; it offers a transparent view of interconnection between the organization's success and the drivers of performance. Thus, they built a flexible system within the established strategy

There are still some weaknesses in the second generation BSC concepts and identification. Although Kaplan and Norton could not overcome the weaknesses of metrics selection, however, there were still some other problems. In 2<sup>nd</sup> generation strategic communicational model used to provide a cause -and-effect relationship which was starting from “learning and growth” and by passing “internal processes” and “customer” perspectives finally was ending to “financial perspective (Othman 2007). Many experts such as Kennerley and Neely (2002) all argued that these cause-and-effect relationships is unsuitable for many organizations and necessarily do not link to macro goals and vision of the organization

Because BSC method does not have any monitoring and control on competitors and technological development; therefore, cannot be considered as a strategic control model. Mac Adam and Maisel (1992) reviewed BSC based on TQM framework and explained that TQM as a strategic management are the main organization strategy factors which should be evaluated and measured. Therefore, balanced scorecard is only a tool to evaluate and measure organization strategies and not a decision-making and strategy selection tool. Kaplan and Norton added new metrics to the second generation of BSC in order to increase strategic communication and created the third generation of BSC based on these changes. In the late 1990, two other metrics, strategic destination and strategic themes were added to BSC. In addition cause-and-effect relationship model in last level equipped with a more accurate tool which named strategy map (Opiyo, 2010).

According to (Pearce and Robinson, 2004) The Balanced Scorecard relies on the concept of Strategy developed by Michael Porter. Porter argues that the essence of formulating a competitive strategy lies in relating a company to the competitive forces in the industry in which it competes. The scorecard translates the vision and strategy of a business unit into objectives and measures in four different areas: the financial, customer, internal business

process and learning and growth perspective. A study by Sim, and Hian (2001) found that the financial perspective identifies how the company wishes to be viewed by its shareholders. The customer perspective determines how the company wishes to be viewed by its customers.

According to Kaplan and Norton (2009) the Balanced Scorecard enables companies to modify strategies. Companies in a highly dynamic environment have to change their strategy constantly, which, leads to frequently changing the measures in the BSC. In a critical analysis of the BSC, Nørreklit stated that companies in dynamic surroundings will frequently change their measures, resulting in as substantial uncertainty margin regarding the usefulness of the defined indicator. In general, it is difficult for an organization to establish performance measures for activities with which the organization has very little or no experience. Therefore, as measuring effects is particularly difficult in companies which constantly have to adapt to new situations, the BSC is not applicable for companies in highly dynamic environments (Creeman, 2008).

## **2.6 Summary**

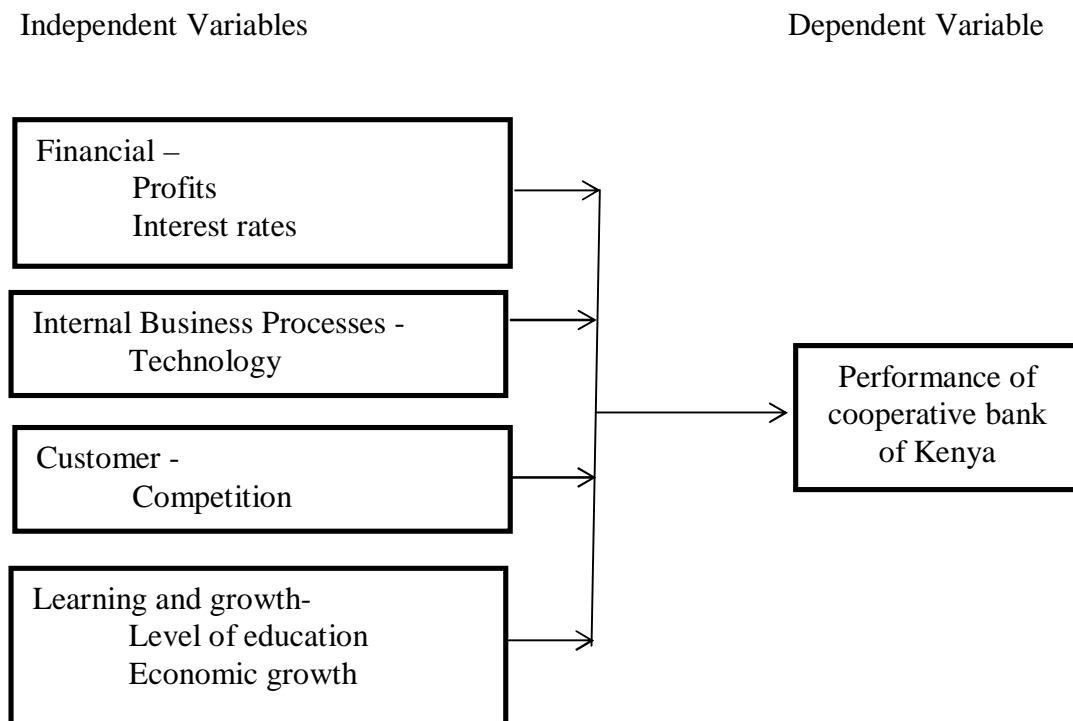
To manage and deploy organizational resources in such a way as to deliver and fulfill organizational objectives is a vital role of senior finance and management professionals. Many tools, techniques and frameworks have evolved to assist managers in this: value-based management, total quality management, the performance prism, and more (Hamel and Prahalad, 2004). The balanced scorecard is a management framework which, since its inception by Kaplan and Norton in the early 1990s, has been adopted, modified and applied by hundreds of organizations worldwide. If understood thoroughly and implemented appropriately, its potential contribution to organizational success however measured is fundamental (Johnson Scholes and Whittington, 2006). The process of understanding the business model and identifying both performance drivers and appropriate measures is complex. There is often confusion, for instance, around assumed logical, rather than actual, causal relationships between drivers of performance and hence performance measures. It may seem logical to assume causality between reported customer-service satisfaction levels and financial results. However, the two are not

