THE APPLICATION OF THE BALANCED SCORECARD IN THE IMPLEMENTATION OF STRATEGY AT KENYA REVENUE AUTHORITY

By

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ABSTRACT

One of the most common difficulties organizations face in strategic planning is turning their strategy and vision into reality. A new approach to strategic management was developed in the early 1990s. This new system was named the Balanced Scorecard (BSC). The BSC is a management system that enables organizations to clarify their vision and strategy and translate them into actions.

This study set out to establish how KRA applied the BSC in implementing its strategies. The challenges faced and the benefits realized from applying the BSC.

It was established that KRA adopted the BSC in its second corporate strategy and has continued to use it in implementing its strategies. It was also establish that KRA constructs its corporate BSC from its corporate strategy. The BSC is then cascaded down the organizational hierarchy. However the study established that KRA faces a challenge in BSC cascading. KRA has realized several benefits from using the BSC. Among these benefits include the improved appreciation and understanding of KRA vision and strategy. KRA BSC adoption is helping a great deal in institutionalizing planning in KRA and making KRA a strategy focused organization. For KRA to fully utilize the BSC, the issues that emerged from this research as indicated in the recommendation part of this study should be addressed.

DECLARATION

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

Signed .... Date 16/11/2006.................................

Kamau Mwangi. Reg. No. D61/P/7193/03

This management research project has been submitted with my approval as University Supervisor.

Signed .... Date 17/11/2006.................................

Prof. Evans Aosa

DEDICATION

To my wife Margaret Wangari and my son Allan Kamau Mwangi. It was due to your understanding, support, and prayers that I managed to accomplish this task. You will always remain part of my being forever.

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May the Almighty God greatly bless all of you.

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CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

1.1.1 The Strategy Process

According to Lynch (2003) corporate strategy can be described as the identification of the purpose of the organization and the plans and actions to achieve that purpose. It is concerned with an organization's basic direction for the future, its purpose, its ambitions, its resources and how it interacts with the world in which it operates. Every aspect of the organization plays a role in this strategy its people, its finances, its production methods and its environment and other stakeholders. Strategy can be categorized into two, corporate-level strategy and business-level strategy (Finlay, 2000). While both the corporate and business levels will have some concern for and some input into most strategic aspects of the organization, the primary strategic responsibilities of the corporate and the business levels are different.

The strategy process consists of three core areas, these are strat egy analysis, strategy development and strategy implementation (Lynch, 2003). All these areas are important and should be carried out properly for the successful realization of the selected strategy.

In strategy analysis the organization and its mission and objectives have to be examined and analysed. Corporate strategy provides value for the people involved in the organization, the stakeholders, but it is often the senior managers who develop the view of the organization's overall objectives in the broadest possible terms. They conduct an examination of the objectives and the organizational relationship with its environment. They also analyse the resources (capabilities) of the organization (Lynch, 2003).

In strategy development, strategic options have to be developed and then selected. To be successful, the strategy is likely to be built on the particular skills of the organization and the special relationships that it has or can develop with those outside, these are suppliers, customers, distributors and government. For many organizations, this will mean developing advantages over competitors that are sustainable over time. There are usually many options available and one or more will have to be selected. This becomes the choice strategy of the organization.

The strategy implementation is where the selected options have to be actualized. There may be major difficulties in terms of motivation, power relationships, government negotiations, company acquisitions and many other matters. This phase of strategic management is the most difficult. Unlike strategy analysis and strategy development, strategy implementation involves everyone in the organization. According to Lynch (2003) a strategy that cannot be implemented is not worth the paper it is written. For the strategy to be worthwhile and benefit the organization it has to be successfully executed.

Why is it seemingly so difficult to execute strategy? There are several fundamental reasons for this. One of the reason is the way the business environment has changed from industrial age where companies prospered by offering low cost but standardized products and services and facing little competition to information age companies. The information age companies compete against the best companies in the world (Kaplan and Norton, 1996). The ever increasing environmental turbulence in which the information age companies are operating makes the premises upon which plans are made to evolve dynamically. The other drawback to successful strategy implementation is the narrow involvement of the whole process especially of strategy formulation. This makes the implementation hard to carry out since those responsible for the implementation and those affected by it do not contribute to the thinking that led to the final strategy (Finlay, 2000). Th e weak relationship of strategy formulation and strategy execution also contributes to poor strategy implementation. The transfer of the boardroom management mission, vision and the overall objectives articulated in the formulated organizational strategy is usually not efficiently communicated and translated into the daily tasks of everyone in the organization. In today's business world, strategy implementation is inseparable from effective leadership and effective communication within the entire organization (Finlay, 2000).

The Balanced Scorecard (BSC) was developed in the early 1990s. According to Kaplan and Norton (1996) the scorecard is not a way of formulating strategy, rather it is a way of understanding and checking what need to be done throughout the organization to make the strategy work. According to Lynch (2003) the BSC arose from the perception of a need to fix two significant deficiencies in the implementation of many corporate strategies. These deficiencies were measurement gap and strategy gap between general plans and managerial actions.

Although most companies measure performance ratios, quality, and productivity, these are mainly focused on historical figures – for example, 'How are we doing compared to last year?' Kaplan and Norton (1996) discovered that such measures may have little to do with future success. In addition, although such ratios were important, they did not measure other important aspects of future strategy, especially those that were more difficult to quantify. For example future strategy might stress the importance of customer satisfaction and loyalty, employee commitment and organizational learning, but none of these might be measured.

In the strategy gap between general plans and managerial actions, Kaplan and Norton (1996) claimed that many companies began major new strategic initiatives but these often had little impact on the organization performance. The reason was that the strategic plans were often not translated into measures that managers and employees could understand and use in their daily work. Kaplan and Norton (1996) were particularly keen to move beyond the normal financial measures. They claimed that these were essentially functional measures and that what really matters in strategy implementation is the process. Kaplan and Norton (1996) identified three main types of process that are important. These processes were management, business, and work. The management process concerns how the leader runs the organization, how decisions are made and how they are implemented. The business is concerns on how products are designed, orders fulfilled, customer satisfaction achieved and so on. Work process concerns how work is operationalised, purchase, stored, manufactured and so on. Kaplan and Norton (1996) argued that these are the activities that implement the agreed strategies but they are not the same as return on capital, market share and growth data and the other measures that often summarize the outcome of a corporate strategy (Kaplan and Norton, 1996).

The BSC was developed to overcome these problems. The BSC combines quantitative and qualitative measures of the selected strategy. It acknowledges the different expectations of the various stakeholders and attempts to link scorecard performance measures to the chosen strategy. There are four key principles behind the scorecard. The first one is translating the vision through clarifying and gaining consensus. The second principle is communicating and linking by setting goals and establishing rewards for success. The third principle is the business planning, this deals with the alignment of objectives, allocating resources, and establishing milestones. The final principle is the feedback and learning where the reviewing of the subsequent performance against plans is carried out. While recognizing that every strategy is unique, Kaplan and Atkinson (1998) identified four strategy perspectives that need to appear on every scorecard. These perspectives are summarised in figure 1 below. The four areas are Financial perspective, Customer perspective, Internal Business process perspective, and Innovation and Learning perspective.

Figure 1 Balanced Scorecard: Summary of Strategy Perspectives

Strategy Perspective	Example	Example of Scorecard measures
Financial Perspective	Shareholders' view of performance	▪ Return on capital ▪ Economic value added ▪ Sales growth ▪ Cost reduction
Customer Perspective	Customer satisfaction	▪ Customer satisfaction ▪ Customer retention ▪ Acquisition of new customers
Internal Perspective	Assess quality of people and processes	▪ Training and development ▪ Job turnover ▪ Product quality ▪ Stock turnover
Innovation and learning Perspective	Examines how an organization learns and grows	▪ Employee satisfaction ▪ Employee retention ▪ Employee profitability

Source: Lynch (2003: p. 637)

Lynch (2003) comments the scorecard for having represented a useful attempt in two major areas. One is translating the abstract vision of strategic purpose into practical and useful action areas. The secondly is that the scorecard has moved the strategy beyond a few overly simple measures such as earnings per share and return on capital employed.

1.1.2 State Corporations

A state corporation can be defined as an activity of the government, whether central state or local, involving manufacturing or production of goods (including agriculture) or making available a service for a price, such activity being managed either directly or through an autonomous body with the government having a majority holding

(Narain, 1979). State corporations are partially or fully government owned and controlled. The establishment and continuance of a state corporation is a political decision and its operations are controlled at strategic points by a system where the government has the final say.

