

**EFFECTIVENESS OF THE BALANCED SCORECARD ON  
PERFORMANCE OF NON-GOVERNMENTAL ORGANIZATIONS IN  
KISUMU COUNTY, KENYA**

**BY  
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## DECLARATION

This research project is my original work and has not been presented for any award or degree in any university.

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## **DEDICATION**

This work is dedicated to my husband **Dr. David Omondi** for his encouragement and support throughout the study period and to our children **David Rodgers** and **Davina Rihanna**. Principal honour goes to parents **Mr. John Ouko** and **Mrs. Benter Anyango** and **Mr. Jared Owi** and **Mrs. Alice Owi** for sacrificing for my education.

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## TABLE OF CONTENT

	<b>PAGE</b>
<b>DECLARATION.....</b>	<b>ii</b>
<b>DEDICATION.....</b>	<b>iii</b>
<b>ACKNOWLEDGEMENT.....</b>	<b>iv</b>
<b>TABLE OF CONTENT.....</b>	<b>v</b>
<b>LIST OF FIGURES.....</b>	<b>ix</b>
<b>LIST OF TABLES.....</b>	<b>x</b>
<b>ABBREVIATIONS AND ACRONYMS.....</b>	<b>xii</b>
<b>CHAPTER ONE.....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>1</b>
1.1 Background of the Study.....	1
1.2 Statement of the problem.....	8
1.3 Purpose of the Study.....	9
1.4 Objectives of the Study.....	9
1.5 Research Questions.....	10
1.6 Significance of the study.....	10
1.7 Basic Assumptions of the Study.....	11
1.8 Limitations of the Study.....	11
1.9 Delimitation of the study.....	12
1.10 Definition of Significant Terms used in the Study.....	12

1.11 Organization of the Study .....	14
<b>CHAPTER TWO .....</b>	<b>15</b>
<b>LITERATURE REVIEW .....</b>	<b>15</b>
2.1 Introduction.....	15
2.2 The concept of Performance of Non-Governmental Organizations .....	15
2.3 The concept of the Balanced Scorecard.....	18
2.4 Customer related factors on Performance of Non-Governmental Organizations .....	21
2.5 Internal Processes related factors on Performance of Non-Governmental Organizations .	23
2.6 Learning and Growth related factors on Performance of Non-Governmental Organizatio.	24
2.8 Theoretical Framework .....	28
2.9 Conceptual Framework .....	28
2.10 Summary of Literature Review.....	31
<b>CHAPTER THREE .....</b>	<b>34</b>
<b>RESEARCH METHODOLOGY .....</b>	<b>34</b>
3.1 Introduction.....	34
3.2 Research Design.....	34
3.3 Target Population.....	34
3.4 Sample size and Sample selection .....	35
3.4.1 Sample Size.....	35
3.4.2 Sampling Selection .....	35

3.5 Research Instruments .....	36
3.5.1 Pilot Testing .....	37
3.5.2 Validity of Research Instruments.....	38
3.5.3 Reliability of Research instrument.....	38
3.6 Data Collection Procedure .....	39
3.7 Data Analysis techniques .....	39
3.8 Ethical Consideration.....	40
<b>CHAPTER FOUR.....</b>	<b>40</b>
<b>DATA PRESENTATION, INTERPRETATION, ANALYSIS AND DISCUSSION .....</b>	<b>40</b>
4.1 Introduction.....	41
4.2 Questionnaire Response Rate .....	41
4.3 Background information .....	41
4.3.1 Demographic Characteristics of the respondents.....	41
4.4 Customer perspective related factors as a component of the Balanced Scorecard .....	46
4.5 Internal Processes Perspective related factors a component of the Balanced Scorecard....	54
4.6 Learning and Growth perspective related factors as a component of the Balanced Scorecard.....	60
4.6 Financial Perspective related factors as a component of the Balanced Scorecard .....	66
5.1 Introduction.....	74
5.2 Summary of findings.....	74

