

APPLICATION OF BALANCED SCORECARD IN PERFORMANCE MEASUREMENT AT ESSAR TELECOM KENYA LIMITED

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Abstract

The Balanced Score Card (BSC) 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).

A case study was conducted to establish the application of balanced score card in performance measurement at Essar Telkom Kenya Ltd with data being collected by use of personal interviews with the heads of departments mainly the technical, information technology, customer experience, finance, human resource, sales and marketing.

The study revealed that the company primarily uses balanced score card for strategy implementation and as a performance measurement tool and recommends that the company should provide enough resources especially for funding further comprehensive sensitization on the importance of balanced score card in relation to strategic implementation. There is also need for vigorous capacity building program to improve the appreciation and usage of the balanced score card to tap on the gains so far made.

Key Words- Balanced score card, performance measurement, organizational performance, business strategy, learning measures, customer satisfaction, capacity building program, sensitization, strategy implementation and performance measurement tool.

Introduction

Background of the Study

The balanced score card was developed by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to the traditional financial metrics to give managers and executives a more balanced view of organizational performance. It has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The new balanced score card transforms an organization's strategic plan from an attractive but passive document into the marching orders for the organization on a daily basis. It provides a framework that not only provides performance measurements but helps planners identify what should be done, measured and executed (Kaplan and Norton, 1996a).

With growing interest in improving performance management in organizations, the balanced score card can be a valuable tool that meets the need for improvement and change especially for companies venturing into very competitive or monopolistic market. It is a customer based planning and process improvement system with its primary focus on driving an organization's change process by identifying and evaluating pertinent performance measures. It is an integral part of the mission identification, strategy formulation and process execution, with an emphasis on translating strategy into a linked set of financial and non financial measures (Chan, 2004).

According to Becker (2011) developing a world class performance measurement system hinges on a clear understanding of a firm's competitive strategy, operational goals and a definitive statement of the employee competencies and behaviours required to achieve the firm's objectives. Measurement systems can create value only when they are carefully matched with the firm's unique competitive strategy and operational goals. Performance measures should be related to the strategic goals and measures that are organizationally significant and drive business performance, be relevant to the objectives and accountabilities of the individuals concerned, focus on measurable outputs, accomplishments and behaviours that are clearly defined and for which evidence can be made available. There must be indication of data that will be made available for measurement which must be verifiable, precise, available and comprehensive, that is, covering all aspects of performance. Effective performance is measured not merely by delivery of results (however outstanding) in one area but by delivering satisfactory performance across all measures (Armstrong and Baron, 1998).

Essar Telecom Kenya ltd is a unit of India based Essar Telecom business group. Essar Telecom Kenya ltd launched a mobile service network under the brand name 'Essar' in November 2008 offering mobile phone services. Essar has significant interests in telecommunication services holding a 33% interest in Vodafone Essar which is a joint venture with the Vodafone group and one of India's largest cellular service providers (www.essar.com).

Statement of the Problem

As the newest entrant to Africa in general and Kenya in particular, Essar strives to offer the market's best prices which forces organizational efficiency to minimize operational costs. The telecoms industry, just like in the rest of the world, is going through profound changes due to technological enhancement and regulatory restructuring. Markets that were formerly distinct, discrete and vertical have coalesced across their old boundaries with a massive investment mostly from the private sector resulting in new markets, players and challenges (Madden and Savage, 1999).

Market liberalization efforts in Kenya have also picked up ensuring the successful partial privatization of Telkom Kenya Ltd (December 2007), divestment of government 25% stake in Safaricom Ltd through public listing (May 2008) and the launch of the fourth mobile operator Essar (November 2008) which has resulted in some of the world's best known telecommunication providers :-Vodafone, France Telecoms and Essar Communications being major players in the Kenyan market through their investments in Safaricom Ltd, Telkom Kenya and Essar Telecoms respectively.

Ongoing capital intensive infrastructural investments by operators have largely been focused on network expansion thus Essar Telecom under the 3yø brand name is facing fierce competition. To capture the interests of the various stakeholders involved including investor, customers and match the required technical capacity, there is need for an all round approach, for instance the balanced score card which has been applied at the company.

Janet (2008) studied application of the balanced score card among commercial banks in Kenya. While the two industries have similarities, the banking industry is quite distinct from the telecommunications in that the latter is tapping on limited talent with a focus on performance and innovation in a highly fluid and competitive market.

Objective of the Study

The objective of the study was to establish the application of balanced score card as a performance measurement at Essar Telecom Kenya ltd.

Contributions of the Study

The findings of this study would be of value and interest to various stakeholders.

- a) Essar will benefit as the application of the balanced score card as a performance measurement tool at the mobile service provider will be improved from the findings of the study.
- b) Other firms venturing or entering a very competitive market will benefit by applying the results of the study.