The environment of state corporations is a complex phenomenon and has not yet been adequately conceptualised. It's more unpredictable and less stable than that of private enterprises mainly because its socio-political contents are very large (Koske, 2003). Sometimes depending upon the nature of a state corporation, the environment becomes turbulent, confusing the management of the organization in the process (Edwards, 1967). State corporations have numerous objectives, more ambiguous and less distinguishable from qualifying conditions. Moreover, they fluctuate in their supposed order of priority, not merely from government to government, nor even from year to year, but almost from day to day at the whim of public and parliamentary option. Management does not have the freedom to optimise its own performance in pursuit of a single objective, or even in pursuit of a number of stable and compatible ones. But this is slowly changing with time with state corporations being ran as profit making organizations.

In Kenya, state corporations have received as much bad press from the 1990's as they received good praise in the immediate post independence period as potential instruments of national, economic and social development. They have been criticized not only on the basis of their record of performance but also for the economic and social problems of the country as a whole. State corporations are notoriously inefficient and they contribute substantially to many of the problems hindering economic growth (Kangoro, 1998). Specific problems associated with Kenyan state corporations include poor economic performance, overstaffing, inefficiency, overvalued assets, high debt ratios causing constant drain on the national treasury. Other problems are non-responsiveness of top management to take advantage of changing domestic and international commercial opportunities and irresponsiveness to public expectations. However, it is also true that state corporations are victims of circumstances beyond their control. They operate in an economic, political, cultural and technological context that almost guarantees failure and in which organizational survival rather than profitability, efficient service delivery, sustainability and growth is always the first priority of the top management (Kangoro, 1998).

There are approximately 200 state corporations in Kenya. The government in an attempt to ensure and acquire control of all productive assets formed these corporations. The main goal was for these corporations to take up business and in the process, promote socialism and guarantee that the public derived maximum benefits from these resources (Wachira, 2004). The government felt that the citizens would reap benefits from such business if they were state owned. The primary objectives of the corporations ac cording to a study carried out by Institute of Economic Affairs (1994), was a desire to take hold of the economy, to promote a Kenyan entrepreneurial class and to earn a share of the profit otherwise received by private sector. According to Wachira (2004) the initial thought of setting up these organizations was noble but most of the political leaders at the time were capitalists and the vision got lost along the way. Influential individuals turned to these enterprises with a single desire to reap maximum personal benefits at the expense of the rest of the public. This led to mismanagement and hence massive losses. To stem some of the losses realized, an attempt was made to shed off some of the government shareholding to private investors by issue of shares through the Nairobi Stock Exchange.

As a way of stemming mismanagement and promoting accountability and transparency in the state corporations, the government has started the signing of performance contracts. The performance contracts typically commit the management of state corporations and other state departments to certain targets, objectives and courses of action within a stipulated time frame. This has led to more emphasis on the adoption of strategic management by the state corporations with an aim of boosting their performance, securing their survival as well as recapturing the lost trust of the corporations as avenues of economic growth. However, the success and impact of this new government policy is yet to be established.

1.1.3 The Kenya Revenue Authority (KRA)

Kenya Revenue Authority is a state corporation which was established by an Act of Parliament of July 1st 1995 Cap. 469. The purpose of KRA is to enhance the mobilisation of government revenue, while providing effective tax administration and sustainability in revenue collection (Government of Kenya, 1995). The board and management of KRA have since its inception spent time and resources setting up systems, procedures and strategies aimed at enhancing the operational efficiency of the Authority's processes. In particular the functions of the Authority are to assess, collect and account for all revenues in accordance with the written laws and the specified provisions of the written laws. To advise on matters relating to the administration of, and collection of revenue under the written laws or the specified provisions of the written laws and to perform such other functions in relation to revenue as the ministry of finance may direct.

Kenya Revenue Authority is made up of four revenue collection departments and one support services department. These are Domestic Taxes Department, Large Taxpayers Office, Customs services Department, Road Transport Department, and Support Services Department respectively. Each of this department is headed by a commissioner appointed by the board.

KRA is governed by a board of directors headed by a chairman appointed by the President. The minister for finance upon recommendation of the board appoints the commissioner general. The commissioner general is the chief executive of the authority and oversees the day-to-day operations of the authority. KRA strategic intent is to be the leading revenue authority in the world, respected for professionalism, integrity and fairness (Second Corporate Plan, 2003/04-2005/06).

The environment in which Kenyan state corporations exist is increasing in complexity and the rate of change is accelerating. There is an ever increasing pressure to perform from the Kenyan public and development partners. With such pressure, the state corporation managers must have the capacity to adapt and restructure the organizations to challenge the constraints (Kangoro, 1998). KRA is not spared from this pressure.

1.2 RESEARCH PROBLEM

There are three core areas of corporate strategy, these are strategy analysis, strategy development and strategy implementation. All the three areas contribute to successful realization of the selected strategy. Of the three, the most crucial and the one that causes failure in realizing a selected strategy is the implementation. This is because it is at this stage that the strategic initiatives are to be actualized by translating them in actions. This is the reason why few organizations that do an effective job of formulating strategy are doing equally effective jobs implementing it.

The balanced scorecard method of Kaplan and Norton (1996) is a strategic approach and performance management System. The BSC enables organizations to translate a company's vision and strategy into implementation through its four perspectives. These perspectives are financial, customer, internal business process, and learning and growth.

KRA like many other organizations is faced with the same challenge of how to effectively actualizing its strategic initiatives. In this endeavour KRA decided to adopt the balanced scorecard to help in translating the abstract vision of its strategic purpose into practical and easily understood actions. KRA has been using the BSC for the last three years. Since the introduction of the first BSC, there has been an improvement in understanding of KRA strategy. The execution of KRA strategy has also improved leading to sustainable good performance in revenue collection.

KRA may have faced various challenges in adopting the BSC philosophy initially and could still be facing other new challenges as it continues to use the BSC. KRA has also benefited by using BSC. This is what this study has endeavoured to establish along with the way KRA applies the BSC. That is, how is KRA applying the BSC? What challenges is KRA facing as it applies the BSC? And what benefits is KRA realizing by applying BSC in implementing its strategies?

1.3 RESEARCH OBJECTIVES

This study had two objectives

- To establish how KRA applied the balanced scorecard in implementing its strategies
- To establish the challenges and benefits of using the balanced scorecard

1.4 SIGNIFICANCE OF THE STUDY

To the researchers and academicians this research study has provided an understanding of the adoption of the balanced scorecard in Kenyan state corporations and specifically KRA. It has also revealed the depth of understanding of the BSC and its application as a management system in KRA. The findings of this research are vital for future reference to organization both private and state corporation aspiring to adopt BSC philosophy. The research findings have also contributed to the available body of knowledge about BSC application.

To Kenya Revenue Authority the research have provided valuable insight on how the BSC philosophy has been engrained into its management. The research findings and recommendations will also prove helpful to KRA in its subsequent BSCs application. It will boost the KRA's general staff understanding and appreciation of the BSC as management tool as they clearly see how their daily tasks contribute to the achievement of the overall corporate strategy. The implementation team will also benefit from the identified challenges and obstacles and avoid them in future to ensure proper implementation.

To other public corporations the research has provided very valuable information on the intricacies of introducing and adoption of the balanced scorecard as a management system in such corporations. Other corporations can use the findings as a reference point in their adoption of the BSC as a management system.

CHAPTER TWO: LITERATURE REVIEW

2.1 THE CONCEPT OF STRATEGY

Aosa (1992) pointed out that the major task of managers is to assure continued existence of their organizations. To this end, one of the concepts that have been developed and is very useful to management is strategy. Various leading management scholars and practitioners have underscored the importance of this concept (Porter, 1980; Mintzberg, 1987; Johnson and Scholes, 1999; Ansoff,1990).

Different authors have defined strategy in different ways. The various definitions suggest that the authors gave selective attention to aspects of strategy, which are all relevant to our understanding of the concept (Aosa 1992). Chandler (1962) defined strategy as the determination of the basic long-term goals and objectives of an organization, and the adoption of courses of actions and the allocation of resources necessary for carrying out these goals. Chandler (1962) considered strategy as a means of establishing the purpose of an organization by specifying its long-term goals and objectives, action plans and resource allocation patterns to achieve the set goals and objectives.

Porter (1980) viewed strategy as building a defence against the competitive forces and finding positions in the industry where the forces are weakest. Knowledge of the company's capabilities and of the causes of the competitive forces will highlight the areas where the company should confront competition and where it should avoid. Strategies need to be considered not only in terms of the extent to which the existing resource capability of the organization is suited to opportunities but also in terms of the extent to which resources can be obtained and controlled to develop a strategy for the future.