5.3 Conclusions.....	76
5.4 Recommendation .....	78
5.5 Contribution of the study to the body of knowledge .....	80
Suggestion for further research.....	81
<b>REFERENCE.....</b>	<b>82</b>
<b>APPENDICES .....</b>	<b>88</b>
Appendix 1: Questionnaire .....	88
Appendix 2: Map of Kisumu County.....	93
Appendix 3: Authorization Letter.....	93
Appendix 4: Research Permit.....	94



## LIST OF FIGURES

Figure 1.1 Conceptual Framework .....	29
Figure 4.2 Distribution of customer perspective items into factor loading space .....	50
Figure 4.3 Distributions of internal process items measures into factor loading space.....	57
Figure 4.4 Distribution of learning and growth perspective items into factor space.....	63
Figure 4.5 Distribution of financial perspective items into factor space .....	70

## LIST OF TABLES

Table 4.1 Distribution of Respondents by Gender.....	42
Table 4.2 Distribution of Respondents by Age.....	43
Table 4.3 Distribution of Respondents by Nationality .....	43
Table 4.4 Distribution of Respondents by Position in the Organization .....	44
Table 4.5 Distribution of Respondents by Duration of Service.....	45
Table 4.6 Distribution of Respondents by Classification of NGOs Focus .....	46
Table 4.7 Total variance explained by customer perspective factors .....	48
Table 4.8 Rotated Factor Matrix for Customer Perspective .....	49
Table 4.9 Regression Analysis of customer perspective category -1 .....	51
Table 4.10 Regression Analysis for customer perspective category -2 .....	52
Table 4.11 Regression Analysis for customer perspective category-3 .....	53
Table 4.12 Regression Analysis for customer perspective category-4 .....	53
Table 4.13 Mean Internal Process perspective item measures .....	55
Table 4.14 Total variance explained by Internal Process perspective factors .....	56
Table 4.15 Rotated Factor Matrix for Internal Process Perspective .....	56
Table 4.16 Regression Analysis for internal process perspective category-1 .....	58
Table 4.17 Regression Analysis for internal process perspective category-2 .....	59
Table 4.18 Mean learning and growth perspective item measures .....	60
Table 4.19. Total variance explained by learning and growth perspective factors.....	61
Table 4.20 Rotated Factor Matrix for learning and growth Perspective.....	62

Table 4.21 Regression Analysis for learning and growth perspective category-1 .....	64
Table 4.22 Regression Analysis for learning and growth perspective category-2 .....	65
Table 4.23 Regression Analysis of learning and growth perspective category -3.....	66
Table 4.24 Mean financial perspective item measures .....	67
Table4.25Total variance explained by financial perspective factors .....	68
Table 4.26 Rotated factor matrix for the financial perspective .....	69
Table 4.27 Regression analysis for financial perspective category -1 .....	71
Table 4.28 Regression Analysis for financial perspective category -2.....	72
Table 4.29 Regression Analysis of financial perspective category -3 .....	72
Table 4.30 Regression Analysis for Financial perspective category -4.....	73

## **ABBREVIATIONS AND ACRONYMS**

<b>AIDS</b>	Acquired Immuno Deficiency Virus
<b>BSC</b>	Balanced Scorecard
<b>EFQM</b>	European and Foundation for Quality Management
<b>HIV</b>	Human Immuno Virus
<b>IRS</b>	Internal Revenue Service
<b>KMO</b>	Keiser Meyer Olkins
<b>NANGO</b>	National Association for Non-Governmental Organizations
<b>NGO</b>	Non-Governmental Organizations
<b>NPO</b>	Non-Profit making Organizations
<b>PM</b>	Performance Measurement
<b>PMS</b>	Performance Measurement System
<b>SMART</b>	Strategic Measurement and Reporting Technique
<b>SOP</b>	Standard Operating Procedure
<b>UN</b>	United Nations
<b>USAID</b>	United States Agency for International Development