necessarily congruent: customer-service satisfaction levels within the budget airline industry may of the former is markedly better.

The correct 'balance' that a scorecard encompasses should be driven by –and reflect – the value proposition (product leadership, customer intimacy or operational excellence) on which the strategy is based. To be most effective, scorecards of 'customer intimates' should emphasis measures in the customer perspective; product leaders should emphasize those in the innovation and growth perspective; and Those be significantly lower than those of full-service carriers, although the comparative financial performance pursuing technical excellence should focus more on the internal business-processes perspective

## 2.7 Conceptual Framework

**Figure 2.1 Conceptual Framework**



Source Author (2014)

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter dealt with the research design, population and sampling techniques, data collection procedures, validity and reliability, data analysis and limitations of the study.

### **3.2 Research Design**

The study used longitudinal analysis/time series analysis. Longitudinal analysis is the study of short series of observations obtained from many respondents over time and is also referred to as panel analysis (of a cross-section of time series), or repeated measures, or growth curve analysis (polynomials in time), or multilevel analysis (where one level is a sequence of observations from respondents). A longitudinal survey is a correlation research study that involves repeated observations of the same variables over long periods of time. The analysis helped to determine the effects of balanced scorecard on performance at Co-Operative Bank of Kenya.

The study also adopted Ex post facto research design. An Ex post facto research is defined by Borg and Gall (1996) as the research that investigates the possible cause and effect relationship between the independent variable(s) and dependent variables(s). The reason why the study chose Ex post facto is because; it helps to the researcher to search back in time for possible factors seemingly associated with a certain phenomenon. In this study, introduction of balanced score card, its impact on Financial, internal processes, customer and learning and growth processes (independent variables) and Introduction of balanced scorecards in cooperative bank of Kenya.

### **3.3 Data Collection**

The study used both primary and secondary data. Primary Data will be obtained from both senior managers and staff members of Co-Operative Bank head office. The bank has got a permanent staff population of 255 in all departments and selected branches. Secondary data was acquired from journals and other secondary materials and studies done by other scholars on the same topic.

The study used stratified random sampling design to arrive at five (5) strata, which are top management staff (at the head office and at the Electricity house and city hall branches), human resource department staff, marketing department staff (at the head office and electricity house branch and city hall branch), Accounts and finance department staff and Procurement department staff at Co-Operative Bank. According to Mugenda and Mugenda (2003) Sampling is a procedure through which some elements are selected from the population to be representatives of the whole group. The reason for using the stratified random sampling design in this particular study, is because it focuses on important subpopulations and ignores irrelevant ones, allows use of different sampling techniques for different subpopulations, improves the accuracy/efficiency of estimation and permits greater balancing of statistical power of tests of differences between strata by sampling equal numbers from strata varying widely in size. Simple random sampling was used to get the sample size. According to Mugenda and Mugenda (2009), a sampling fraction of between 10-30% of the total population in a descriptive research design is considered representative. Therefore the study used 30% to arrive at a sample size of 70 respondents. The sample size is as shown below on table 3.2 sample size.

**Table 3.1 Sample Size**

<b>Categories</b>	<b>Target Population</b>	<b>Sample Size</b>	<b>Percentage</b>
Top Management Staff (Head Office)	8	2	3
Top Management Staff (Branch)	3	1	1
Human Resource Department Staff	36	11	14
Marketing department Staff (head office)	76	23	30
Marketing department Staff (Branch)	16	5	6
Accounts and finance department staff	98	29	16
Procurement staff	18	5	7
<b>Total</b>	<b>255</b>	<b>76</b>	<b>100</b>

**Source Author (2014)**

A questionnaire was used as the major data collection instrument. A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. The reason for using the questionnaire as data collection instrument is because it assists in the collection of information from the

respondents without affecting their schedules in their jobs and answers the questions at their own free time. A distinction is made between open-ended and closed-ended questions. An open-ended question asks the respondent to formulate his own answer, whereas a closed-ended question has the respondent pick an answer from researcher's given number of options. The response options for a closed-ended question should be exhaustive and mutually exclusive (Leung, 2001).