According to Mintzberg (1987) strategy could be seen as plan, a ploy, a pattern, a position and a perspective. As a plan, strategy specifies a consciously intended course of action of an organization. The strategy is designed in advance of actions and is developed purposefully. As a ploy, strategy is seen as a manoeuvre to outwit competitors. As a pattern, strategy is seen as a pattern emerging in a stream of actions. Strategy is seen as a consistency in behaviour and the strategy develops in the absence of intentions. As a position, strategy is a means of locating an organization in its environment. Strategy as a perspective consists of a position and of an ingrained way of perceiving the world. It gives an organization identify or a personality.

As evidenced in these varied definitions, none can be said to capture explicitly all the dimensions of strategy. Lack of a precise definition of strategy can be attributed to the fact that strategy is a multi dimensional concept in terms of content and substance which, embraces all critical activities of the organization providing it with a sense of unity, direction and purpose, as well as facilitating the necessary changes induced by its environment. However, most authors in terms of definition emphasize on the essence and nature of strategy and agree that strategy is a unifying theme that gives coherence and direction to the actions and decisions of an organization.

Strategy can be categorized into two, corporate-level strategy and business-level strategy (Finlay, 2000). While both the corporate and business levels will have some concern for and some input into most strategic aspects of the organization, the primary strategic responsibilities of the corporate and the business levels are different. Corporate strategy is primarily concerned with identifying the set of different business a company is to be in. These may be businesses within the same industry or in a different industry. Strategy at this level also specifies how total corporate resources will be allocated among the various businesses that the company is involved in. Business level strategy focuses on how each business unit will compete in a particular industry. It addresses issues on how to develop and maintain a competitive edge in the market. The business unit management has to ensure that the different functional activities are intergraded in such a way as to achieve and maintain the desired competitive competence in the market (Pearce & Robison 1997).

According to Pearce and Robinson (1997) strategy helps in providing long-term direction for an organization. This provides a perspective for the various diverse activities overtime, which enables organizations perform current activities at the same time viewing them in terms of their long term implications for the probable success of the organization. Similarly strategy helps companies to cope with change (Pearce & Robinson 1988). Due to the constant changes in an organizations operating environment, companies needs strategy in order to respond to these changes at all time. Strategy can help to guide the pattern of responses of companies to changes taking place in their environment.

Strategy enables companies to focus their resources and effort (Pearce & Robinson 1988). The development of strategy helps managers identify critical tasks that need to be performed and hence helping in defining an organizational strategic thrust. Strategy also helps an organization develop a competitive advantage in the market. This in turn enables the organization to out perform the competition successfully. Porter (1980) underscores the role of strategy by arguing that the goal of strategy is to help secure enduring competitive advantage over competitors.

Chandler (1962) structure of an organization follows the strategy of the organization. A strategy is best implemented if it has a supporting organizational structure. If an organization has developed an appropriate strategy, this becomes a good guideline in designing an appropriate structure to carry out the strategy (Aosa 1992). In essence therefore, strategy helps in achieving a more effective organization. Thompson & Strickland (2003) points out that an excellent strategy is the best test for managerial excellence and the most reliable recipe for organizational success.

2.2 STRATEGIC MANAGEMENT

Strategy is the underlying concept in strategic management (Kangoro, 1998). Strategic management involves understanding the strategic position of an organization, strategic choices for the future and turning strategy into action (Johnson and Scholes, 2002). It constitutes formulation, implementation, control and evaluation of the strategy. Strategic control entails developing performance measures and ways of monitoring strategy implementation. The measures allow managers to evaluate how well they are utilising organizational resources to create value and to sense new opportunities for creating value in the future.

Having a strategy however does not mean outright success. Proper implementation and control determines the success of any given strategy. Implementation involves everybody within the organization ranging from boardroom members to shop floor staff. This makes strategy implementation process complex compared to strategy formulation.

It is not surprising that an organization may have a well-prepared strategic plan, but have no impact on performance. This is due to poor implementation. The major contributor to this problem is lack of effective communication and measuring system between strategy formulators and implementers. According to Finlay (2000) implementation of change is far easier to carry out successfully if those responsible for the implementation and those affected by it have contributed and therefore understands the thinking that has led to the change.

Various professions have a way of communicating. For example accountants use financial reports, and engineers use drawings, while architects use the physical models, however strategy managers lack a way of effectively communicating the strategy and away of measuring progress. The traditional approaches used by managers have had some weaknesses in clarifying strategy and translating it into action. These approaches were largely based on financial accounting measures. The financial accounting measures often fail to measure performance in many important areas that are crucial to the organizational success. According to Kaplan and Norton (1996) financial accounting approaches should have been expounded to incorporate the evaluation of the company's intangible and intellectual assets. S uch assets include high quality products and services, motivated and skilled employees, responsive and predictable internal processes, and satisfied and loyal customers. Kaplan and Norton (1996) incorporated this new thinking with the traditional financial approaches and came up with an integrated model that they called the balanced scorecard (BSC).

2.3 BALANCED SCORECARD (BSC)

"The collision between the irresistible force to build long-range competitive capabilities and the immovable object of the historical-cost financial accounting model has created a new synthesis: the balanced scorecard" (Kaplan and Norton 1996, p. 7). The BSC is a comprehensive framework that translates the company's strategic objectives into a coherent set of performance measures (Kaplan and Norton, 1996). The balanced scorecard is a management and measurement system that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and the external outcomes, in order to continuously improve strategic performance and results.

The BSC was developed to communicate the multiple, linked objectives that organizations must achieve to compete on the basis of capabilities and innovation, not just tangible physical assets (Kaplan and Atkinson, 1998). When fully deployed, the balanced scorecard transforms planning from an academic exercise into a nerve centre of an enterprise. The balanced scorecard retains traditional financial measures. But according Kaplan and Norton (1996) financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation. The BSC is a structured methodology for using performance measurements information to set agreed upon performance goals, allocate and prioritize resources, inform managers to either confirm or change current policy or program direction to meet those goals, and report on the success in meeting those goals.

2.3.1 The Balance

The term 'balanced' describes the tool's focus on four complimentary types of measures. The balanced scorecard should translate a business unit's mission and strategy into tangible objectives and measures. The measures represent a balance between external measures for shareholders and customers, and internal measures of critical business processes, innovation, and learning and growth. The measures are balanced between the outcome measures, that is the results from past efforts (lagging indicators) and the measures that drive future performance (leading indicators). The scorecard is also balanced between objective outcome measures which are easily quantified and subjective performance drivers of the outcome measures which are somewhat judgemental (Kaplan and Norton 1996).

The BSC allows managers to view performance in several areas simultaneously, while forcing them to focus on those measures which are most critical to the organization. It brings together into a single management report many of the seemingly disparate elements of the firm's competitive agenda. A critical analysis of the BSC shows that it is more than a tactical or an operational measurement system. Innovative firms are using the scorecard as a strategic management system, to manage their strategy over their long run and as well using the measurement focus of the BSC to accomplish critical management processes (Kaplan and Atkinson, 1998).

2.3.2 The BSC as a Management and Measurement System Tool

The Balanced Scorecard is both a management and measurement tool. It provides focused implementation of the firm's vision, mission, objectives and shared values across the firm. Kaplan and Norton (1996) described how innovative companies are using the measurement focus of the scorecard to accomplish several critical management processes. These processes are clarifying and translating vision and strategy into specific strategic objectives and identifying the critical drivers to the strategic objectives, communicating and linking strategic objectives and measures.

Once all the employees understand the high level objectives and measures, they should establish local objectives that support the business unit's overall strategy. It will be easier for employees to plan, set targets, and align strategic initiatives in support of the organizational goals. Such targets should be over a 3-5 year period broken down on a yearly basis so that progression targets can be set for assessing the progress that is being made towards achieving the longer term targets. This enhances strategic feedback and learning so that managers can monitor and adjust the implementation of their strategy, and if necessary, make fundamental changes to the strategy itself. These companies approach strategy as choosing the market and customer segments the business unit intends to serve. Then the companies identify the critical internal processes that the unit must excel at to deliver value to its customers in the targeted market segments, and selecting the individual and organizational capabilities required for the internal and financial objectives.

What can not be measured can not be improve. So metrics must be developed based on the priorities of the strategic plan. These provide the key business drivers and criteria for metrics that managers most desire to watch. Processes are then designed to collect information relevant to these metrics and reduce it to numerical form for storage, display, and analysis. Decision makers examine the outcomes of various measured processes and strategies and track the results to guide the company and provide feedback. The value of metrics is in their ability to provide a factual basis for defining the following, strategic feedback to show the present status of the organization from many perspectives for decision makers, diagnostic feedback into various processes to guide improvements on a continuous basis, trends in performance over time as the metrics are tracked, feedback around the measurement methods themselves and which metrics should be tracked, and quantitative inputs to forecasting methods and models for decision support systems.