- c) The study will provide information that will be useful to Governments in the region in designing and implementation balanced score card as a performance measurement tool.
- d) Other researchers and students of human resource management, performance measurement and balanced score card will find this study a useful guide in carrying out more research in this area.

Research Design and Methodology

A case study design was adopted with the population of the study being the whole of Essar Telecom and the sample being drawn from the heads of all the departments in the company mainly technical, information technology, customer experience, finance, sales, marketing, human resources, administration, legal, regulatory and executive. Personal interviews with the heads were conducted using an interview guide and conceptual content analysis used to make inferences.

Data Analysis and Findings

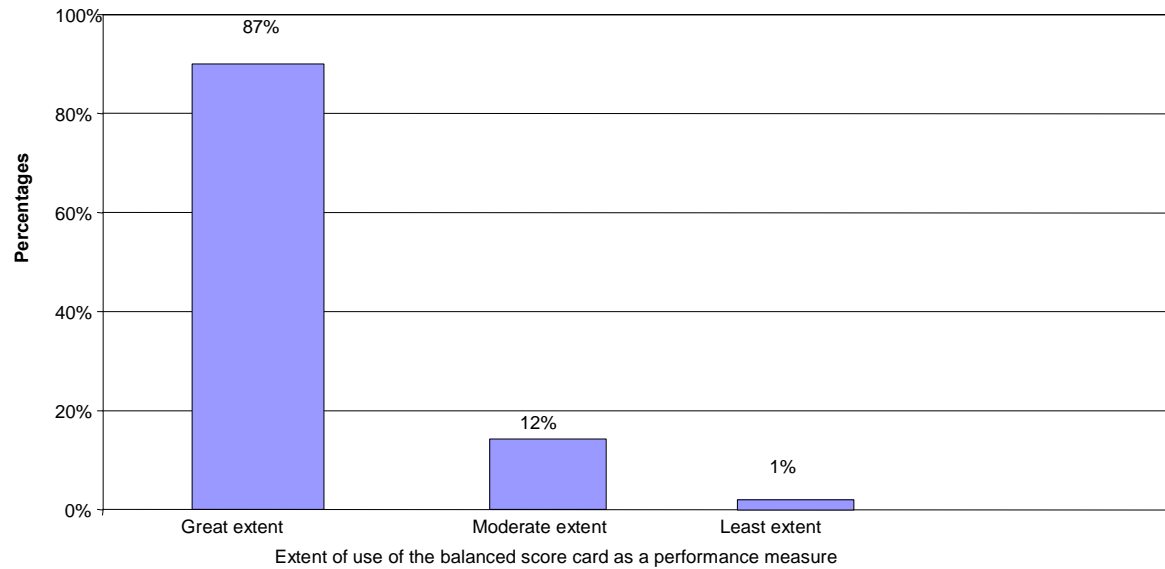
Out of the 10 sampled heads of departments, 7 were available for the face to face interview showing a response rate of 70%.The respondents indicated that the annual performance measurement process followed the company financial calendar which started from 1st April every year to March 30th of the following year. The employees set goals at the beginning of the financial year based on overall company goals and targets. There is a midterm review in October.

The performance appraisal is top down, obligatory and linked to the corporate strategic goals both in the Kenya and India office. Only 14.3% of the respondents had over 3 years service at Essar with the rest having served for less than three years attributed mainly to the young age of the company in Kenya. Despite this short period of service, the respondents being heads of departments were well versed with the issue under study, company and industry in general.

Extent of the use of the balanced scorecard in performance measurement

The respondents were asked whether there was use of the balanced score card in Essar Telecom ltd.

Figure 1: Extent of the use of the balanced scorecard in performance measurement



87% of the respondents indicated that the balance score card was in use to a great extent ,12% agreed that at Essar the balanced score card was in moderate use while 1% were not very sure that the measures in place to measure performance were linked to the balanced score card.

The extent of usage of financial, customer satisfaction, innovation and change as performance measures.

The respondents were asked to state the extent of usage of financial, customer satisfaction, innovation and change as performance measures.

Table 1: The extent of usage of financial, customer satisfaction, innovation and change as performance measures.

Performance perspective	Not at all	Least extent	Moderate	Great extent
Financial performance	0%	0%	0%	100%
Customer satisfaction	0%	0%	14.3%	85.7%
Innovation and change	0%	0%	28.6%	71.4%

100% of the respondents agreed that financial measures were in use to a great extent, while customer satisfaction and innovation and change were in use at only 85.7% and 71.4% respectively to a great extent and 14.3% and 28.6% respectively to a moderate extent. However, none of the indicators were used to only the least extent or not at all.

Balanced score card in support of Performance measures

51.4% of the respondents were of the opinion that performance measures were supportive balanced score card were to a great extent while 48.6% indicated the relationship between the two as being moderate.