## ABSTRACT

Most Non-Governmental Organizations (NGOs) are organized around specific issues such as alleviation of poverty HIV/AIDS, education, health, human rights, natural resources management, agriculture, alternative trading, and the various kinds of vulnerability. Currently, the performance of NGOs is on focus especially for donors and other partners including the target community. Previously, the NGOs were operating with a target to impact on the livelihood of the poor. Majority of the NGOs focused more on social impact rather than the financial equivalent returns. The nature of performance measurement in the NGO sector did not include financial accountability, however, this has changed and many NGOs are now concerned with financial accountability of the projects to the stakeholders and more so to the donors. The purpose of this study was to establish the effectiveness of the Balanced Scorecard in measuring performance of Non-Governmental Organizations in Kisumu County. Specifically the study determined customer related factors, internal processes related factors, learning and growth related factors, and financial related factors as components of the Balanced Scorecard (BSC) perspectives in measuring performance of Non-Governmental Organizations in Kisumu County. Kisumu County was chosen because it hosts head offices of NGOs operating within the lake basin region and provided study participants. The study targeted 30 active NGOs within Kisumu County with a focus on livelihood. These NGOs were to provide 90 top managers to participate in the study. A saturated sample of all 90 top managers was included in the study. However, only 64 top managers were involved leading to a response rate of 71.1%. Sampling procedure involved purposive selection of 3 top managers including an accountant, monitoring and evaluation officer and programme officer /manager. All eligible participants were given equal chance of participation unless they declined to participate. Data was collected using semi-structured questionnaires. The questionnaires were structured into sections thematically organized to capture the Balanced Scorecard key performance measurement elements including customer perspectives, internal business processes perspectives, learning and growth perspectives and financial perspectives. Each element had a set of item measures on which measurements were based. Descriptive statistics were run to establish the accuracy of entry of scores by assessing range, mean, standard deviation and normality of data. Inferential statistics mainly hierarchical regression was used to assess the contribution of each of the perspectives as performance measurement concepts by objectives as outlined. The findings revealed that the customer perspective was effective in measuring performance on NGOs with eight (8) out of ten item measures accounting for a variance of 52.46% of the total variability of the customer perspective. The internal process perspective was effective in measuring performance with 10 out of 12 items emerging key areas of practice accounting for a variance of 42.19% of the total variance. It was also noted that out of the 11 item measures that were extracted, 8 were significant. The findings revealed that presence of well designed and working Standard Operating Procedures (SOPs) was significant in the internal processes perspective. Learning and growth related factors had all the item measures identified as key for measuring the perspective accounting for 55.08% of the total variance. Finally, the financial perspective had 14 item measures put to test for their effectiveness in the NGOs. 13 item measures registered a variance of 56.87% of the total variance of the financial perspective. The findings of this study suggest that the BSC is an effective performance measurement tool among the NGOs.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Non-Governmental Organizations (NGOs) are effective change agents in socio-economic sectors including poverty reduction, HIV and AIDS, education, health, human rights, natural resource management, agriculture, alternative trading and the various kinds of vulnerability (Liston, 2008). Over the last decade, NGOs as part of the voluntary sector have become major players in international development particularly in developing countries. They have evolved over the years from 'relief and welfare' to 'small scale local development' and currently 'sustainable development systems' (Korten, 1987; VanSant, 2003).

Performance in NGOs first came into focus soon after World War II when the extent of their performance problems were first exposed and scrutinized. The sector had been increasingly criticized for lack of professionalism and inability to meet targets (Courtney, 2002). The 1960s and 1970s saw significant growth in the number of voluntary Non-Profit Organizations. This was partly a result of public interest in the work of NGOs and partly because governments saw these organizations as a convenient and inexpensive means of delivering public services and implementing development policies. Performance Measurement (PM) in non-profits is more complex than in for-profits due to multiple and sometimes contradictory stakeholder demands, complex missions and the fact that NGOs also have to demonstrate their legitimacy through their contribution to society (Greiling, 2010). Sawhill and Williamson (2001) argued that many non-profits have difficulties in measuring progress in terms of realizing the organization's vision. For this reason, they advised the NGOs to focus on three main areas namely; measuring how efficiently the organization is using and mobilizing resources, measuring the efficiency of its

employees and finally measuring how the organization is progressing in its attempt to achieve its vision. The frameworks and systems commonly used to assess the success of donor-funded development projects are based on an underlying assumption that NGOs should be accountable to their key stakeholders, most importantly to their donors and beneficiaries (Cutt and Murray 2000). But accountability is not just about donor control. It includes the fulfillment of public expectations and organizational goals as well as responsiveness to the concerns of their wider constituency.