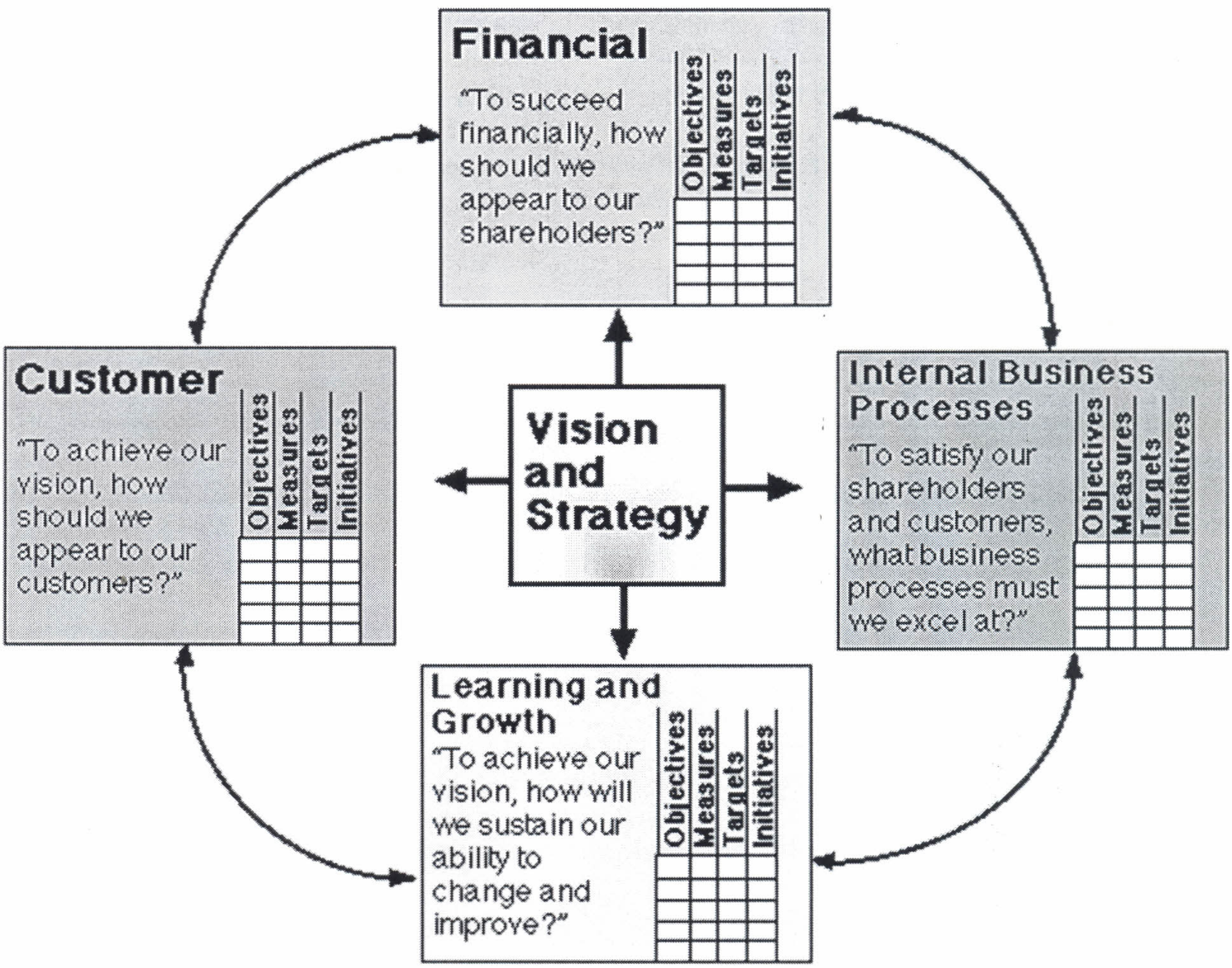
2.3.3 Balanced Scorecard Perspectives

The balanced scorecard translates mission and strategy into objectives and measures, organized into four perspectives as shown on figure 2 below. These are financial, customer, internal business process, and learning and growth (Kaplan and Atkinson, 1998). The four perspectives were presented as a suggested framework (Kaplan and Norton (1996). Firms can thus put additional perspectives to meet their requirements ensuring that they do not lose the clarity and conciseness of presentation which is one of the major benefits of the balanced scorecard. The scorecard provides a framework, a language, to communicate mission and strategy. It uses measurements to inform employees about the drivers of current and future success. By articulating the outcomes the firm desires and the drivers of those outcomes, senior executives hope to channel the energies, the abilities, and the specific knowledge of people throughout the firm toward a achieving the long-term goals.

According to Kaplan and Norton (1996) the four perspective of the balanced scorecard permits a balance between short and long-term objectives. Between outcomes desired which are referred to as the lagging indicators and the performance drivers which are referred to as the leading indicators, and between hard objectives measures and softer, more subjective measures.

While the multiplicity of measures on a BSC may seem confusing, properly constructed scorecards contain a unity of purpose since all the measures from all the perspective are directed toward achieving an integrated strategy. The balanced scorecard suggests that we view the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives. These perspectives are financial, customer, internal business process and learning and growth.

Figure 2 The Balanced Scorecard



Source: Kaplan and Norton (1996, p. 9)

The BSC retains the financial perspective since financial measures are valuable in summarizing the readily available economic consequences of actions already taken. Financials measures are the overall lagging indicators of the strategy execution. Financial performance measures indicate whether a company's strategy implementation and execution are contributing to bottom line improvement. Financial objectives typically relate to profitability measured in various available methods (Kaplan and Norton, 1996).

The customer perspective captures the ability of the organization to provide quality products and or services, effectiveness of their delivery and the overall customer service and satisfaction (Kiragu, 2005). The customer perspective basically is the value proposition that the company will deliver to the customers in the targeted market segments.

The internal business processes critical to business unit's success must be identified. The managers need to ensure that the business unit excels in these critical processes. According to Kaplan and Norton (1996) the internal-business-process measures focus on the internal processes that will have the greatest impact on the customer satisfaction and on achieving an organization's financial objectives.

In the internal-business-process perspective, the BSC departures from the traditional approaches to performance measures in two fundamentals ways. The first one is that while the traditional approach attempt to monitor and improve existing business processes, and sometimes go beyond financial measures of performance, they only concentrate on the improvement of existing business processes. The BSC approach will usually in addition to improving existing critical business processes, identify entirely new processes at which an organization must excel to meet customer and financial objectives. The second departure of the BSC approach is that it incorporates innovation processes into the internal-business-process perspective. While traditional performance measurement systems focus on the processes of delivering today's product and services to today's customers, their main concentration is to control and improve existing operations that represents the short wave of value creation (Kaplan and Norton, 1996). This short wave of value creation begins with receipt of an order from an existing customer for an existing product and or service and is completed with the delivery of the product to the requesting customer. This is sufficient and comfortable for an organization that is targeting the success of today and now and not concerned with the future. But the drivers of long-term financial success may require an organization to create entirely new products and services that will not only meet the emerging needs of current and future customers, but those that will delight them. It is no longer enough to satisfy customers, you must delight them (Oakland, 1993). According to Kaplan and Norton (1996) the innovation process, which is the *long wave* of value creation, is for many companies a more powerful driver (leading indicator) of future financial performance than the short-term operating cycle. The BSC internal-business-process perspective incorporates the two vital internal processes (short and long wave) and the objectives and measures of both long-wave innovation cycle as well as the short-wave operation cycle.

Organizations are unlikely to meet their long-term targets for customers and internal processes using today's technologies and capabilities. There need to be a continuous enhancement of capabilities and embracing of new skills and technologies. According to Kaplan and Norton (1996) organizational learning and growth come from three principals sources. These sources are people, systems, and the organizational procedures. The financial, customer, and internal-business-process objectives on the BSC will typically reveal large gaps between existing capabilities of people, systems, and procedures and what will be required to achieve break through performance. The gaps will be filled by the organizations investing in the employees' skilling, adopting new technologies, and aligning organizational procedures and routines.