The researcher administered questionnaire personally through a drop and pick methods, where by the questionnaires were distributed to the intended respondents and picked later on an agreed date to allow the respondents quality time to respond on the questionnaire. The researcher ensured punctuality on the appointment dates. This helped to save time for the researcher and there were no inconveniences, hence increasing the response rate.

### **3.3.1 Validity**

A research instrument is said to be valid if it measures what it is supposed to measure (Kombo and Tromp, 2006). In order to pre-test validity of the instruments and to perfect the questionnaire items' concept and wording, content validity of the instruments were used to measure the degree to which the items represent specific areas covered by the study. According to Orodho (2003), the validity of an instrument is measured by its repeated reviews by experts and field tests. To validate the instruments, the researcher checked whether there were ambiguous, confusing and poorly prepared items/Questions. The instruments were tested to ascertain their validity and suitability in collecting the required data. The draft questionnaire was given to the supervising lecturer at University of Nairobi who is an expert to appraise the items sustainability in the obtaining information according to the research objectives. Being an expert, the lecturer examine all the items one by one and provide feedback on the questionnaire items that require to be corrected to the researcher by guiding her on how to rewrite the correct format of the questions. In the process the researcher was able to establish the expert's recommendations which were used by the researcher to make amendments on the items in the questionnaires

### **3.3.2. Reliability**

Mugenda and Mugenda (2009) explained that reliability is a measure of degree to which a research instrument yields consistent results or data after an accepted number of repeat trials. The test-retest technique of measuring the reliability of the research instruments was used to eliminate biasness in order to fit within the required goals. From Co-Operative Bank, respondents were obtained who were used to provide raw data points to calculate the correlation between the corresponding data points for the two times that questionnaires were administered.

### **3.4 Data Analysis**

The study analysis was done using both primary and secondary data. The data was used to determine the effects of balanced score card on performance of cooperative bank of Kenya. The data was analyzed through longitudinal analysis where by the data collected was observed from before the introduction of balanced scored card and after introduction of balanced score card in 2009 to date. The study sought to measure performance before and after introduction of balanced score card through observing impact on financial performance, internal processes, customer base growth and learning and growth processes in cooperative bank. A longitudinal study is observational. So, once again, researchers do not interfere with their subjects. However, in a longitudinal study, researchers conduct several observations of the same subjects over a period of time, sometimes lasting many years. The benefit of a longitudinal study is that researchers are able to detect developments or changes in the characteristics of the target population at both the group and the individual level. The key here is that longitudinal studies extend beyond a single moment in time. As a result, they can establish sequences of events.

## **CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION**

### **4.1 Introduction**

This chapter presented and discussed the analysis of the data collected from various respondents in the organization. The data was interpreted according to research questions and objectives. Data was analyzed using descriptive that was quantitative in nature.

### **4.2 General Information**

The analysis found that 90% from the total 76 respondents answered the questionnaire while 10 % of the respondents did not answer the questions. The questionnaire return rate was impressive and substantial to make conclusion and observations. The female respondents were 51% while the male counter parts were 49%. This implies that the number of female respondents in this the targeted population was higher than that of men. The study found that 21% of the respondents were 18-30 years, 33% had 31-40 years, and 29% had 41-50years. And Above 50 years were 17%. From the analysis the highest number of respondents was aged between 31 – 40 yrs. On education level, None of the respondents had secondary level of education because all were above such a level, 9% had college level, 56% had first degree, 21% had masters level of education and 15% had other qualifications. From the highest number of the respondents 56% it's implied that most of the respondents had First Degree level of education. Concerning Response on Work Experience, 21% of the respondents have less than 5 years, 41% had 6 – 10 years of experience, 25% had 11-15 years of experience, and 13% had over 15 years of experience. From the highest number of the respondents 41% it's clear that most of the employees in cooperative bank had between 5 – 10 years of experience.

### **4.3 Relationship Between Balanced Scorecard and Performance**

The respondents were asked: to indicate whether a relationship exists between balanced score card and performance. The study found from 88% of the respondents, that there exists a very important relationship between balanced scorecard and the performance of the bank. The analysis indicated that balanced score card significantly provides the bank management with information on low performance areas and strong performance areas exposing where to improve. Nevertheless, it was found from 12% of the respondents that



there was no relationship between balanced scorecard and performance of the bank. This went contrary to the previously found information. However, judging from the highest number of respondent, there's a big and significant relationship between balanced scorecard and performance in the banks.