In Britain, Moxham (2010) conducted a study and found that NGOs demonstration of accountability was manifested mainly by scrutiny of expenditure. The potential of performance measurement for improving the organizational effectiveness was hardly mobilized. In addition, the design of PM was moulded to meet the specific requirements of institutional donors with little attention to other aspects of performance measurement.

In the United States of America, Zimmermann and Stevens (2006) conducted another study to investigate the use of performance measurement in 149 South Carolina Non-Profit making Organizations. In their study, they found that 85% of the organizations reported that they conducted evaluations of their programmes and services. A further 75% indicated that they use outcome indicator which were not further specified in the survey. In addition, 52.6% reported that the initial motivation for performance measurement was to meet grant or contract requirements and therefore the PM was imposed on them from outside. 22% of the organizations listed accountability and effectiveness as their primary motivation, followed by 7% which hoped to get more external funding. Surprisingly, only 6% voted for improving services as their primary motivation. From the above findings, it is a clear indication that majority of non-profits in the USA conduct performance measurements mainly so as to meet donor requirement (for

continuous funding) but not for accountability and effectiveness. This has been illustrated by a paltry 22% of the sampled population who conducted PM for accountability and effectiveness compared to 52.65 who did conduct it as a donor requirement.

In developing world, there is limited literature on Performance Measurement of NGOs. However, there have been attempts by few scholars to investigate performance measurement of NGOs. For instance in Brazil, Campos in 2010 conducted a study to investigate performance measurement among non-profits. It was found that increased competition among non-profits for external resources and the necessity for Brazilian non-profits to enhance their credibility was the main force behind the effort to introduce performance evaluation (Campos *et al* 2010). It can therefore be deduced that in Brazil just like in Britain and USA, PM is basically an instrument for responding to external obligations and not so much as a tool for improving internal processes or an instrument for communicating the value NGOs create.

In Egypt, Ghoneim (2011) conducted a study and sampled 40 non-profits to investigate the impact of strategic planning on mission achievement in Egyptian Non-Profit Organization using the BSC. His findings revealed that the Egyptian non-profit sector is neither managerially nor technically equipped to apply either formal strategic planning protocols or performance assessment tools like the BSC. It was concluded that most NGOs in Egypt operate only at higher levels of financial efficiency in order to guarantee their continued survival.

In Kenya, Waweru and Spraakman (2009) conducted a study of microfinance NGOs operating 15 branches in Kenya; found that the NGOs used more team based measures than individual measures. Although the microfinance NGOs did not have the BSC, team measures included quality of customer service, profits revenue growth, quality of portfolios and ratio of operating expenses to revenue. However, this study focused on limited attributes of performance



leaving out other key attributes, especially those spelt out in the Balanced Scorecard, necessary in performance measurement.

Despite the above shortcomings of NGOs concerning performance measurements, the global operating environment for NGOs has changed in that it has become highly competitive and there is need for good governance as donors are becoming concerned with issues of financial accountability, transparency, value addition, legitimacy and overall credibility of NGOs. (NANGO, 2006; Fowler 2001; Le Roux and Wright, 2010; Carman, 2009). In the past two decades, there has been a significant change from ‘trust me’ culture within the non-profit sector. There is not only a pressure of ‘doing well while doing good’ but also the pressures to document it (Summers and Kanter, 1987). Paton (2003) also concurs by asserting that the NGOs today operate in an environment permeated by ‘expectations’ of measurement. This has led to an increasing interest in how best to design and apply new performance measurement frameworks.

There are a number of performance measurement frameworks that have been developed to measure performance of various organizations including Strategic Measurement and Reporting Technique SMART (Lynch and Cross, 1999); McKinseys 7s (Peters and Waterman, 1980; 1982) ; Logical framework ( USAID, 1970s) ; Input-Output model (Epstein and Buhovac, 2009) ; Performance Prism (Neely, Adams and Crowe); European and Foundation for Quality Management [EFQM] Excellence Model (Lewis, 1999), Result Based Management ( UN, 2000) and Balanced Scorecard [BSC] (Kaplan and Norton, 1992). Despite the development and adoption of these many performance measurement tools, some researchers have reported unsuccessful implementation of comprehensive performance measurement systems in NGOs (Kaplan, 2001; Ritchie and Kolodinsky, 2003; Moxham, 2010).