2.2.4 The Critique of Balanced Scorecard Approach

Most failures of BSC adoption in many organizations are associated with poor design and poor application procedures as was the case of activity-based costing (ABC) in the 1990s (Cokins, 2005). However there are fundamental concerns at the heart of the BSC system itself that underpin the application pitfalls. These need to be addressed to facilitate pragmatic adaptation of the basic BSC model in organization (Lovell and Radnor, 2002). Some of the shortcomings according to Lynch (2003) are that the BSC lays a strong emphasis on what is measurable, which is not necessarily what is important strategically, rather than on gaining commitment and action. Moreover the scorecard may lead to too much measurement in large organizations, turning the whole process into a bureaucratic nightmare. The BSC is divided into four perspectives, financial, customer, internal and learning and growth. Trying to apply a scorecard in a perfectly balanced way undermines it purpose which is to provide management with a better way to targets resources to improve operating performance in the most critical way (Schneiderman, 1999). There also lacks a standard of understanding among executives of what really is the BSC and what is its purpose, this is exemplified by the widely different answers one gets when these questions are posed to various executive (Cokins, 2005).

According to a survey conducted in Japan in June 2003 (Morisawa and Kurosaki, 2003) about third of the 35 companies that responded to questions about the introduction of the BSC approach reported that they felt dissatisfied. The research found out that there were deficiencies especially in the introduction and during early phases of BSC use by companies. The research recommended that unless appropriate measures were taken to correct the deficiencies, it was feared that the concept was going to collapse under the weight of growing number of failed cases in Japan and be regarded in the future as a little more than a passing fad.

Altogether the balanced scorecard translates vision and strategy into objectives and measures across a balanced set of perspectives. The scorecard includes measures of desired outcomes as well as processes that will drive the desired outcomes for the future (Kaplan and Norton, 1996).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

The research design was case study. The case study method was the best since it enabled an intensive investigation of the application of the balanced scorecard in KRA. Previous studies of similar nature have used this method for example, (Koske, 2003; Muhoro, 2004; Nyamweya, 2004).

3.2 DATA COLLECTION

Both primary and secondary data was used in the research. The primary data was collected through in-depth interviews especially with the corporate and planning section which has the responsibility of developing the KRA corporate strategy. Eleven respondents were used in this study, four from top management, two from the corporate planning section and five from the general staff. The secondary source of data was from the organizations strategic plans and other related documentations, internal memos and minutes of meetings about BSC and strategy implementation in the organization.

3.3 DATA ANALYSIS

The data analysis sought to establish how KRA applied the balanced scorecard in implementing its strategy. The analysis also constituted identifying the various challenges KRA faced and is facing in it endeavour to fully adopt the BSC philosophy in its management and the benefits of adopting the BSC approach. This being a qualitative study, qualitative data analysis was used. This method constitutes content analysis which was used to identify and extract the key themes, concepts and arguments. This was best suited for the kind of data that was collected. Content analysis has been successfully used to conduct similar qualitative studies in the past, these include (Thiga, 1999; Njau, 2000; Koske, 2003).

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 INTRODUCTION OF BSC IN KRA

KRA usually develops a three year corporate plan. The corporate plan of 2000/01-2002/03 was the first KRA corporate strategy. The second corporate plan was the 2003/04-2005/06, and the third corporate plan 2006/07-2008/09 was launched at the time of data collection of this study. BSC was introduced during the second KRA corporate plan and it was also at the same time that KRA was getting a new chief executive officer, the commissioner general. Since then KRA has been applying BSC in implementing its strategies.

The adoption of the BSC in KRA was the initiative of the new commissioner general. This made the BSC adoption initiative to receive the top management backing it required to at least attain the success rate it has achieved. A team was constituted by the top management to spearhead the adoption of the BSC in KRA. This team was trained and made visits outside the country to organizations which were using the BSC successfully. A committee constituting representation of all the departments was constituted. This committee was t oversee the application of the BSC in KRA. Various seminars and workshops were organized to sensitise and market the BSC approach to KRA employees especially the management.

After the vigorous sensitization and marketing the second corporate plan was launched and it was modelled on the BSC. The strategies in the second corporate plan were based on the four perspectives of the balanced scorecard. The four perspectives were, enhanced revenue collection and containment of cost, quality service delivery, modernisation of internal processes, and revitalised workforce (Second Corporate Plan, 2003/04-2005/06).

All the departments that constituted KRA were required to construct their own departmental BSCs based on the corporate BSC. The corporate BSC was developed from the second corporate strategy and the KRA vision. The divisions and sections developed their own BSCs as an extraction from their respective departmental BSCs.

4.2 DEVELOPING AND APPLICATION OF BSC AT KRA

The BSC is usually developed from the strategy and vision. This was the case at KRA. The first corporate BSC was developed from the second corporate plan 2003/04-2005/06. For the BSC to be developed the corporate strategy had to be in place. KRA develops its corporate strategy through consultations with all the departments, divisions and sections. Every department and division and some sections provides some inputs in the development of the strategy. During the development of the third corporate plan even the lower cadre employees were involved in providing inputs.

After all departments, division, and sections have provided the inputs, the research and corporate planning division compiles all the inputs and comes up with the corporate strategy. The research and corporate planning also develops the KRA Corporate BSC from the corporate strategy. The two documents, corporate strategy and the corporate BSC are then taken to the top management for scrutiny and vetting. After the corporate strategy is ratified by the top management, it is adopted as the corporate strategy for the next three years. The corresponding BSC becomes the corporate BSC also referred to as the commissioner general's BSC for the same period.

Once the KRA corporate strategy and the corporate BSC are in place, the BSC cascading process starts. Every department extracts from the corporate BSC all the objectives, measures, initiatives, and targets that concerns its area of operations and develops its BSC. The cascading process is supposed to go down up to grade 10. The top grade in KRA is grade 1 which is the commissioner general's grade.

With the recent introduction of performance contracts by the government, KRA has integrated BSC with performance contracts. The commissioners sign performance contract for the departments. The commissioners' performance contracts are purely the departmental BSC proceeded with a vow of commitment of achieving the targets contained in the performance contract. This becomes the basis for monitoring performance at stipulated agreed time period within the financial year. The commissioners in turn require the deputy commissioners to prepare their divisional BSCs. The divisional BSCs become integral part of the deputy commissioners' performance contracts which they sign with their respective commissioners' during departmental conference meetings. The deputy commissioners require their subordinates who are grade 5 to prepare their BSCs from the divisional BSC and sign performance contracts. This process of BSC cascading is supposed to progress down up to grade 10. The cascading process becomes more completed as it moves down the lower grades.

All the departmental, divisional and sections heads use their respective BSC to guide all the activities in the areas of their jurisdiction. They carry out their operations in line with the four BSC perspectives. The top management plans to further entrench the BSC by cascading it to operational levels. This is to be achieved through the alignment of departmental and individual goals with the overall KRA strategy (Corporate plan 2006/07-2008/09).

4.3 BENEFITS AND CHALLENGES OF BSC APPLICATION IN KRA

All KRA management is in total agreement of the usefulness of the BSC approach. All respondents from the management liked the BSC framework because it gives them direction as they discharge their duties. The objectives, initiatives, measures, and targets guide their divisions and sections as they carryout their mandates. According to top management respondents it is now easy to quantify work done, measure progress, and to ensure that one is on the right course.

The BSC has helped in prioritizing the objectives that have a great impact on the overall performance. Without any control measure it is very tempting for an organization to concentrate on its core business while giving very little attention to other aspects that directly affect success of the core business. The four perspectives of the BSC ensure that the organization is viewed in totality. This has had a big positive impact on KRA operations especially from the taxpayers view based on the survey findings and performance reports since the introduction of the BSC in the second corporate plan.

The BSC approach is helping a great deal in communicating KRA corporate strategies to the employees. Through the BSC cascading process, lower cadre employees are able to see how their daily work contributes to the overall KRA goals. An evaluation of the first KRA corporate plan showed that it did not meet the revenue target. Various reasons have been given for this failure including the negative national economic growth, but the major shortcomings of the first corporate plan was that it lacked away of communicating the strategy to the staff and monitoring the implementation.

According to the second corporate plan (2003/04-2005/06) the first corporate plan has been criticised on the account of not having had clear verifiable performance indicators, a situation that made it impossible to monitor the implementation. This made it difficult to provide an objective assessment as to whether the objectives were met or not. But with the second corporate plan it was easy to do this with the use of the BSC. BSC is helping to a great extend in institutionalising planning within KRA.

There are various challenges that KRA has faced as it adopts BSC approach. Some of these challenges are being overcome as the BSC application matures with time.

The introduction of BSC in KRA would be expected to elicit a lot of resistant. However there was very little especially from the management. The main reason for this negligible resistance was that enough sensitization and marketing was done to the management. The other major reason for minimized resistant was that the BSC was introduced by the new commissioner general. The fact that there was a change in the leadership of KRA was enough signal to set ground for major changes. The whole organization was in an expectant mood. And so when the new CEO announced the introduction of BSC the environment for change was already set. At the time of BSC introduction, KRA was undergoing major reforms and modernisation and BSC was taken as one of the major reforms.

