THE ROLE OF BALANCED SCORECARD AS A STRATEGIC MANAGEMENT TOOL IN KENYA COMMERCIAL BANK

BY

GORDON NDISI OTIENO

D61/70253/08

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS; UNIVERSITY OF NAIROBI.

NOVEMBER 2010

DECLARATION

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

Signed .... Date. 13/11/10.....................................

Gordon Ndisi Otieno
D61/70253/2008

This project has been submitted with my approval as the university supervisor.

Signed .... Date. 13/11/2010.....................................

Dr Regina Kitiabi

DEDICATION

To my late parents who have ensured I have excelled in education May the Lord bless you. To my brothers and sister thanks a lot for your support and encouragement during my educational endeavors.

ACKNOWLEDGEMENTS

To the almighty God for being the pillar in my life and for the strength He has given me I also appreciate my parents' efforts to support me through school.

To Dr. Kitiabi, my supervisor, for her valuable guidance, support and dedication throughout the period of study.

To my friends Quin and Dulo for their moral support.

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ABSTRACT

The banking industry in Kenya has been in the upwards trend in terms of development and growth. This has lead to an increase in the number of banks in the country and opened an environment for serious competition. The banks have used many strategies to outclass their competitors and one of the major problems they are currently facing is how to maintain and successfully manage the different kinds of employees they have.

Kenya Commercial Bank being one of the leaders in the market has not been left out in the competition. The bank has managed to expand its network not only in Kenya but also in the entire East African Countries. Despite being one of the leaders in the industry, the bank has not been exempted from the challenges resulting from competition. It has in the past witnessed an increased number of employees moving to other competitors due to poaching and offers of better terms of employment. The bank normally develops strategies each financial year to enable it meet its financial needs and to work in line with its mission: to drive efficiency whilst growing market share in order to be the preferred financial solutions provider in Africa with global reach, and vision: to be the Preferred Financial Solutions Provider in Africa with Global Reach

The bank has over the years been using the balanced scorecard to manage its employees. The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. The balanced scorecard was developed in the early 1990's by Kaplan and Norton of Harvard Business School. 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 (Arveson 1998)

KCB as a banking institution will be the case study for this project. The project will seek answers on how banks use the balanced scorecard as a strategic management tool. Its

results should help other banks to improve their management process and have a competitive edge on other players in the industry. It will also enable them to remain relevant in the industry and help them identify the challenges faced by banks in the use of the balanced scorecard

Acronyms and Abbreviations

i. KCB — Kenya commercial Bank
ii. NGO — Non Governmental Organizations
iii. BSC — Balanced Scorecard
iv. CFC — Credit Finance Cooperation
v. NIC — National Industrial Credit
vi. SACCOS — Savings and Credit Co-operative Societies
vii. USD — United States Dollars
viii. ATM — Automated Teller Machine
ix. SBU—Strategic Business Unit
x. THE BANK — Kenya commercial Bank
xi. CEO —Chief Executive Officer
xii. SMART —Specific, Measurable, Attainable, Relevant and Time-bound

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CHAPTER ONE

INTRODUCTION

1.1 Background

According to Kaplan and Norton (1996) the collision between the irresistible force to build long-range competitive capabilities and the immovable object of the historic cost financial accounting model has created anew synthesis called the balanced scocecard.BSC is more than a tactical or an operational measurement system Innovative companies are using it as a strategic management system, to clarify and translate vision and strategy, communicate and link strategic objectives and measures plan, set targets and align strategic initiatives and to enhance strategic feedback and learning.KCB being one of the players in the competitive banking industries has not been left behind in employing the BSC as a strategic management tool to remain relevant in the market.

1.1.1 Balanced scorecard

The BSC is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business process and external outcomes in order to continuously improve strategic performance and result (Aversion, 1998). According to Kaplan and Norton, 1996 it is "system of linked objective, measures, targets and initiatives which collectively describe the strategy of the organization and how the strategy can be achieved.

Kaplan and Norton (1992) divide the BSC into four quadrants of measures: financials, customer, internal business process and learning and growth. The BSC philosophy assumes that an organization's vision and strategy are best achieved when the organization is viewed from four perspectives (Drury, 2004). Kaplan and Norton (1992) argue that adoption of measures from the four quadrants are not mandatory, rather it is the need to establish measures that link them to an organization's strategy that guides the adoption

1.1.2 The Banking Industry in Kenya

According to the law of Kenya, the banking Act Chapter 488, a bank means a company which carries on, or proposes to carry on, banking business in Kenya and includes the Co-operative Bank of Kenya limited but does not include the Central Bank.