Historically, organizations have measured their performance primarily if not exclusively with measures derived from financial data (Zimmerman, 2004). However, financial measures do not tell NGOs how much public value they have produced through their efforts. Their goals are social goals not financial ones; in addition, their value is not measured primarily by the willingness of customers to spend their money to consume the goods and services offered. It is measured instead by non-financial measures consistent with their social mission (Moore, 2002).

Despite the development and adoption of these many performance measurement frameworks, some researchers have reported unsuccessful implementation of comprehensive performance measurement systems in NGOs (Kaplan, 2001; Ritchie and Kolodinsky, 2003; Moxham, 2010). Many theories and conceptual models have been created for the private sector and these may be difficult to apply to the public sector or on non-profits, as they do not take into account the specific needs and conditions in these sectors (Drucker, 1990). Jegers (2002) also notes that there is little literature on the subject with regard to both theoretical and empirical research on the matter.

However, Kaplan (2001) argues that the Balanced Scorecard is suitable for and can be adapted to the non-profit organization since there are numerous successes that have been reported in the non-profit world who have implemented the BSC in the developed world. For instance in USA: the Mayo Clinic, the Special Olympics, Duke Children's Hospital, the Boston Lyric Opera, while in Germany there is the Diaconic Foundation of Neuendettelau or dioceses of Roman Catholic (Kaplan and Norton, 1996; Curtright *et al* 2000; Kaplan, 2001; Meliones, 2002; Martello *et al* 2008; Breyer and Horneber 2002).

The Balanced Scorecard was introduced as a counter measurement system to compensate for over-dependence on financial measures. When it comes to nonprofits, focus has rarely been

on financial performance (Kaplan & Norton, 2001). A study conducted by Rigby and Bilbodeau found that out of these existing performance measurement frameworks, Balanced Scorecard emerged as the most popular performance measurement model accounting for about 57% application by managers (Rigby and Bilbodeau, 2005 in Lawrie, 2005). In nonprofits, there is no framework except the BSC that possesses the ability to demonstrate that investments in capacity have a direct and positive impact on delivery and ultimately, the ability of the agency to achieve its vision (Letts *et al*, 1999). They further argue that it is the only framework that allows any organization to cogently display how their outlay in capacity, in the form of employee training or research and development of the best practices would yield tangible benefits for customers and stakeholders.

The BSC developed for use by for profits (adopted for non-profits in 2001 by Kaplan) to address the added value that firms produce beyond simple profit, proposed a unified vision and strategy for viewing performance as a 'balance' among the following four elements which Kaplan and Norton called perspectives: financial, customer, internal processes and learning and growth as key performance measurement dimensions (Kloot and Martin, 2001; Speckbacher 2003); Moxham and Boaden, 2007; Woods and Grunbnic, 2008), The financial perspective identifies how the company or organization wishes to be viewed by its stakeholders, while the customer perspective determines how the company wishes to be viewed by its customers. The internal business processes perspective describes the business processes at which the company has to be particularly adept in order to satisfy its shareholder and its customers. The organizational learning and growth involves the changes and improvements which the company needs to realize if it is to make its vision come true (Kaplan and Norton, 1992; 1996).

The advantage of the BSC as a performance management tool is that, it links together the measures of the four perspectives in a causal chain through a balanced representation of financial and non-financial measures (Kaplan and Norton, 1996). The ‘balance’ in the BSC relates to the three areas that are neglected in the financial performance business model. It focuses the management’s attention on the ‘drivers’ of performance by explicitly encouraging inclusion of ‘lead’ as well as ‘lag’ indicators (Niven, 2005; Brander, and McDonnell, 1995; Ahn, 2001; Eccles, 1991; Fitzgerald *et al*, 1991; Atkinson and Brander, 2001). In Kisumu County, there are a number of NGOs that have been trying to mitigate against issues that affect rural livelihood in the wider Kisumu County. Limited attempts have been made to establish whether these numerous number of NGOs give priority to key dimensions of performance, especially those prescribed in the BSC. Moreover, whether the performance dimensions are cutting across all the NGOs or not, has not well been established. In Kenya, most of the NGOs rely on the Logical framework as a gauge for measuring performance. However, this performance measurement framework is mainly applicable at the operational level, where performance is measured against the achievement of outputs and outcomes. This calls for the establishment of a more holistic performance measurement framework that incorporates measures of both lead and lag indicators to enable the NGOs achieve their missions. One of such frameworks is the Balanced Scorecard (BSC), which has been successfully applied in the business sector and NGOs particularly in the developed countries and would be more relevant to test in the developing world. This study seeks to establish the effectiveness of BSC as an ideal performance measurement framework among sampled NGO within Kisumu County.