KRA is still undergoing major reforms and modernisation this means sometimes restructuring, merging of departments for example the merger of Income Tax and Value Added Tax to form the Domestic Taxes Department (DTD), the recent disintegrating of DTD into two headed by two commissioners. These reforms and modernization affects the application of the BSC to some extend.

The major challenge that KRA is facing as it applies BSC in implementing it strategies is cascading. While the BSC is supposed to be cascaded down to grade 10, it only has managed to reach grade 5 effectively. The other lower cadre employees refer to BSC as belonging to grade 5 and above. This has been made worse by failure of the divisional and section heads to share effectively their divisional and sectional BSCs with their subordinates. This makes the lower cadre employees to conclude that their duty is to execute tasks as they are assigned by their managers, whether those tasks are in the BSC for the section and division or not is the responsibility of the managers. KRA seemed to have concentrated greatly on top management during the sensitisation and marketing of the BSC and did very little on the middle management and non management staff. This has led the big disparity between these groups. At the top management level, KRA grade 5 and above the BSC understanding, appreciation and usage is very high while at the lower level the understanding is very low.

KRA lacks a framework of determining and verifying the BSC measures objectively. This leads to subjectivity when scoring various BSC targets. The metrics used to measure various objectives and initiatives other than for the revenue perspective seems not to be clear, this has led to some sections and divisions using initiatives as measures of progress.

The cascading of the BSC in its totality also proves to be a challenge. It becomes very complex how each of the four perspectives of the BSC are to be cascaded, for example populating the BSC financial perspective of a section that does not deal with revenue collection. This becomes even more difficult when the BSC is to be cascaded down to lower grades in management and at an individual level.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 KRA'S APPLICATION OF THE BSC

From the research findings, it was established that KRA started using the BSC in the second corporate plan 2003/04-2005/06. In the first corporate plan 2000/01 - 2002/03 a committee rather than the BSC was used to communicate and monitor the implementation. It was also established that KRA has launched its third corporate plan 2006/07-2008/09 with a strong emphasis that the BSC will continue being used as a management yardstick for benchmarking performance.

The study also established that the KRA corporate strategy is developed through consultation, and the corporate BSC is constructed from the corporate strategy. The commissioners extract objectives, measures, initiatives, and targets relevant to their departments from the corporate BSC and construct their departmental BSCs. All the activities within departments are guided by the departmental BSC. The deputy commissioners heading divisions further extracts from the departmental BSC objectives, measures, initiatives, and targets relevant to their divisions and constructs their divisional BSCs. This cascading process is supposed to tickle down up to grade 10. However the research findings established that this cascading ends at grade 5.

The study found out that KRA has integrated the recently introduced performance contract with the BSC. The study established that the performance aspect of the performance contract constitutes the BSC. The evaluation of the management staff is based on the performance contract. The integration of BSC with performance contract has solidified the use of the BSC in KRA management operations.

The BSC is used as guidance and a yardstick to gauge performance within Kenya Revenue Authority. However the research found that in its endeavour to embrace BSC approach the lower cadre employees in KRA have to some extend been neglected and top management seems to be the point of concentration.

5.2 CHALLENGES FACED IN USING BSC IN KRA

KRA initial plan was to have BSC cascaded down to grade 10. Grade 10 is considered to be last lowest grade in management. However the research findings established that KRA has managed to effectively cascade its BSC up to grade 5. The cascading of the BSC in its complete format presents a challenge. Populating all the four perspectives of the BSC to the lower level employees becomes difficult from one to the next level. The other grades below grade 5 seem to believe that the BSC was meant for grade 5 and above. This situation has been made worse by division and section heads failing to share their respective BSCs with their subordinates. However all the employees within KRA seem to know about the BSC but lack the understanding and appreciation of the BSC especially the grades below grade 5.

KRA BSCs lacks a way of objectively determining and verifying the BSC measures especially when determining achieved scores in various BSC initiatives. In KRA the owner of the BSC decides the scores of various initiatives within his or her BSC. This makes the evaluation process subjective. For the scores to be objective, there need to be a framework of determining, for example what 25% achievement means and be agreed across the board not being subjective based on who is evaluating the initiative in question.

In KRA BSCs, the difference between the measures and initiatives seem not to be very clear. In some situations the initiatives are used as measures instead of using the decided metrics to determine progress.

High management turnover through transfers within the KRA disrupts the continuity of the BSC implementation. Lack of resources especially funding of the BSC adoption project seems to affect the entire process. This means training and education and marketing the BSC philosophy within KRA can not be carried out leading to little understanding and hindering full utilization of the BSC. KRA is not able to gauge the success rate of BSC application objectively, this is because KRA does not monitor and evaluate the BSC adoption and application process as a project.

5.3 BENEFITS OF USING BSC IN KRA

Despite the challenges that KRA faced and is still facing as it embraces BSC, there are various benefits that KRA has realized from the use of the BSC. The BSC has helped KRA to be a strategy focused organization, where all the activities done within the organization are prioritized in implementing corporate objectives.

The BSC has helped in demystifying the corporate strategy and the corporate vision to employees especially management. The BSC has made performance measurements very easy to understand and evaluate. In the second corporate plan it was indicated that it was hard to establish whether the objectives set in the first corporate plan were achieved or not because of not having had clear verifiable performance indicators.

The four perspectives of the BSC has made KRA corporate plan to deliberately focus on other perspectives of KRA that affect the success of the core business of revenue collections. This among other things has boosted the performance of KRA in revenue collections. The BSC is accelerating the institutionalization of planning within KRA especially with the integration of the BSC and the performance contracts. These performance contracts are taken very seriously by the management and by extension the general employees.

5.4 LIMITATIONS OF THE STUDY

The study was carried out when KRA was undergoing a lot of changes in its reform and modernization process. This could have affected the true reflection of the effects of using BSC within KRA. The data for the study was collected within KRA headquarter in Nairobi only. This left out the participation of other KRA stations spread across the country whose contribution could have enriched the study.

5.5 SUGGESTION FOR FURTHER STUDY

This study concentrated on KRA which is state corporation. Additional studies should be carried out to establish how Kenyan organizations are applying the BSC in implementing their strategies. The challenges these organizations are facing and the benefits they are realizing by using the BSC. These studies could use case study or survey designs.

5.6 RECOMMENDATIONS

Based on the findings of this study, KRA should provide enough resources especially funding for comprehensive sensitization and marketing especially on the lower cadre employees. There is need for training and retraining consistently to improve the understanding and usage of the BSC.

Division and section BSCs need to be shared and owned by the entire subordinates under the respective division and sections. This can be achieved through frequent meetings where the heads of divisions and sections share and brainstorm with the subordinates on how to achieve the divisional or sectional targets.

KRA also lacks a communications strategy. This hinders effective articulation of KRA policies and strategies to staff and taxpayers. This affected how the BSC adoption was communicated to the entire KRA fraternity. However KRA have various channels that are not being utilized to market and emphasise on the importance of the BSC and the organization commitment to continue using it. These channels include the internal Times Tower weekly bulletin, the Revenews quarterly newsletter, and the KRA Intranet. Unfortunately none of these communication media are used to pass information about the BSC. A column should be reserved especially on the weekly bulletin specifically for BSC. The intranet can be used to pass BSC information to the staff. Other methods include the use of computer screensavers which can be very effective especially when sensitizing the lower cadre employees.

The BSC committee formed to oversee the adoption of BSC which did a commendable job to sensitize the top management seems to have done very little to sensitize the lower cadre employees. This has created a disconnect on BSC utilization between the two groups. This committee need to do the same to the entire KRA employees for successful BSC application.

KRA need to come up with a way to monitor and evaluate the adoption of the BSC to ensure it progresses as planned and rectify any deviation like the cascading problem. A framework need to be developed for objectively determining the metrics and scores used in the BSC rather than using subjective scores or measures currently determined by the owner of the BSC.

For KRA to internalize the BSC philosophy now and in the future, it is highly recommended that the training of BSC be included as a common and mandatory course in the KRA Training Institute KRATI. After recruitment graduate trainees usually go through KRATI for training for several months before being posted to various stations within KRA. It is also recommended that staff that goes to KRATI for any refresher course also undergoes the BSC mandatory course.

If all these are done effectively it is believed that the understanding and application of the BSC in KRA will greatly improve.