#### **4.3.1 Impact of BSC Experienced in Co-operative Bank of Kenya**

The study further sought to establish the impacts of balanced scorecard experienced cooperative bank. The analysis found from 22% of the respondents that BSC has triggered increased profits, 24% indicated it has fueled Increased customer base, 18% felt that the BSC has been a contributor to advanced technology, 15% indicated that it has enhanced Professionalism , 9% felt that it has been a key to economic growth while 10% indicated that it enhances Competitive edge. This indicates that balanced score card has a significant impact on almost all aspects of banking and especially aspects that propel the cooperative banks towards the growth, performance and development. This agrees with a study by (Othman, 2007) that Balanced Scorecard is not only an indicator of appraisal system, but also a strategic management system. The use of the Balanced Scorecard breaks the traditional single-use financial indicators methods which measure performance. Nevertheless, the study found that Implementation of Balanced Scorecard in banks and financial institutions is a very tricky thing as there is huge temptation to focus on financial indicators only. Balanced Scorecard measures key performance indicators in four perspectives: financial, customer, internal processes, learning and growth. It is difficult to say which perspective is the most important but it is possible to say that implementation of financial goals depends on success in the other three categories.

#### **4.3.2 Importance of Balanced Scorecard (BSC) As a Performance Measurement Tool**

The analysis investigated the importance of balanced scorecard as a performance measurement tool in cooperative bank. The study found from 71% of the respondents that Balanced Score Card (BSC) is a very important performance measurement tool in cooperative bank, 18% indicated that its Important while 7% felt it has a fair importance.

However, there were 1% of the respondents who felt that Balanced Score Card (BSC) was less important performance measurement tool and not important respectively and independently. The high level of importance of balanced scorecard at cooperative bank brings into perspective the findings of (Pearce and Robinson, 2004) who stated that after recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective. The Balanced Scorecard helps align key performance measures with strategy at all levels of an organization, provides management with a comprehensive picture of business operations, the methodology facilitates communication and understanding of business goals and strategies at all levels of an organization and finally Maximized Cooperation - Team members are focused on helping one another succeed.

#### **4.3.3 Effectiveness of Balanced Scorecard (BSC) as a Performance Measurement Tool**

Many of the claimed benefits of the balanced scorecard (BSC) rely on the linkage of its performance measures to strategy and on causal relations among its measures. The view that balanced score card is effective as a performance measurement tool was established in the analysis. The study found from 47% of the respondents that balanced score card (BSC) as a performance measurement tool is very effective, 32% found that it was effective, while 18% felt that balanced score card (BSC) as a performance measurement tool is fairly effective. Nevertheless, 1% of the respondent felt that Balanced Score Card (BSC) as a Performance Measurement Tool is Less Effective and not effective completely. Judging from the highest number of respondents it can be confirmed that Balanced Score Card (BSC) as a Performance Measurement Tool is very effective. This agrees with a study by (Baker, 2002) that balanced scorecards effectively and comprehensively executes a strategic plan; therefore organizations should create a balanced scorecard. The study found that balanced scorecard, often displayed as a table, is an operational performance management tool that lists measures of success from four organizational perspectives: learning and growth, internal processes, customer (or in the case of nonprofits, funding source), and financial.

#### 4.3.4 Considerations of Adopting Balanced Scorecard (BSC) as a Performance Measurement Tool

The study tried to investigate the reasons as to why the bank adopted the BSC as a Performance Improvement Tool

The analysis rated different consideration why cooperative bank adopted Balanced Score Card (BSC) as a Performance Measurement Tool

**Table 4.1 Considerations of Adopting Balanced Scorecard (BSC)**

<b>REASONS FOR ADOPTION</b>	<b>Mean</b>	<b>Standard Deviation</b>
Increases efficiency	3.42	1.91
Capable of determine the operations breakdown	2.28	1.16
It has a real time performance tracking system	1.89	1.01
Provides the Operations manager with possible solutions	1.81	1.21
Enhances transparency	1.56	1.00
To show where improvement needs to be made	1.47	0.70
To identify whether The Bank Is meeting customer requirements	1.25	0.44
Just Suits Cooperative Bank Operations	1.08	0.28
To ensure decisions are based on fact, not on emotion	0.31	0.47

The analysis found that rate cooperative bank adopted Balanced Score Card (BSC) as a Performance Measurement Tool due to varied reasons. The study found from a mean of 1.25 that balanced scorecard was very highly rated and adopted to identify whether the bank is meeting customer requirements. The stud sought to know whether the bank adopted BSC to ensure decisions are based on fact, not on emotion and a mean of 0.31 indicated that there was an inverse relationship with such an idea meaning it was very Low rated. A mean of 1.47 indicated that the bank adopted BSC to show where improvement needs to be made, a mean of 1.89 to indicate that it has a real time performance tracking system while those who found a mean of 1.81 indicated that BSC Provides the Operations manager with possible solutions. The study found from 2.2.8 that being Capable of determining the operations breakdown was rated as very high while

1.56 indicated that BSC enhanced transparency. The analysis further rated BSC as very high in enhancing efficiency at mean of 3.42 while a mean of 1.08 indicated that balanced score card Just Suits Cooperative Bank Operations. The analysis indicated that there are very many reason why cooperative bank adopted balanced score card. This was not aimed at only one reason. The study agrees with another analysis by Niknazar (2009) that modern companies and commercial banks recognize the impact that measures have on performance. The adoption of balance scorecard as a performance measure his highly proposed and implemented due to many reason and varied intended purposes. The scorecard presents managers with four different perspectives from which to choose measures. It complements traditional financial indicators with measures of performance for customers, internal processes, and innovation and improvement activities. However, the study further found that the balanced scorecard is not a template that can be applied to businesses in general or even industry-wide. Different market situations, product strategies, and competitive environments require different scorecards.