## **1.2 Statement of the problem**

Most Non-Government Organizations are organized around specific issues such as alleviation of poverty HIV/AIDS, education, health, human rights, natural resources management, agriculture, alternative trading, and the various kinds of vulnerability (Liston, 2008). Currently, the performance of NGOs is on focus especially for donors and other partners including the target community. Previously, the NGOs were operating with a target to impact on the livelihood of the poor. Majority of them focused more on social impact rather than the financial equivalent returns. The nature of performance measurement in the NGO sector did not include financial accountability, however, this has changed and many NGOs are being concerned with financial accountability of the projects to the stakeholders and more so to the donors.

In Kisumu County, there are a number of NGOs that have been trying to mitigate against issues that affect rural livelihood in the wider Kisumu County. Limited attempts have been made to establish whether these numerous number of NGOs give priority to key dimensions of performance, especially those prescribed in the BSC. Moreover, whether the performance dimensions are cutting across all the NGOs or not has not been well established. Most of the NGOs rely on the Logical framework as a gauge for measuring performance but, this performance measurement framework is mainly applicable at the operational level, where performance is measured against the achievement of outputs and outcomes. A study conducted by Waweru and Spraakman (2009) among micro-finance NGOs operating 15 branches in Kenya revealed that NGOs used more team based measures than individual measures. This study focused on limited attributes of performance and thereby leaving out other key attributes, especially those spelt out in the BSC necessary in performance measurement. This calls for the establishment of a more holistic performance measurement framework that will incorporate

measure of both lead and lag indicators to enable the NGOs achieve their missions. One of such frameworks is the Balanced Scorecard (BSC), which has been successfully applied in the business sector and NGOs particularly in the developed countries and would be more relevant to test in the developing world. The BSC has a number of benefits to effective and credible measures. Internally, performance measurement help identify strengths and weaknesses in the organization. Where problems are uncovered, they may highlight where quality is threatened and contribute to subsequent attribution of responsibility. They may also indirectly enhance productivity by ensuring more effective use of resources and organizational capacities as well as helping managers prioritize activities and target resources more effectively. In addition, it facilitates internal communication by summarizing complex situations and reducing the scope for ambiguity and misunderstanding. It is for this reason that this study aimed at establishing the effectiveness of the BSC as an ideal performance measurement framework on performance of NGOs within Kisumu County.

### **1.3 Purpose of the Study**

The purpose of this study was to establish the effectiveness of the Balanced Scorecard on performance of Non-Governmental Organizations in Kisumu County.

### **1.4 Objectives of the Study**

This study was guided by the following Objectives:

- 1) To determine how customer related factors as a component of the Balanced Scorecard affect performance of Non-Governmental Organizations in Kisumu County.
- 2) To assess how internal processes related factors as a component of Balanced Scorecard affect performance of Non-Governmental Organizations in Kisumu County.

- 3) To establish how learning and growth related factors as a component of Balanced Scorecard affect performance of Non-Governmental Organizations in Kisumu County.
- 4) To assess how financial related factors as a component of Balanced Scorecard affect performance of Non-Governmental Organizations in Kisumu County.

### **1.5 Research Questions**

The following research questions were used to guide the study:

- 1) How do the customer related factors as a component of the Balanced Scorecard affect Performance of Non-Governmental Organizations?
- 2) How do the internal business process related factors as a component of the Balanced Scorecard affect Performance of Non-Governmental Organizations?
- 3) How do the learning and growth related factors as a component of the Balanced Scorecard affect Performance of Non-Governmental Organizations?
- 4) How do the financial related factors as a component of the Balanced Scorecard affect Performance of Non-Governmental Organizations?