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APPENDIX 1: INTERVIEW GUIDE

University Of Nairobi

School Of Business

Department of Business Administration

NB: The information gathered will be treated confidentially and will **NOT** be used for any other purpose other than academic.

(For the Corporate Planning Section Interview)

1. a) What was the main drive behind KRA's adoption of the BSC?

   b) How was the concept of BSC communicated to the entire organization?

2. What was the role of this section?

3. a) Were there any preparations done ?

   b) Who was/were the lead person/office in the KRA BSC project?

4 a) How constructed the first KRA BSC?

b) How does KRA construct its BSC to ensure that the BSC captures all aspects of its operations?

5 KRA have various phases of it corporate plan, how is this reflected in the KRA BSC?

6. What are/is the benefit(s) of applying the BSC in KRA?

7. What were the challenges of adopting BSC in KRA?

8. a) What is your commend on the success or failure of KRA BSC application?

   b) Any other information you may want to share about your experience on BSC application?

(For the Top and Middle Management Interview)

1. What is the mandate of this division/section and how does it contribute to the overall KRA objectives?
2. How was KRA adoption of BSC communicated to you?
3. How did you communicate the BSC to KRA staff under you?
4. Is there any relationship between KRA BSC and KRA corporate strategy?
5. How do you prepare the BSC for your section?

6. How has the BSC helped in your day to day work of area of responsibility?
7. Do the contents of the KRA BSC (especially the targets, measures, and objectives) correlate with the actual, measures, objective, and targets given to your division/section?
8. Are there any challenges you faced/are facing in using the BSC
9. What is your commend on the success or failure of using BSC in your division/section?
10. Any other information you may want to share about your experience on BSC ?

(For non Management staff Interview)

1. How many years have you worked in KRA?
2. Have you ever heard about the KRA balanced scorecard (BSC?)
3. How does your section use the BSC in its day today operations?
4. Is there any relationship between KRA BSC and KRA corporate strategy?
5. Does the contents of the KRA BSC (especially the targets, measures, and objectives) correlate with the actual, measures, objective, and targets given to you by your immediate supervisor?
6. Does the BSC help you in any way in the course of executing your duties?
7. What challenges have been facing in using the KRA BSC?
8. What would like done so that you can fully understand and use the KRA BSC comfortably?
9. What is your commend on the success or failure of BSC?
10. Any other information you may want to share about your experience on BSC?

APPENDIX 2: SAMPLE PERFORMANCE CONTRACT DRAFT

Kenya Revenue Authority

PERFORMANCE CONTRACT BETWEEN THE DEPUTY COMMISSIONER AND COMMISSIONER OF CUSTOMS SERVICES

This contract is made between Mr. Jim Commissioner of Customs Services and Mr. Kim in his capacity as the Senior Deputy Commissioner in charge of the Policy & Legislation Division.

NOW IT IS HEREBY AGREED AS FOLLOWS:

1.0 VISION

To be the leading Revenue Authority in the world respected for Professionalism, Integrity and Fairness.

Professionalism: Customs Services Department is committed to the highest standards of achievement obtainable through dedication and skill.

Integrity: Customs Services Department is committed to treating people fairly and applying the law fairly through honesty and openness.

Fairness: Customs Services Department is committed to applying the law consistently and responsibly as well as administering its requirements reasonably.

Equity: Customs Services Department values differences in people and ideas and is committed to treating people with dignity and esteem.

Corporate Social Responsibility: Customs Services Department values all stakeholders and is committed to close collaboration with them so as to nurture participatory approaches to enhance their social wellbeing.

2.0 MISSION

To promote compliance with Kenya's tax, trade and border legislation and regulation by promoting the standards set out in the Taxpayers' Charter and responsible enforcement by highly motivated and professional staff thereby maximizing revenue collection at the least possible cost for the socio-economic well being of Kenyans.

STRATEGIC OBJECTIVES

The division's medium strategic theme is:
"To develop a dedicated and professional team through process re-engineering and modernisation of technology so as to enhance revenue collection, improve compliance and strengthen enforcement".

The following are the Divisions strategic objectives:

To be an employer of choice that values staff development and empowerment while institutionalising professionalism through internal and external control procedures by:

Enhancing professional and personal development of staff – The objective will be to build the managerial and leadership capacity of staff including the capacity to handle EAC and Regional issues.
Improving human resource management – The objective will be to review and implement the approved organization structure /establishment of the division.
Streamline and Strengthen Knowledge Management at CSD – The objective will be to develop and implement a CSD Knowledge Management strategy in the first year of plan.

Harmonisation and implementation of an internal communications strategy to ensure awareness and participation – The objective will be develop and implement interactive communication strategies so as to achieve 100% awareness of policies and instructions across the entire Customs Services Department.

To reengineer the administrative procedures by modernisation of internal processes through:

Conduct Business Processes and continuously review our process- the objective will be to carry out business process mappings and address process gaps and continuously improve the processes.

Modernisation and Simplification of customs procedures – The objective will be to facilitate accession to Revised Kyoto Convection the first year` of the plan and prepare implementation action plan with an aim of implementing the provisions of RKC.

Improve representation and negotiations of Customs conventions and agreements- The objective will be to set up a fully fledged International and regulatory Affairs section and ensure maximum participation of Kenyan officials in regional and international programmes and meetings.

Coordinating Research, and planning functions at CSD – The objective will be to cascade the current CSD business plan to all staff within the first quarter of the 1st year of the plan and monitor the plan through reviewing the department's Balance score card monthly.

Coordinate Implementation of Quality Management Programme (QMP) in line with ISO 9001:2000 – the objective will be facilitate the attainment and retention of the ISO status and carry out QMP audits annually.

To minimise stakeholder compliance costs and enhance service delivery by :

Facilitate trade – The objective will be to develop and implement integrated border management plan within the East Africa Trade And Transport Facility Project.

Enhance partnership with stakeholders – The objective will be to revive the Memorandum of Understanding (MOU) with KIFWA and work closely with AKI to improve bonds management.

Review and implementation of the Taxpayers Charter and Internal Standards – The objective will be to achieve at least 70% of the standards set out in the Taxpayers' Charter, 100% of the standards set out in the Internal Standards and reduce cost of taxpayer compliance.

Conduct Taxpayer satisfaction surveys on periodic basis – the objective will be to undertake at least 2 surveys annually.

Coordinate statistic functions in the Department – the objective will be to provide quality and timely statistics to users and generate trade and other statistics timely by reducing current backlog to at most one month.

To be an efficient, effective division that facilitate optimisation of revenue collection, by:

Proposing and implementing legislative changes that support maximisation of revenue. The objective therefore will be to propose policy on fines and penalties under the CMA, participate in National Budget making process at treasury/EAC secretariat and sensitize all staff on the amendments and new provisions after the reading of the budget.

Improve Dispute Resolution Management: the objective will be to set up a fully fledged Legal and Regulatory section with clear Terms of Reference, revive Customs Tribunal and improve dispute resolution mechanisms to reduce costs of litigations by aggrieved taxpayers.

Containing Division's recurrent expenditure at the level approved by Kenya Revenue Authority and CSD.

4.0 DUTIES AND RESPONSIBILITIES OF THE DEPUTY COMMISSIONER

The Deputy Commissioner as the head of the Policy and Legislation and subject to the general supervision and control of the Commissioner of Customs Services shall be responsible for discharging the following function and duties:

day-to-day operations of the Division;
management of funds, property and affairs of the Division ; and
Administration, organization and control of the staff in the division.

5.0 COMMITMENTS AND OBLIGATIONS OF THE COMMISSIONER OF CUSTOMS SERVICES DEPARTMENT

The Commissioner of Customs services commits herself to the achievement of the vision, mission and objectives of the Department and to always act in the best interest of the Department and to avoid conflict of interest. In this regard the Commissioner undertakes:

Not to impede or in anyway restrict the discretion of the Ag Deputy Commissioner (P&L) regarding matters falling within his respective authority;
To provide prompt policy advise and guidance as may be necessary;
To aggressively lobby the KRA management and other stakeholders in order to generate necessary support for Divisions reforms and policies.

6.0 PERFORMANCE MATRIX

The Ag Deputy Commissioner (P&L) shall perform the above functions in accordance with the highest standards of professional and ethical competence and integrity in revenue administration, having due regard to the underlying objectives for which the Division was established. **(For the performance matrix see attached -Annex I)**

7.0 REPORTING REQUIREMENTS

The Ag deputy Commissioner shall submit quarterly and annual reports on performance to the Commissioner of Customs Services.

8.0 CHANGES

No changes shall be made to this Contract, unless agreed on and signed by both parties.