#### **4.4. Factors Affecting Implementation**

The analysis sought to determine whether anything affect implementation of BSC as a performance improvement tool at Cooperative Bank, the study found from 53% of the respondent that there are a number of factors that affect balanced scorecard at cooperative bank of Kenya. The study found further from 47% that balance scorecard at cooperative bank of Kenya is really affected by nothing at all. The respondents indicated that the balance scorecard is smoothly and effectively working with no anything as a challenge. The study agrees with Kaplan and Norton (1992) who describe many successful implementations of the BSC, and also identified sources of the failure of the Balanced Scorecard implementation. Kaplan and Norton indicate that good balanced scorecard should have an appropriate mix of outcomes (lagging indicators) and performance drivers (leading indicators) of the company's strategy. Therefore, when the organization constructs too few measures in each perspective, it fails to obtain a balance between leading and lagging indicators or non-financial and financial indicators. The analysis indicated that in cooperative banks the financial measures are the dependant variables and are the retrospective, lagging indicators. Cooperative bank are tempted to make this

linkage quantifiable but since lag time is difficult to predict and numerous factors may influence the result, a quantitative link cannot be established. Therefore, they should not make a quantitative link between non-financial leading indicators and expected financial results.

#### 4.4.1 Possible Factors Affecting Implementation of BSC

The analysis sought to determine some of the important factors that affect implementation of BSC as a performance improvement tool. The findings were as below

**Table 4.2 Rate of Possible Factors Affecting Implementation of BSC.**

<b>Factors Affecting Implementation Of BSC</b>	<b>Mean</b>	<b>Standard Deviation</b>
Lack professional guidance on balanced score card	1.81	1.21
Lack of proper communication and information on BSC as a performance measurement tool	1.56	1.00
Poor Execution of the primary techniques and arrangement during implementation of BSC	1.69	0.79
High level of Bureaucracy in the staff operations	1.69	0.79
Inappropriate planning of organizational activities and processes	1.47	0.70
Use of Other performance measurement tools alongside BSC	1.47	0.70
Prediction of the performance results before actual deliberations	1.14	0.35
Top management Influence	1.17	0.38

The analysis found that there are many factors that affect the implementation of BSC as a performance management tools. The study found from 1.47 that one of the factors affecting implementation of BSC as performance score card is inappropriate planning of organizational activities and processes, a mean of 1.69 indicated that high level of

bureaucracy in the staff operations is the major hindrance while a mean of 1.81 indicated lack of professional guidance on balanced score card. The analysis further found from a mean of 1.47 that Use of Other performance measurement tools alongside BSC is a challenge to the implementation while a mean of 1.69 indicated Poor Execution of the primary techniques and arrangement during implementation of BSC.

The analysis further found to determine whether Prediction of the performance results before actual deliberations affect the implementation of BSC as a measure of performance as indicated with a mean of 1.14 which implied high correlation with the fact. The analyses on whether Top management Influence was a factor affecting implementation of balanced scorecard, the study found a mean of 1.17 which implied there was a great relationship while a mean of 1.56 indicated that Lack of proper communication and information on BSC as a performance measurement tool. Nevertheless, the balanced scorecard is also criticized when performance evaluation and incentives are related to it (Hope & Fraser, 2001, National Partnership for Reinventing Government, 1999). It is argued that using the balanced scorecard as a format for annual allocations of resources and targeting cannot provide the full benefit of the system. Equally, incentive schemes linked directly to the scorecard, and punitive actions on missed targets can lead to reductions in productivity, with effects just as in traditional budgeting. Managers can fear they will be evaluated on uncontrollable factors in the environment and attempt to build in slack to be assured of achieving their targets and being awarded their incentives. However, this is an issue with implementation methodology, rather than the concept and system itself.

#### **4.4.2 Rate of Benefits Versus Challenges Faced in Implementation of BSC**

The study sought to rate the benefits versus challenges faced in implementation of BSC as a performance improvement tool. The study found that 18% of the respondents believed that Challenges are more than benefits while 53% felt that Benefits are more than challenges. The analysis further found that 21% of the respondent believed that there is no differentiation cut while 9% indicated that Both challenges and benefits are equal. The analysis can therefore confirm that the benefit of balanced scorecard as a performance measurement tool is completely unmatched by their challenges and other

factors that hinder its implementation and adoption. It can be confirmed that the balanced score card has a bigger efficiency and better result than any6 other balanced performance measurement tool.