### **1.6 Significance of the study**

This study aimed at collecting information that would show the effectiveness of the Balanced Scorecard on performance of Non-Governmental Organizations in Kisumu County. The findings of this study may be useful to project management team to implement policies that may address the challenges faced by Non-Governmental Organizations in implementing projects. It may also contribute to the body of knowledge especially in the strategic management by understanding performance measurement and management in the voluntary sector in developing

countries thus helping to test generalizability of the performance management frameworks. This may be achieved through publications in wider readership and disseminations in public forums.

### **1.7 Basic Assumptions of the Study**

The study was carried under the following assumptions:

That Balanced Scorecard is an effective performance measurement framework for NGOs. It was assumed that the respondents would co-operate and show willingness and honesty in giving the researcher information. In addition, the respondents who took part in the study answered questionnaires accurately and without major personal bias. That the respondents were knowledgeable to assess, evaluate and comment on Performance Measurement practices in their organization. Similarly, it was assumed that the instruments used for the study appropriately measured the perceived effectiveness of the Balanced Scorecard on performance of NGOs. Finally, the sample chosen for the study was a fair representation of the entire targeted population.

### **1.8 Limitations of the Study**

This study should have been conducted in all the Non-Governmental Organizations in Kenya since there are very few empirical studies on performance measurement in Non-Governmental Organizations (NGOs), however due to time and financial constraints, geographic delimitations and a smaller sample were employed. Some respondents were unwilling to give information while others were out in the field throughout the entire study period. In addition, the NGOs surveyed represented those registered in Kenya, operating in Kisumu County; therefore, the study can only be generalized within the study population.



### **1.9 Delimitation of the study**

This study was delimited within the BSC framework and among the top three managers of Non-Governmental Organizations selected to participate in the study in Kisumu County. The study was delimited to Kisumu County since most NGOs in Nyanza Province are based in Kisumu. In addition, only semi-structured questionnaires were used as the main instrument of data collection.

### **1.10 Definition of Significant Terms used in the Study**

**Balanced Scorecard** is a concept that complements financial and non-financial measures to measure and monitor the organization's ability to build up both tangible and intangible assets like the skills and capabilities of its employees, customer acquisition and retention.

**Customer Related Factors** these are factors that incorporate performance effectiveness as perceived by various customer segments.

**Effectiveness of Balanced Scorecard** refers to the ability of a Non-Governmental Organization using the Balanced Scorecard to achieve its stated goals and objectives.

**Financial Related Factors** are financial strategic objectives and financial performance measures that provide evidence whether or not an organization's financial strategy is yielding profitability and decreased costs.

**Internal Process Related Factors** refers to those factors that capture organizational operations and processes necessary to meet customer expectations and increase their satisfaction.

**Learning and Growth Related Factors** are those factors that encompass organizational culture, tools, technology, infrastructure, skills and capabilities required to achieve the organizational objectives.

**Performance Measurement** is a means of assessing progress against stated goals and objectives in a way that is unbiased and quantifiable. It can also be defined as the process of defining monitoring and using objective indicators of the performance of the organization and programme on a regular basis.

**Performance Measurement System** is a set of indicators that an organization uses to quantify both the efficiency and effectiveness of its programmes.

**Performance of Non-Governmental Organizations** refers to the extent to which NGOs accomplish their objectives and goals to ensure that the mission is met.