The banking industry in Kenya comprises the Central Bank of Kenya as the regulatory authority with the regulated being commercial banks, non bank financial institutions and foreign exchange bureaus. As at 31 December 2009, the banking sector comprised of 44 commercial banks, one mortgage finance company, one deposit taking microfinance institution and 130 foreign exchange bureaus. Commercial banks and mortgage finance companies are the major players in the banking industry and are licensed and regulated under the Banking Act, Cap 488 and Prudential Regulations while foreign exchange bureaus are licensed and regulated under the Central Bank of Kenya Act, Cap 491.
According to the Central Bank of Kenya's Annual report on the Banking Industry; out of the 45 licensed banking institutions, 32 are locally owned and 13 are foreign owned. The locally owned financial institutions comprised of three banks with significant government shareholding, 28 privately owned commercial banks and one mortgage finance company. The foreign owned financial institutions comprised of eight locally incorporated foreign banks and four branches of foreign incorporated banks. All foreign exchange bureaus are 100% private and the majority is locally owned.

As at 31 December 2008, locally owned private financial institutions which accounted for 64% of the sector's institutions controlled over 55% of the total net assets. Financial institutions with foreign ownership of over 50% accounted for 26% of the sector's institutions and controlled over 40% of the total net assets. 10 out of the 45 licensed financial institutions are listed at the Nairobi Stock Exchange. These include Barclays

Bank, CFC Stanbic, Co-operative Bank, Diamond Trust Bank, Equity Bank, Housing Finance, Kenya Commercial Bank, National Bank, NIC Bank and Standard Chartered Bank. Of these financial institutions, only Kenya Commercial Bank is cross listed in stock exchanges within East Africa and Equity Bank is cross listed in the Uganda Stock Exchange.

There are other players, who are offering a challenge to the banking industry in Kenya. These to include micro finance institutions which offer various products which are either similar or substitute of what the banks are offering. Examples are SACCOS and various NGOs. The availability of the various players makes the industry competitive and dynamic. The players in the industry need to make a strategic analysis of the industry in order to know the appropriate strategies to be applied in order to sustain the business continuity.

1.1.3 Kenya Commercial Bank

The banks vision is to be the preferred financial solutions provider in Africa with global reach by 2013. Its mission is to grow its existing business whilst building the platform to be the preferred financial solutions provider in Africa with global reach by 2013. The KCB Limited group is the largest financial services group in East Africa, with an asset base estimated at over US$2.5 billion. As of march 2009, KCB group has the widest network of banking outlets comprising of over 170 branches in Kenya, Rwanda, Southern Sudan and Tanzania backed by over 276 automated teller machine outlets. The bank has a wide network of correspondent relationships totaling to over 200 banks across the globe for a seamless facilitation of their international trade requirements. The history of Kenya Commercial Bank dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa eight years later in 1904, the bank extended its operations to Nairobi, which had become the head quarters of expanding railway line to Uganda. The next major change in the bank's history came in 1958. Grindlays Bank merged with the national bank of India to form the National and Grindlays Bank. Upon independence

In 1963, the government of Kenya acquired 60% shareholding in National and Grindlays Bank in an effort to bring banking closer to the majority of Kenyans. In 1970, the government of Kenya acquired 100% ownership of the bank's share to take full control of the largest commercial bank in Kenya. National and Grindlays Bank was renamed Kenya Commercial Bank. The government has reduced its shareholding in KCB to 23% as of December 2008. In 1972, Savings & Loan (Kenya) limited was acquired to specialize in mortgage finance. In 1997, another subsidiary, Kenya Commercial Bank (Tanzania) limited was incorporated in Dar-es-Salaam, Tanzania to provide banking services and promote cross border trading.

In May 2006, KCB extended its operations to Southern Sudan following licensing by the Bank of Southern Sudan. In November 2007, the first branch of KCB Uganda limited opened in Kampala, Uganda following licensing by the Bank of Uganda. In 2008, KCB expanded to Rwanda, where the first branch opened in Kigali in December 2008. A subsidiary is expected to be opened in Burundi during 2009. KCB has more than 150branches thought Kenya, making it the largest banking network in the region. It has the largest number of own branded ATM's in Kenya. Since 2004, all of the branches in Kenya have been rebranded as part of a wider corporate branding exercise. KCB has partnered with Pesa Point to increase the number of ATM points customers can access their funds. The bank's vision is to be the preferred financial solutions provider in Africa with a global reach by 2013. Its mission is to grow its existing business whilst building the platform to be the preferred financial solutions provider in Africa with global reach of 2013. (KCB booklet, 2009)