#### 4.4.3 Factors Affecting Performance of BSC

The study tried to investigate the extent to which respondents agreed or disagreed with the on Factors Affecting Performance of BSC as a Performance Improvement Tool. The analysis found following using the following key; 1=Strongly Disagree; 2=disagree; 3= agree; 4= Strongly Agree; 5= Don't Know/Neutral

**Table 4.3 Extent of agreement with the on Factors Affecting Implementation of BSC**

FACTORS AFFECTING IMPLEMENTATION OF BSC	Mean	SD
	Lack of Efficient Data Collection and Reporting	2.46
Too Much Internal Focus	3.71	1.48
Balanced Scorecard has turned out to be the custom in the current world.	3.42	1.17
No Process Improvement Methodology	3.33	1.05
Lack of efficient data collection and reporting	3	1.04
Lack of a Formal Review Structure	2.56	0.92
Poorly defined metrics- "A system that has sloppy or inconsistently defined metrics will be vulnerable to criticism by people who want to avoid accountability for results."	3.49	0.88
Low professionalism guidance and direction during implementation	3.05	0.86
High levels of bureaucracy	3.66	0.86
Lack of understanding on how the measurement tool should be undertaken	3.8	0.85
Expense incurred during implementation	3.67	0.76
Poor top management guidance	3.6	0.72

The analysis sought to understand the respondents view on the aspects of performance management and balanced score card as the performance management tools. The analysis sough to find out if the respondents agree or disagree with the views presented on the challenges facing performance of balanced scorecard as the performance measurement tool. The analysis found that there were different views on whether to such factors were the obstacles to the implementation of balanced scorecard. Concerning whether Balanced

Scorecard has turned out to be the custom in the current world the respondents strongly agreed with 56% confirming of the same. The analysis strongly agreed disagreed that Lack of Efficient Data Collection and Reporting affect BSC performance while, 38% of the respondents agreed that Lack of a Formal Review Structure affect performance of BSC as performance measurement tool. The analysis indicated that No Process of Improvement Methodology affect BSC performance while 49% did not know or were neutral on whether Too Much Internal Focus affects performance of balanced scorecard as a performances measurement tool.

The analysis found to understand and to get the views of the respondent on whether they agree or don't agree on Poorly defined metrics- "A system that has sloppy or inconsistently defined metrics will be vulnerable to criticism by people who want to avoid accountability for results." The study found from 58% of the respondents that they strongly agreed that such aspects affect the performance of balanced scorecard and performances measurement tool. The analysis found from 48% that Lack of efficient data collection and reporting affect performance while 66% strongly agreed that Poor top management guidance affect performance of BSC as performances measurement tool. The analysis further sought to understand whether respondents agreed or disagreed on Low professionalism guidance and direction during performance, the study found from 49% of the respondent that they agree that such aspect affect the performance of BSC as performances measurement tool.

The study further found that 68% of the respondents strongly agreed that Lack of understanding on how the measurement tool should be undertaken to enhance implementation while 82% strongly agree that High levels of bureaucracy affect performance of BSC. Finally 78% of the respondents indicated that Expense incurred during performance or measure has a big drawback on the final implementation of the balanced scorecard as performance measurement tool. The analysis on this study agrees with a study by (Gallivan, 2001) who indicated that while the decision of whether or not to adopt a concept may be straightforward, the process of implementing a management concept is complex. Research on the implementation of innovations underlines that the post-adoption (i.e. implementation) phase is where most of the problems arise. The potential benefits of a Balanced Scorecard depend on its use. Just having a Balanced



Scorecard is not enough; it must be applied correctly. Although many different organizations are using Balanced Scorecard in many different formats, there are two distinct applications: Management Control and Strategic Control. Although similar visually, these two applications of Balanced Scorecard require substantially different design and development processes, and provide different benefits to a management team.

## **CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

The purpose of this study was to analyze balanced scorecard and performance: a case study of co-operative bank of Kenya. Therefore; this chapter presents a summary of the main findings of the study, giving conclusions and recommendations which reflect the answers to the specific questions for possible action and suggestions for further research.

### **5.2 Summary of Findings**

The analysis found from the analysis that 88% of the respondents, believed that there exists a very important relationship between balanced scorecard and the performance of the cooperative bank. The analysis indicated that balanced score card significantly provides the bank management with information on low performance areas and strong performance areas exposing where to improve. This finding supports a study by (Mucheru, 2008) who found that the relationship between BSC and organizational performance can be referred through several other similar studies; have found that there is relationship between BSC and performance. Moreover, pointed out that there is relation between growth perspective, learning, and financial, with result displaying innovative technique, new manufactured goods development time and customer oriented performance measures are associated to lower manufacturing costs, higher sales, and greater market share.

The study found that a fifth of the respondents that BSC has triggered increased profits, fifth indicated it has fueled Increased customer base, a sixth felt that the BSC has been a contributor to advanced technology, few indicated that it has enhanced Professionalism, others felt that it has been a key to economic growth while a tenth indicated that it enhances Competitive edge. The study agrees with Norton (2000) who stated that companies not using a BSC framework report more than three quarter of their performance measures are financial, whereas, companies' successfully implementing BSC report approximately a quarter of their performance measures as financial.