9.0 FORCE MAJEURE

The failure by the Ag Deputy Commissioner to fulfil any of the obligations hereunder shall not be considered to be a breach or default under this contract insofar as such liability arises from an event that was beyond its control.

10.0 DURATION OF THE PERFORMANCE CONTRACT

The Performance Contract will run for 12 months between July 1st 2006 and 30th June 2007.

Signed:

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DEPUTY COMMISSIONER (P&L) COMMISSIONER OF CUSTOMS SERVICES

Note:
The names used in this sample performance contract are not the really names for position holders at the time of carrying out this study.

	Criterion	Unit	Weight					Evaluation Criteria					
				2003/04	2004/05	2005/06	Best Ever Achievement (last 10 years)	1 Outstanding	2 Excellent	3 **Very Good Targets for 2006/07**	4 Good	5 Fair	6 Poor
1.0	**People**												
1.1	Knowledge Management	status	5%	N/A	N/A	N/A	N/A	Review Strategy on basis of evaluation reports	Evaluate strategy and action plan	**Implement strategy and action plan**	Approved strategy and action plan	Developed strategy and action plan	No new initiative
1.2	Develop an implement internal communication strategy - target to achieve 100 percent awareness.	Status	5%	N/A	N/A	N/A	N/A	over Two awareness surveys undertaken, improvement in awareness index	Two awareness surveys undertaken, improvement in awareness index	**One awareness survey undertaken**	Implementation of communication policy	Preparation of draft communication policy	No new initiative
1.3	Enhancing professional and personal development of staff	Status	5%	N/A	N/A	N/A	N/A	Over 90% of staff undertake refresher courses	90% of staff undertake refresher courses	**80% of staff undertake refresher courses**	50% of staff undertake refresher courses	30% of staff undertake refresher courses	15% of staff undertake relevant training
1.4	Review and Implementation of Divisional organisational structure	Status	3%					Structure reviewed and gaps addressed	Structure implemented in all sections	**Structure implemented in 75% of** sections	Structure implemented in 50% of sections	Structure implemented at 25% of sections	Structure developed but not implemented
1.6	Employee Satisfaction - carry out a survey to establish level of employee satisfaction by 30th June 2007.	%	2%	N/A	N/A	N/A	N/A	Reviews done and employee satisfactions levels increased	**Surveys done and complaints addressed**	**Two awareness surveys undertaken**	**One awareness survey undertaken**	Proposal done for the survey	No survey undertaken
1.7	Corruption prevention - implement and monitor quarterly CSD Integrity Action Plan	Status	5%	N/A	N/A	N/A	N/A	Exceed expectations	100% Implementation CSD Integrity Action plan	90%-100% implementation of approved CSD Integrity Action plan	70%-89% implementation of approved CSD Integrity Action plan	50%-69% i implementation of approved CSD Integrity Action plan	Less than 50% implementation
	Total		**25%**										

	Criterion	Unit	Weight					Evaluation Criteria					
				2003/04	2004/05	2005/06	Best Ever Achievement (last 10 years)	1 Outstanding	2 Excellent	**3 Very Good** **Targets for 2006/07**	4 Good	5 Fair	6 Poor
2.0	**Internal Processes**												
2.1	Simplification and harmonisation of procedures and processes -Accession to Revised Kyoto Conventions(RKC)	Status	5%	None	None	None	None	Exceed expectations	**Fully Implement RKC**	**Attain Accession by sept 2006**	Attain accession by Dec 2006	Attain accession by March 2007	No Accession attained
2.2	Build capacity to handle Regional and International(R&I) issues - improve representations in negotiations of Customs Conventions/agreements	Status	5%	None	None	None	None	Exceed Expectations	Full address emerging challenges under EAC, COMESA & EU	**A fully fledged unit complete with adequate staff**	Implement an action plan	Develop an action plan to handle R & I issues	Establish a unit to handle regional and international issues
2.3	ISO 9001:2000 Certification	Status	5%	N/A	N/A	N/A	N/A	> 1 quality audits undertaken	1 quality audit undertaken	**Established and implemented Quality Management System**	Internal audits undertaken and gaps addressed	Expansion of sensitisation programme	No new initiatives
2.4	Modernise internal processes - conduct Business Processes Improvements	Status	5%	None	None	None	None	Exceed expectations	Conduct business process reviews	**Carry out improvements**	Address gaps	Conduct BP mappings	No New Initiative
2.5	Improve planning process	Timeliness	5%	N/A	N/A	N/A	N/A	Cascade CSD/Div Plans to all staff upto KRA 10	Cascade CSD/Div Plans to all staff upto KRA 7	Cascade CSD/Div Plans by July 2006	Cascade CSD/Div Plans By August Dec 2006	Cascade CSD/Div Plans by Sept 2006	Cascade CSD/Div Plans after Dec 2006
	Total		**25%**										

	Criterion	Unit	Weight					Evaluation Criteria					
				2003/04	2004/05	2005/06	Best Ever Achievement (last 10 years)	1 Outstanding	2 Excellent	3 **Very Good** **Targets for 2006/07**	4 Good	5 Fair	6 Poor
3	**Customer**												
3.1	Enhance partnership with stakeholders by reviving MOU with KIFWA	Status	5%	N/A	N/A	N/A	N/A	Exceed expectations.	MOU in force and honoured by both parties	**MOU signed**	Agreements reached / all issues resolved	Negotiations begins	No new initiatives
3.2	Facilitate trade through developing and implementing Integrated Border management plan within East Africa Trade & Transport Facilitation Project (EATTFP)	Status	5%	N/A	N/A	N/A	N/A	Review Strategy on basis of evaluation reports	Evaluate strategy and action plan	**Implement strategy and action plan**	Approved strategy and action plan	Developed strategy and action plan	No new initiative
3.3	Implementation of the Taxpayers Charter Implementation of Internal Standards	Status	5%	N/A	N/A	N/A	N/A	>70% >100%	70% Achievement 100% Achievement	**61-70% Achievement** **70-99% Achievement**	51-60% 51-69%	41-50% 41-50%	<40% <50%
3.4	Provision of quality and timely statistics to users - reduce backlog in trade data provision	Timeliness	5%	N/A	N/A	N/A	N/A	Reduce the backlog by more than70%	Reduce the backlog by 70%	**Reduce the backlog by 60-69%**	Reduce the backlog by 50%-59%	Reduce the backlog by 40%-49%	Reduce the backlog by less than 40%
3.5	Customers satisfaction survey -carry out a survey to establish level of stakeholder satisfaction.	Status	5%	N/A	N/A	N/A	N/A	Exceed expectations	**Surveys done and 100% complaints addressed**	**surveys undertaken and 50% complaints addressed**	**survey undertaken**	Proposal done for the survey	No survey undertaken
	Total		**25%**										

	Criterion	Unit	Weight					Evaluation Criteria					
				2003/04	2004/05	2005/06	Best Ever Achievement (last 10 years)	1 Outstanding	2 Excellent	**3 Very Good** **Targets for 2006/07**	4 Good	5 Fair	6 Poor
	PARAMETERS												
4.0	**Enhanced Revenue**												
4.1	Revenue Collection Conduct trend analysis for revenue enhancements	Timeliness / status	5%	N/A	N/A	N/A	N/A	Conduct trend analysis for various issues every week	Conduct trend analysis for different issues twice a month	Conduct trend analysis for various issues every month	Conduct trend analysis for various issues every 2months	Conduct trend analysis for specific issues every 3 months	No trend analysis done
4. 2	Cost of Collection Total agency revenue as ratio of total revenue collected	%	5%	N/A	N/A	N/A	N/A	Less than approved Limit	Within approved Limit	**0.1% above Approved Limit**	0.2% above approved Limit	0.3% or more above approved Limit	0.4% or more above approved Limit
4.3	Propose legislative changes to enhance penalties and fines under CMA	Status	5%	None	None	None	None	Outcome of from P&I exceed expectations	Proposal implemented	**Proposal adopted**	Proposal presented	Proposal done	No new initiative
4.4	Development and implementation of Dispute Resolution Strategy (Tribunal)	%	5%	None	None	None	None	higher Number of disputes resolved	Number of disputes resolved	**Established and functioning Tribunal**	Approved Dispute Resolution Strategy in place	Draft Dispute Resolution strategy developed	No new initiative
4.5	Effective representation in national budget decision making process and Sensitise staff on provisions/amendments of the law.	timeliness	5%	N/A	N/A	N/A	N/A	Sensitise all staff within less than a week of the budget	Sensitise all staff within a week of budget	Sensitise all staff by July 2006	Sensitise staff by august 2006	Sensitise staff by sept 2006	Sensitise staff after sept 2006
	Total		**25%**										