Owing to its popularity in the market and unique position as the regional bank, KCB has experienced immense growth in both infrastructure and business volumes in the recent past. The bank serves close to one million customers spread across the region and boasts the largest balance sheet of any indigenous commercial bank in the region (over USD 2.5 billion). The bank provides a wide range of banking services; from corporate banking and trade finance products through propositions for small to medium enterprises and individual clients, to mortgage finance and credit card facilities. The bank is planning to increase further its regional footprint to ensure increased reach and convenience for its customers. It plans to open 50 new branches across East Africa and also install a commensurate number of ATMs. It also reviews its products and services to tailor them to specific customer needs and add variety to their offering. As the regional bank, it is committed to working with other stake holders to boost the region's capacity to conduct trade among members. This will be by providing an improved information technology platform that facilitates online real-time one-branch banking, fast transmission of payments and easy access to funds wherever their customers may be in the region. The banks' ultimate dream is to a Pan- African bank, supporting growth and development for a majority of people in Africa into the foreseeable future.

1.2 Research Problem

Managers operating in organizations perform a number of activities including planning and organizing the work of their subordinates, motivating them, controlling what happens and evaluating results. Decisions by managers have a strategic impact and contribute to strategic change in organizations. The organization is shown as one of a number of competitors in an industry: and to a greater or lesser degree these competitors will be affected by the decisions, competitive strategies and innovation of the others (Pearce and Robinson, 2007).Kenyan banks are faced with numerous challenges including intense competition, satisfying the needs of customers, and development of new products and services not to mention selection and maintenance of good employees. In their desire to gain competitive advantage they are considering various strategic options.

Various studies have been done on balanced scorecard (D'Souza 2007, Njiru 2007, Mbogo 2008, and Odongo 2008) These research however mainly focused on strategy implementation and the performance management in other organizations but none has been done on KCB thus giving a gap in knowledge.KCB has been applying the balanced scorecard as a tool of management across its business for over a decade but this has not exempted them from the challenges of management. Thus the question how is KCB applying the BSC as a strategic management tool?

1.3 Objective of the Study

The major objective of the study is to:

i. Establish how the balanced scorecard is used as a strategic management tool in KCB
ii. To identify the challenges faced by the bank in using the balanced scorecard

1.4 Importance of the Study

The study will be important to organizations in both the private and public sectors that are interested in strategically managing their employees using the balanced scorecard. It will also provide an in depth understanding of the balanced scorecard as a powerful management tool that organization can adopt.

To KCB it will help both the management and the staffs to effectively manage their performance again strategic advantage over their competitors. The knowledge provided will also be available to students and researchers for referencing and further research

CHAPTER TWO

LITERATURE REVIEW

2.1 Concept of Strategy

The word strategy is derived from two Greek words: stratos (army) and ago (ancient Greek for leading) "Strategos" referred to a military commander during the Athenian democracy (Wikipedia, 2007). While it has no single definition, strategy may be seen as a multidimensional concept that embraces all the critical activities of an organization. Lack of a single definition points to the selective attention given to the various aspects of strategy by different authors (Aosa, 1992).

Mintzberg et al (1999) defines strategy as the pattern or plan that intergrates an organization's major goals, policies and action sequences into a cohesive whole. They view strategy as a ploy, pattern, position, plan and perspective. Strategy as a ploy is the action taken by an organization with the intention of outwitting its rivals. As a pattern, strategy emerges without preconception from a series of actions visualized only after the events it governs. Strategy as a position is a means of competitively positioning an organization in its external environment. As a plan, strategy specifies a deliberate course of action designed before the action it governs, while as a pattern strategy reveals an organization's perception of the outside world. According to David (2007), strategy can be described as the unique and distinctive actions that a company takes on the organizations value chain to achieve a competitive advantage that will contribute to greater net profitability.

Johnson and Scholes (2001) define strategy as the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of market and to fulfill stakeholders' expectations.