Concerning the effectiveness of balanced scorecard and performances measurement tools in cooperative bank, the study found that about half of the respondents that balanced score card (BSC) as a performance measurement tool is very effective, a third of the respondents found that it was effective, while a small percentage felt that balanced score card (BSC) as a performance measurement tool is fairly effective. This agrees with a study by According to Kaplan and Norton (1996) BSC can translate a company's vision and strategy into a coherent and linked set of performance measures; these measures should include both outcome measures and the performance drivers (the measures that are unique for a particular business unit) of those outcomes. The scorecard should incorporate complex sets of cause and-effect relationships among the critical variables.

The analysis sought to get finding on Factors Affecting Implementation. The study found from 53% of the respondents that there are a number of factors that affect balanced scorecard at cooperative bank of Kenya. The study found further from 47% that balance scorecard at cooperative bank of Kenya is really affected by nothing at all. This contrasted with finding by (Hamel and Prahalad, 2004) that the main problem is that it does not provide practical guidance for deployment, and some executives view it as a "quick fix" that can easily be installed in their organizations. Implementing a balanced metrics system is an evolutionary process, not a one-time task that can be quickly checked off as "completed".

The study found that 18% of the respondents believed that Challenges are more than benefits while 53% felts that Benefits are more than challenges. The analysis further found that 21% of the respondent believed that there is no differentiation cut while 9% indicated that Both challenges and benefits are equal. A study by smith (2006) indicated that BSC has a number of challenges. Some include poorly defined metrics, lack of efficient data collection and reporting, Lack of formal review structure, No Process Improvement Methodology and Too much internal focus.

### **5.3 Conclusion**

The study concluded that balances scorecard is very critical on performances measurement of cooperative bank. The analysis concluded that the relationship between

balanced scorecard and performance must be maintained in the bank to sustain the importance at which the system was introduced. The study concluded that there has been visible impact and these are the observable benefits of balanced scorecard as performance measurement tool in cooperative bank.

The study concluded that factors such as profit, employee performance, and general performance of the organization should all be measure using the well-known and practical methods that help to identify where to improve or what to do to bring about the necessary results. The study concluded that the use of Balanced Scorecard BSC has triggered increased profits in Cooperative bank which is a good indicator that it's one of the best methods to measure performance.

Concerning the effectiveness of balanced scorecard and performances measurement tools in cooperative bank, the study concluded that balanced score cards cannot just work alone without professionals who understand how to use them, organizational good will and directors support and commitment. The study concluded that as much as there are factors that affect balanced score card at cooperative bank, there is a greater need and ensure the balanced score card is a success in the commercial banks and as such cooperative bank.

#### **5.4 Recommendations**

Cooperative bank should integrate framework for describing and translating strategy through the use of linked performance measures in four balanced perspectives: Customer, Internal Processes, Learning and Growth, and Financial.

Cooperative Bank of Kenya should engage balanced scorecard as their primary performances measurement tool a factor that will enhance their performance, increase their competitive edge and enhance their customer satisfaction.

Cooperative Bank of Kenya should provide enough resources especially for funding further comprehensive sensitization on the importance of balanced score card in relation to strategy.

There is need for a vigorous capacity building program to improve the appreciation and usage of balanced score card.

### **5.5 Limitations of the Study**

Getting the findings from the respondent was not a simple task, as most of the respondent did not want to give their opinion about the performance management of the employee in the organization. The study further had to take the long process of seeking guidance and policy permission from the relevant authorities to secure a permit to carry out the study.

The process of data collection was very short. The college needed the final document urgently and there was therefore very little time to interact with the respondent and get their personal views different from what was meant to be given in the questionnaires.

The employees wanted to know how the researcher was to change the situation given the chance with the fact that researcher was not a member of the organization. This made many respondent feel that the study was of no direct importance to them if the findings were to be put in the library. This is because they believed that no findings in the libraries are utilized by organization. This therefore reduced their morale in answering the questionnaires. Nevertheless, the researcher made sure the respondent give as much responses as they could and the data collection process was a success.

### **5.6 Suggestion for Further Studies**

The study focused on balanced scorecard and performance at Cooperative Bank of Kenya and it is recommended that a similar study be replicated in other companies in the banking industry where this tool has been adopted. Further research should also be done involving all the employees at Cooperative Bank of Kenya. The study suggest that more studies should be carried out to determine whether benefits of balanced score card outweigh the costs of implementation when implemented fully, efficiently and effectively and whether it complements the financial measures of past performance with operational measures that drive future performance and growth.

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## APPENDICES

### APPENDIX I: QUESTIONNAIRE

The questionnaire is meant to help in collection of information on Balanced Scorecard as a Performance Measurement Tool: a Case Study of Co-Operative Bank of Kenya. You are kindly requested to answer / fill in the appropriate responses at the end of every question to the best of your knowledge and sincerity. Every information given will be handled with a lot of confidentiality. Tick only one response unless otherwise updated.