Table 2: Value, quality and use of Performance measures in support of balanced score card

Performance perspective	Not at all	Least extent	Moderate	Great extent
Measures are clearly defined in each performance area.	0%	0%	0%	100%
Information from employees is highly valued	0%	0%	14.3%	85.7%
Measures are adopted for internal and external users	0%	0%	57.1%	42.9%
Measures are used for management and mentoring	0%	0%	42.9%	57.1%
Measures are used for strategic planning	0%	0%	14.3%	85.7%
Measures are used for regular management reviews	0%	0%	42.9%	57.1%
Measures are used for resource allocation	0%	0%	85.7%	14.3%
Measures are used to drive change	0%	0%	57.1%	42.9%
Measures used are linked to compensation	0%	0%	0%	100%

100% of the respondents indicated that performance measures were clearly defined in each performance area and linked to compensation to a great extent while information from employees is highly valued (85.7%) and measures are used for strategic planning (85.7%) were also indicated to a great extent by a high percentage of the respondents. The performance measures were used for resource allocation to a moderate extent by 85.7% of the respondents.

Application of balanced score card at Essar Telecom Kenya Ltd

The respondents were asked to what extent they agreed with the following statements on the use of balanced score card at Essar Telecom

Table 3: Application of balanced score card at Essar Telecom

Application of balanced score card	Not at all	Least extent	Moderate	Great extent
Balanced score card is a fad	14.3%	71.4%	0%	14.3%
Balanced score card is an employee empowerment system	0%	0%	71.4%	28.6%
Balanced score card is an organization's strategic management system	0%	0%	71.4%	28.6%
Balanced score card is an adhoc collection of financial and non-financial measures	0%	57.1%	28.6%	14.3%
Balanced score card complements the financial measures of past performance with operational measures that drive future growth and performance	0%	0%	0%	100%
The benefits will outweigh the costs if balanced score card was implemented fully	0%	0%	0%	100%

100% of the respondents were of the opinion that, to a great extent, balanced score card complements the financial measures of past performance with operational measures that drive future growth and performance and that the benefits will outweigh the costs if balanced score card was implemented fully. Only 14.3% indicate that the balanced score card is a fad.

Challenges of using balanced scorecard to measure performance

Table 4: Challenges of using balanced scorecard to measure performance

Challenge	Not at all	Least extent	Moderate	Great extent
Management too busy solving and implementing short term goals	0%	42.9%	14.3%	42.9%
Inadequate top management support	0%	14.3%	85.7%	0%
Lack of highly developed information system to support balanced score card	0%	28.6%	14.3%	57.1%
Lack of linkage of balanced score card to employee reward	0%	42.9%	57.1%	0%
Balanced score card is time consuming to develop	0%	0%	42.9%	57.1%
Lack of skills and know how in developing and implementing balanced score card	0%	0%	57.1%	42.9%
Organizational politics	0%	14.3%	57.1%	28.6%
Change management strategies	0%	14.3%	57.1%	28.6%

Revenue constraints	0%	0%	85.7%	14.3%
Implementation of balanced score card is cost prohibitive	0%	0%	0%	100%
Difficult to evaluate the importance of various measures	0%	28.6%	57.1%	14.3%
Difficult to define and measure outcome measures	0%	0%	100%	0%

The cost implications of balanced score card were indicated to be the biggest challenge at 100% great extent.

Conclusion

Essar Telecom uses the balanced score card primarily for strategy implementation and performance management tool with the financial, customer, innovation and change performance measures being greatly used by the company despite the various challenges experienced such as Management being too busy solving and implementing short term goals, inadequate top management support, lack of highly developed information system to support balanced score card, lack of linkage of balanced score card to employee reward, balanced score card is time consuming to develop, lack of skills and know how in developing and implementing balanced score card, organizational politics, change management strategies, revenue constraints, implementation of balanced score card is cost prohibitive, difficult to evaluate the importance of various measures and define and measure outcome measures leading to slow implementation or lack of company harnessing the full benefit of the tool.

The study further shows that the benefits of balanced score card outweigh the costs if implemented fully, efficiently and effectively and that it complements the financial measures of past performance with operational measures that drive future performance and growth.

Recommendations

The study recommends that

- 1) Essar Telecom Ltd should provide enough resources especially for funding further comprehensive sensitization on the importance of balanced score card in relation to strategy.
- 2) There is need for a vigorous capacity building program to improve the appreciation and usage of balanced score card.

Suggestions for further research

The case study focused on the application of balanced score card at Essar Telecom Kenya Ltd and it is recommended that a similar study be replicated in other companies in the telecommunication industry where this tool has been adopted. Further research should also be done involving all the employees at Essar.

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