Strategy can be divided into different levels and in most organization there are several levels of strategy. Strategic management is the highest level since it is the broadest, applying to all parts of the firm. It gives direction to corporate values, corporate culture, corporate goals and corporate missions. Under this broad corporate strategy there are often functional and business unit's strategies. Functional strategies include marketing strategies, financial strategies, legal strategies and information technology management strategies. Many companies consider a functional organizational structure as an efficient way to organize activities so they have reengineered according to processes or strategic business units (SBUs). SBU is a semi-autonomous unit within an organization; it is usually responsible for its own budgeting, new product decisions, hiring decisions and price setting. Each SBU is responsible for developing its own business strategies, strategies that must be in tune with the broader corporate strategies (Drucker 1954)

Corporate strategy refers to the overarching strategy of the diversified firm. Such strategy often answer the questions of "in which business should we compete" and "how does being in one business add to the competitive advantage of another portfolio firm, as well as the competitive advantage of the corporations a whole?" (Carpenter and Sanders 2002) According Lamb (1984), Strategic management is the art and science of formulating, implementing and evaluating cross-functional decisions that will enable an organization to achieve its objectives. It is the process of specifying the organization's objectives, developing policies and plans to achieve the various functional areas of a business to achieve organizational objectives

2.2 Performance Management

According to Armstrong and Murlis (2004), performance management is a process for establishing a shared understanding about what is to be achieved and how it is to be achieved, an approach to managing people that increases the probability of achieving success. Armstrong (2006) also defined performance management as a systematic process of improving organizational performance by developing the performance of individual(s) and teams. It is a means of getting better results by understanding and managing performance within an agreed framework of planned goals, standards and competency requirement.

Amaratunga et al (2001) argued that performance management describes the use of performance measurement information to effect positive change in organizational culture, system and process, by helping to set agreed performance goals, allocating and priotizing resources, informing managers to either confirm or change current policy or directions to meet those goals and sharing result of performance in persuing goals. Smith and Goddard (2002) argued that performance management can be characterized as an intergrated set of planning and review procedures which cascade down through the organization to provide a link between each individual and the overall strategy of the organization

According to Smith and Goddard (2002) there are four broad categories of actions that constitute performance management, formulation of strategy with the aim to determine what constitutes performance, development of performance measurement instruments, application of analytic technique to interpret such measures and development of instruments designed to encourage appropriate organizational responses to performance information

Khan (2004) defines performance management as a strategic and intergrated process that delivers sustained success to organizations by improving the performance of people who work in them and by developing the capabilities of individual contributors and teams. For effective management of performance there is need for performance measurement. Amaratunga et al (2001) defined performance measurement as a process towards achieving pre-determined goals, including information on the efficiency with which resources are transformed into goods and services, the quality of those outputs and outcomes and the effectiveness of organizational objectives.

Kennerly, et al (2000) argued that performance measurement frameworks should reflect financial and non-financial measures, internal and external measures and efficiency and effectiveness measures. The role of the performance measurements according to

Atkinson et al (1997) is to monitor the implementation of an organization's plans and determine when the plans are successful and how to improve them.

2.3 The Balanced Scorecard

The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. The balanced scorecard was developed in the early 1990's by Kaplan and Norton of Harvard Business School. 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 (Arveson, 1998).

Pearce and Robinson (2007) defined a balanced scorecard as a set of measures that are directly linked to the company's strategy. They observed that balanced scorecard is a management system that can be used as the central organizing framework for key managerial process.

Koch and MacDonald (2006) stated that a bank's balanced scorecard presents financial information comparing what a bank own with what it owes and the ownership interest of stakeholders. A balanced scorecard is a performance measurement system that strikes a balance between financial and operating measures, links performance to rewards and gives explicit recognition to the diversity of stakeholders' interest. (Horngren, et al 1996). According to Kaplan and Norton (1996) the balanced scorecard emphasizes that financial and nonfinancial measures must be part of the information system for employees at all levels of the organization. Front-line employees must understand the financial consequences of their decisions and actions; senior executives must understand the drivers of long-term financial success. They note that the objectives and the measures for the balanced scorecard are more than just a somewhat adhoc collection of financial and nonfinancial performance measures; they are derived from a top-down process driven by the mission and strategy of the business unit.

Kaplan and Norton (1996) stated that the balanced scorecard should translate a business unit's mission and strategy into tangible objectives and measures. The measures should represent a balance between external measures for stakeholders and customers, and internal measures of critical business processes, innovation, and learning and growth.

According to Kaplan and Norton (2004), the balanced scorecard model is a conceptual framework for translating an organization's vision into a set of performance indicators distributed among four perspectives: Financial, Customer, Internal Business Process, and Learning and Growth as shown in the figure below.