#### SECTION A: GENERAL INFORMATION

1. Gender : Male   
Female
2. Age : 18 – 30 years  41 – 50 years   
31 – 40 years  above 50 years
3. Highest Education Level :
- |                |               |                          |                              |
|----------------|---------------|--------------------------|------------------------------|
| Secondary      | college level | <input type="checkbox"/> | <input type="checkbox"/>     |
| First degree   | Masters       | <input type="checkbox"/> | Oth <input type="checkbox"/> |
| Qualifications |               | <input type="checkbox"/> |                              |
4. How long have you worked with Co-Operative Bank of Kenya?
- |                  |                          |                |                          |
|------------------|--------------------------|----------------|--------------------------|
| Less than 5 year | <input type="checkbox"/> | 6 – 10 years   | <input type="checkbox"/> |
| 11 – 15 years    | <input type="checkbox"/> | Above 15 years | <input type="checkbox"/> |

**SECTION B: RELATIONSHIP BETWEEN BALANCED SCORECARD AND PERFORMANCE**

5. Does any relationship exist between balanced score card and performance

Yes [ ]

No [ ]

6. What are some of the impact of BSC experienced in Cooperative bank of Kenya

Increased profits [ ]

Increased customer base [ ]

Advanced technology [ ]

Professionalism [ ]

Economic growth [ ]

Competitive edge [ ]

Others .....

7. How would you rate the importance of Balanced Score Card (BSC) as a Performance Measurement Tool in cooperative bank?

Very Important

Important

Fair

Less Important

Not important

8. In a scale of **1 to 5**; How would you rate the effectiveness of Balanced Score Card (BSC) as a Performance Measurement Tool in cooperative bank?

**1**; Very effective, [ ]

**2**; Effective, [ ]

**3**; Fairly Effective, [ ]

**4**; Less Effective [ ]

**5**; Not effective, [ ]

9. How would you rate the following considerations as the reasons why cooperative bank adopted Balanced Score Card (BSC) as a Performance Measurement Tool?

Use the following rates: [1] Very high, [2] High, [3] Average, [4] Low, [5] very Low,

REASONS FOR ADOPTION	RATES				
	1	2	3	4	5
To identify whether The Bank Is meeting customer requirements					
To ensure decisions are based on fact, not on emotion					
To show where improvement needs to be made					
It has a real time performance tracking system					
Provides the Operations manager with possible solutions					
Capable of determine the operations breakdown					
Enhances transparency					
Increases efficiency					
Just Suits Cooperative Bank Operations					

**SECTION C: FACTORS AFFECTING IMPLEMENTATION**

9. Does anything affect implementation of BSC as a performance improvement tool at Cooperative Bank?

Yes  No

10. How would you rate the following possible factors affecting implementation of BSC as a performance improvement tool? (1) Very High, (2) High, (3) Fair, (4) Low, (5) Very Low

<b>FACTORS AFFECTING IMPLEMENTATION OF BSC</b>	<b>1</b>				<b>5</b>
Inappropriate planning of organizational activities and processes					
High level of Bureaucracy in the staff operations					
Lack professional guidance on balanced score card					
Use of Other performance measurement tools alongside BSC					
Poor Execution of the primary techniques and arrangement during implementation of BSC					
Prediction of the performance results before actual deliberations					
Top management Influence					
Lack of proper communication and information on BSC as a performance measurement tool					

11. How would you rate the benefits versus challenges faced in implementation of BSC as a performance improvement tool at Cooperative Bank?

- Challenges are more than benefits
- Benefits are more than challenges
- There is no differentiation cut
- Both challenges and benefits are equal

12. To what extent would you AGREE or DISAGREE with the following statements on Factors Affecting Implementation of BSC as a Performance Improvement Tool?

Please tick as appropriate. (Key: 1 = Strongly Disagree; 2 = Disagree; 3 = Agree; 4 = Strongly Agree; 5 = Don't Know/Neutral)

<b>FACTORS AFFECTING PERFORMANCE/MEASURE OF BSC</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Balanced Scorecard has turned out to be the custom in the current world.					
Lack of Efficient Data Collection and Reporting					
Lack of a Formal Review Structure					
No Process Measure/performance Methodology					
Too Much Internal Focus					
Poorly defined metrics- "A system that has sloppy or inconsistently defined metrics will be vulnerable to criticism by people who want to avoid accountability for results."					
Lack of efficient data collection and reporting					
Poor top management guidance					
Low professionalism guidance and direction during measure of BSC					
Lack of understanding on how the measurement tool should be undertaken					
High levels of bureaucracy					
Expense incurred during Measure					

13. What should be done to significantly enhance /Implementation of BSC as a Performance Improvement Tool at Cooperative Bank?

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.....

.....

**Thank You for Your Cooperation**