Source: Adapted from Robert S. Kaplan and David P. Norton "Using the Balanced Scorecard as a Strategic Management System," Harvard Business Review (January-February 1996) p.[illegible]

The first perspective is the financial perspective which holds a huge value in the balanced scorecard. According to Lynch (2003), the financial perspective translates the purpose of the organization into action through clarifying precisely what is needed and gaining commitment to it. The financial perspective includes measures reflecting financial performance. The balanced scorecard retains the financial perspective since financial measures are valuable in summarizing the readily measurable economic consequences of actions already taken. Kaplan and Norton (1996) argued that financial performance measures indicate weather a company's strategy, implementation and executions are contributing to bottom line improvement. They noted that balanced scorecard should business units to link their financial objectives to corporate strategy. It serves as the focus for the objectives and measures in all the other scorecard perspectives. Every measure selected should be part of a link of cause-and-effect relationships that culminate in improving financial performance. They note that financial objectives and measures must play a dual role: they define the financial performance expected from the strategy, and they serve as the ultimate targets for the objectives and measures of all the other scorecard perspective.

The second perspective is the customer. This is where the company identifies the customer and market segments in which they have chosen to compete. Kaplan and Norton (1996) argued that it enables companies to align their core customer outcome measure that is: satisfaction, loyalty, retention, acquisition, and profitability to targeted customers and market segments. It also enables companies to identify and measure explicitly, the value propositions they will deliver to targeted customers and market segments. The perspectives help organizations to translate their mission and strategy statements into specific market and customer based objectives. Arveson (1998) argues that poor performance from this perspective is a leading indicator of future decline, regardless of the current financial indicator. The customer perspective enables business unit managers to articulate the customer and market-based strategy that will deliver superior future financial returns (Kaplan and Norton 1996).

The third perspective is the internal business process perspective. According to Kaplan and Norton (1996), it is where the managers identify the processes that are most critical for achieving customer and shareholder objectives. The objectives of this perspective are normally developed after the first two to enable it focus on the customer and financial objectives. According to Lynch (2003), the internal prospective concerns internal performance measures related to productivity, capital investment against cost savings achieved, labour productivity improvement and other factors that will indicate the way that the organization was undertaking the strategy inside the company. In this perspective, executives identify the critical internal processes in which the organization must excel (Kaplan and Norton 1996).

The last perspective is the learning and growth perspective. The objective of this perspective provides the infrastructure to enable ambitious objective in the other three perspectives to be achieved (Kaplan and Norton 1996). The two further note that the three principle categories in this perspective are employee capabilities, information system capabilities, motivation empowerment and alignment. This perspective has the effect of highlighting the importance of communicating and linking people with the purpose through education, goal setting and reward fro achieving the required performance.

2.4 Benefits of Balanced Scorecard

The balanced scorecard holds a major importance in most organisations in both private and public sectors. According to Ritter (2003), the balanced scorecard helps in promotion of a systematic development of vision and strategy, and therefore the understanding of how things are carried out at all management levels. This allows for the creation of the business model specifying on a small group of measurements which are critical for the performance of the organisation's and the business' and making it possible to recognize the essential adjustment elements of the business and its management through cause-and-effect analysis. As a result, it enables the identification of all activities that act as a trigger to reach established goals and to which it is therefore convenient to allocate the company's resources.

The strategic management system forces managers to focus on the important performance metrics that drive success. The balanced scorecard fills the void that exists in most management systems: the lack of a systematic process to implement and obtain feedback about strategy. According to Kaplan and Norton (1996), management processes built around the scorecard enable the organisation to become aligned and focused on implementing the long-term strategies. The balanced scorecard is also used as a communication tool

2.5 Challenges of a Balanced Scorecard.

Newin (1994) suggests that one of the main challenges of a balanced scorecard is the complexity and time involved in the designing an appropriate scorecard for the particular business or organisation in mind and its implementation. The balanced scorecard has been criticised for failing to include important perspectives like the employee perspective and the environmental impact perspective (Kiragu 2005). Kaplan and Norton (2001) however note that the four perspectives simply provide a framework rather than a constraining straitjacket. Companies can therefore omit or include additional perspectives to meet their own requirements but they must however avoid the temptation of creating too many perspectives and performance measure as this may result in distortion.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design.

The research was a case study on Kenya Commercial Bank. The bank has adopted the balanced scorecard in the implementation of its strategy across the business. The case study was deemed suitable as this had the benefit of providing an in depth analysis on the implementation and use of the balanced scorecard as a management tool. The study used both exploratory and descriptive methods. The exploratory method established and answered the 'how' and 'what' questions while the descriptive method provided description of what happened. Exploratory method provides insights into and comprehension of an issue or situation, it helps determine the best research design, data collection method and selection of subjects.

The case study also provided qualitative evidence which is of interest to this study. Previous studies of similar nature have successfully used this method (Koske, 2003, Muthuiya, 2004, Machuki, 2005).

3.2 Data Collection.

Both primary and secondary data were used in the study. Primary data were collected by way of personal in-depth interviews with top management in the organisation and through observation. The interview guide consisted of both open and closed ended questions to allow respondents express their views without undue limitation. The interview took place within the respondents' place of work during less busy times.

Secondary data were collected from the bank's newsletters, intranet, strategic papers, performance development articles and in-house journals. This data provided information which may not be available form the respondents. Four respondents from top management were used in this study.

3.3 Data Analysis.

Data collected was analysed using content analysis. This involves analysis of meaning and implications emanating from the respondents. Content analysis has been successfully used to conduct similar studies in the past (Koske, 2003, Kamau, 2006, D Souza, 2007). According to Cooper and Schindler (1998), content analysis measure the semantic content or the 'what' aspect of message. Its breath makes it a flexible and wide ranging tool that may be used as a methodology or as a problem specific technique

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Overview

This chapter presents the analysis and findings of the study. It provides general information of the sample studied from top management in determining the role of BSC as a strategic management tool in KCB A sample of 5 employees was selected based on various management levels. Overall response rate of 80% of the targeted sample was realized The analysis was thus done using the four filled interview guide. This was deemed adequate and sufficient for purpose of data analysis. The data provided was taken to be a true representation of the respondents views due to independence of the study carried out from the organization

4.2 Strategy at KCB

The bank normally develops strategy at the beginning of each financial year. The strategy is then communicated to all employees through meetings and documents presented to them At the beginning of the year the CEO confirms the goals and objectives of the entire organization These are then communicated to line managers in each business units who intern develop SMART objectives linked to the key value drivers from the CEO These objectives are then cascaded to individual employees in the bank

The individuals' employees objectives are thus developed inline with the overall business strategy through performance development plans. These plans are inbuilt on the employees' scorecard. To improve on the strategy development the bank has developed a business unit called the strategy unit which is mainly concerned with the development of the bank strategy.

4.3 Balanced Scorecard at KCB

The bank has used the BSC for over 8 years. To maximize its use and get the required results each employee in the bank has to have his own individual scorecard which must be inline with the overall bank objectives. The BSC at KCB consists of different perspectives. The perspectives are commonly categorized into four groups that is financial, customer growth, internal business process and learning and growth. They form the basis of all measures within individual objectives. The perspectives are defined and confirmed every financial year and have changed overtime. They are normally dependent on the overall bank strategy and they are normally in line with the overall mission and vision of the bank

Every financial year the group COE has the responsibility of developing his BSC which is then communicated to all employees at the bank. The groups COEs scorecard is then used by managers at different business units to develop scorecards for each and every employee in the bank. When developing individual scorecards each group has to discuss their targets which are communicated from the group CEO to the deputy COEs.The individual scorecards are then reviewed quarterly by line managers to assess the outcome of every employee. The line mangers in the process are able to identify areas where more effort or attentions is needed with respect to the BSC or where works need to be done differently. Quarterly communication from the CEO is also structured towards the BSC with updates on areas where more effort emphasis need to be put

4.4 The role of balanced scorecard at KCB

The bank uses the BSC to achieve different roles. Each individual has the responsibility of ensuring that his/her BSC is SMART and he she works towards achieving the objectives stated in it. The BSC results are normally used at the end of the financial year to make critical decisions in management. The bank has categorized performance in the BSC in 5 major categories:

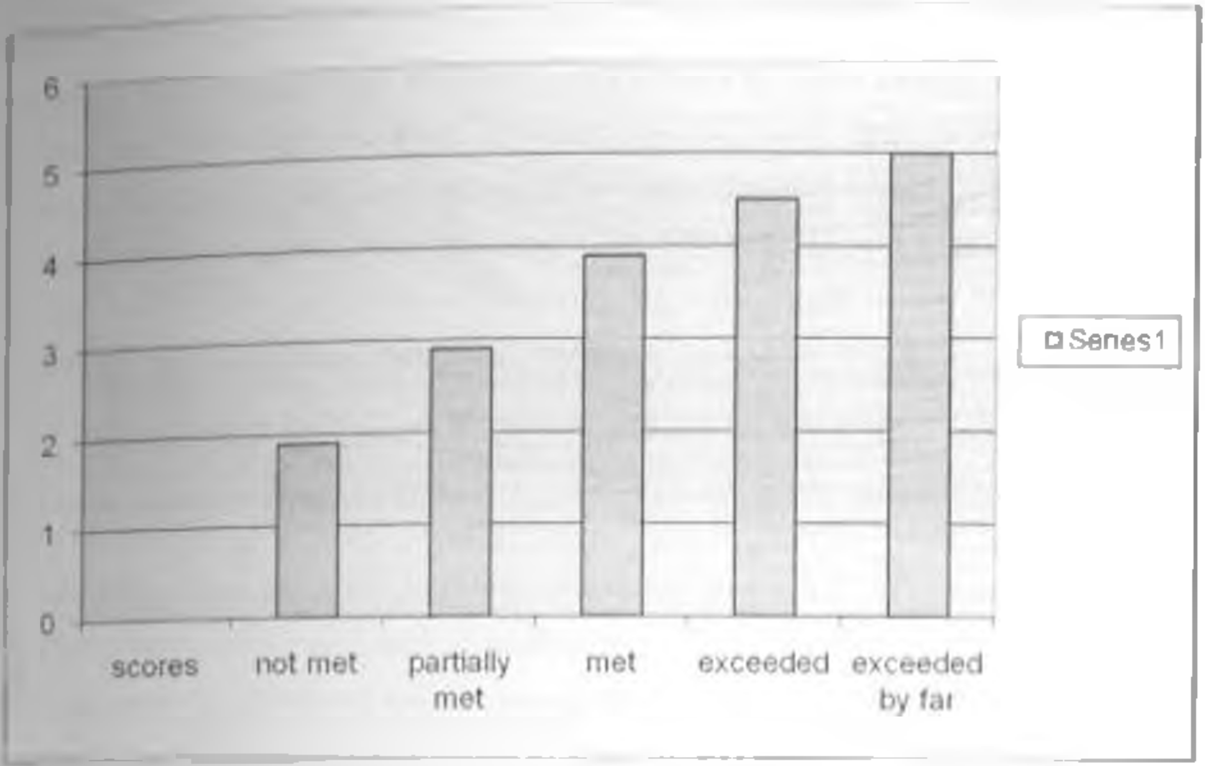

Figure 1: Balanced scorecard ratings

1. 0-1.99 - Does Not Meet Targets
2. 2-2.99- Partially Meets Targets
3. 3-3.99 - Met Performance Targets
4. 4 - 4.50 Generally Exceeds Targets
5. 4.51-5.00- Exceeded Targets By Far

Depending on what an individual employee scores, the bank has reward and disciplinary actions. Those who score three and above are normally given bonuses while those who score below three are given warnings. Promotion at the bank is also pegged on individual results that is employees are only considered for interviews if they achieve three and above in the scorecard

The main role of the BSC at KCB is enabling the bank to work towards its strategic plan and achievement of its objectives. These plans are developed yearly and since the bank is a profit making company it needs a well laid down strategy to enable it satisfy its shareholders and maintain the customers. Without a plan the bank would remain irrelevant in the market due to pressure from its many competitors, it thus uses the BSC to ensure that each and every employee works towards the banks strategic plan. It puts written plans into implementation through day to day work flows of employees. It enables managers to keep track of individual employees performance and to monitor consequences arising from their performance. The BSC helps the bank in planning its day to day activities which intern culminate to the achievement of the overall banks objectives and living of their mission and vision.

4.5 challenges in the use of BSC

It was evident from the respondents that the BSC has been an effective management tool at KCB.BSC have improved the individual performance of employees at the bank as they have set goals to achieve and it also improved the understanding of the bank strategy and plan. There is however some challenges being experienced in the use of the BSC at KCB. The first major challenge was the resistance to change. Most employees had in the past been rewarded as a function of the number of years worked, so when the BSC was first introduced and the reward shifted to performance achievement and work delivery there was major resistance. It has also taken along time for management staffs to appreciate BSC as a performance management tool. Some managers still uses tribalism and connections in reviewing scorecards.

Whereas some of the objectives in the BSC are quantitative others are qualitative thus making it difficult to measure objectively, a good example is the customer perspective whose measures cannot be quantified in numerical terms. Some managers also lack the ability to analyze the CEO scorecard and to develop SMART BSC thus making it impossible to achieve the set targets and objectives. The environmental changes also have impact on the set targets, this intern results in continuous review of the scorecard.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.1 Summary

The major objective of the study was to identify the role of BSC as a strategic management tool in KCB and to identify challenges faced by the bank in the use of BSC. My findings indicate that the bank has a strategic plan that is normally developed every financial year. It has revealed that the strategy is well communicated through out the organization by the use of BSC. However each employee in the business unit develops their own strategies inline with the overall a bank strategy. The BSC has been fully used in the bank for the last 8 years. Apart from communicating the banks strategy it has been employed to enable the bank live its mission and vision

The bank has used the BSC as a management tool to reward its employees. However incases where the employees were performing below per they have been given warning letters to enable them improve their performance. It is also evident that the bank BSC plays a major role in the banks achievements of set down goals and objectives. The bank has used it to maintain a clean track of what each individual is doing in the organization. Despite several benefits of BSC the bank has faced several challenges in its use. The major challenge has been on the resistance to change by employees in the first time when it was introduced. This led to unsuccessfully implementation of the BSC at its introductory stages. The bank also faces challenges in the BSC perspectives; whereas most of the perspectives are quantitative others are qualitative making their measurement hard to evaluate. This normally brings challenges when the BSC is being reviewed at the end of the year

Environment challenges have also made employees to loose focus on the objectives in the BSC has some changes have resulted in continuous review of the BSC.

5.2 Limitation of the study

All of the respondents were based in Nairobi Kenya. this left out valuable contribution from the bank subsidiary respondents in Uganda. Southern Sudan. Rwanda and Zanzibar not to mention regional managers in Kenya The other respondents could have added more information to the study.

The study was focused on only one organization KCB It therefore may not be representative of all organization in the country. However it has taken into account other views along theoretical analysis.

5.3 Recommendation and suggestion for further studies

The recommendation to the study includes both suggestions to KCB management as well as other organizations that wish to employ BSC as a strategic management tool. The overall bank organisation strategy needs to be communicated to all employees. The bank shouid do thorough training to ensure all employees understand its strategy, goals and objectives. To use BSC as a management tool, managers should understand the different perspectives of BSC to avoid development of non SMART BSC. To add more value to the BSC, management needs to objectively reward individual employees who meet their objectives

Further studies needs to be done to understand how organizations can use more than two performance measurement tools like KCB is currently employing both BSC and 360 degrees feedback. An in depth research needs to done on junior employees to get how they view the BSC and to understand the challenges they get from top management.

5.4 Conclusion

The study found out that BSC play a major role in KCB as a management tool, of significant importance is the fact that BCS is seen to improve the implementation of the bank strategic plans. The BSC provides better and more complete management information needed in planning. It is a tool for management and employee motivation. Due to its significance and compliance ability, it represents a readily available combination for organizations that are willing to move their organizations in the desired strategic directions.

BSC provides substantial guidance for actions, after formulation of overall organization strategy it must be broken down to understandable units within each business unit. It is also the duty of the management to ensure that employees understand the BSC to avoid resistance.

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Appendix ii: Interview Guide

SECTION A

1. How long have you worked in KCB?
2. What is your current position (grade) in the bank?

3. Have you ever heard of the KCB balanced scorecard?
   a) Yes
   b) No

   Please give details

4. What role does the BSC play as a strategic management tool at KCB?

5. How has the BSC impacted your individual role in the achievement of the organization's objectives?
   a) Positively
   b) negatively

SECTION B

1. What challenges do you face in using the BSC at KCB?

2. In your own personal opinion would you recommend BSC as a management tool?
   a). Yes
   b). No

Please give details

3. Would you recommend to improve the use of BSC in the management of employees performance at KCB?

APPENDICES

Appendix 1: Letter of Introduction

Gordon Ndisi Otieno
P.o Box 58233-000200
Nairobi
Tel: 0720-997-662
Email: ndisius@yahoo.com

Dear Sir Madam

MBA RESEACH PROJECT

I am a post gradunte student at the University of Nairobi pursuing an MBA-Strategic management course. In partial fulfillment of the course requirements, I am undertaking a research on "*the role of balanced scorecard as a strategic management tool in KCB*".

Being one of the respondents, I kindly request you to fill the attached questionnaire. The information requested is needed purely for academic research purpose and will therefore be treated with utmost confidentiality.

Your assistance in facilitating the same will be highly appreciated.

Thank you

Yours faithfully

Ndisi Gordon — Dr. Regina Kitiabi

Student — supervisor

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Ndisi Gordon	Dr. Regina Kitiabi
Student	supervisor

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SECTION B

1. What challenges do you face in using the BSC at KCB?

2. In your own personal opinion would you recommend BSC as a management tool?
   a). Yes
   b). No

   Please give details

3. Would you recommend to improve the use of BSC in the management of employees performance at KCB?