### **1.11 Organization of the Study**

This research project report is organized into five chapters. The first chapter which is the introduction consists of the background information of the study that has closely been followed by the statement of the problem and purpose of conducting this study. In addition, objectives of the study have also been stated together with research questions. Further this chapter includes the significance of the study, basic assumptions of the study, limitations of the study and finally the delimitation of the study. Chapter two discussed the literature review with specific emphasis on performance measurement, the concept of the Balanced Scorecard and the sub-themes of customer, internal processes, learning and growth and finally financial perspectives. The last section of this chapter is a summary of the literature review. The third chapter explained the methodology which had sub-sections on research design, target population, sample size and sample selection techniques, data collection instruments and measurements, data collection procedure, data analysis plan, pre-testing of research instruments and finally ethical consideration. Chapter four has data analysis presentation and discussion and finally the fifth chapter gives a summary of the findings conclusion and recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter provides a review of literature regarding the study. The first section discusses the concept of performance of Non-Governmental Organizations (NGOs) followed by the concept of Balanced Scorecard; the next section is on the customer perspective which was closely followed by internal processes perspective. The learning and growth perspective was also presented. The financial perspective came next. In addition, the theoretical and conceptual frameworks were also discussed. The last section dealt with summary of literature.

#### **2.2 The concept of Performance of Non-Governmental Organizations**

The terms performance measurement and performance management complement each other, but are often confused in practice and in literature (Hatry, 2002; McHargue, 2003). Performance measurement can be defined as the process of quantifying the efficiency and effectiveness of action covering a wide variety of organizational systems and functions including standards costing and variance analysis, budgets and forecasts, operations management and quality management, and incentive and reward systems (Emmanuel et al 1990; Johnson and Gill, 1993; Kaplan and Atkinson, 1998; Otley, 1999; Simons, 2000; Anthony and Govindarajan, 2001; Neely et al ( 1999) and Garrison et al, 2003).

While attempting to clarify the difference, Speckbacher (2003) describes performance measurement as a specific definition of the organization's primary objectives and performance management as a specification of how management decisions can control organizational performance. Performance measurement is critical in the non-profit sector, due to increased

competition from proliferating number of agencies, all competing for scarce donor funding and increased demands for accountability to donors, the media, and the public in general ( Kaplan, 2001).

Non-Governmental Organizations evaluate their performance by developing performance measures and then collecting data related to those measures. Some of the most common measures used by NGOs include workload and output indicators, unit cost and efficiency measures, outcomes and effectiveness measures, client or customer satisfaction, external audits, and industry standards and benchmarks (Carman, 2007).

In the recent years we have witnessed a shift within the corporate sector from a reliance on backward-looking, financially focused performance measures to the strategic use of contemporary, broad based performance measurement and management systems. Generally referred to as contemporary or strategic performance measurement systems, these systems typically comprise causally-linked measures, capture both financial and non-financial aspects of performance, and are aligned with organizational strategy (Webb, 2004; Chenhall, 2005). There are a number of performance measurement tools that have been developed to measure performance of various organizations including Strategic Measurement and Reporting Technique SMART (Lynch and Cross, 1999); McKinseys 7s (Peters and Waterman,1980;1982) ; Logical framework ( USAID, 1970s) ; Input-Output model (Epstein and Buhovac, 2009) ; Performance Prism (Neely, Adams and Crowe); European and Foundation for Quality Management [EFQM] Excellence Model (Lewis, 1999), Result Based Management ( UN,2000) and Balanced Scorecard [BSC] (Kaplan and Norton, 1992). Despite the development and adoption of these many performance measurement tools, some researchers have reported unsuccessful

implementation of comprehensive performance measurement systems in NGOs (Kaplan, 2001; Ritchie and Kolodinsky, 2003; Moxham, 2010).

Getting right performance information to the right people in the organization at the right time will greatly increase the ability of the group to reach or even exceed its goals. This can be done through different ways including clarifying strategies by translating the objectives of the NGO quantifiable measures as vague feel-good aspirations are eliminated and the objectives are defined in a manner that everyone can understand and will work to achieve the set objectives (Hartnett and Matan, 2011). The NGOs can also communicate strategic objectives by translating high level objectives into practical operational objectives. Leadership must communicate throughout the organization on exactly how these objectives will be accomplished.

Hartnett and Matan (2011) continue to argue that the NGOs must also plan the strategies by setting achievable goals for every initiative within the organization. This concept is integral to the success of the Balanced Scorecard (BSC) because if tasks are not accomplished, objectives and goals will not be met. Finally, they should also focus on feedback strategy by paying attention through establishing a process for continued feedback so that learning takes place at all levels and the insights gained through the BSC reports can permeate and define the organization.

There are a number of operational benefits to effective and credible performance measures. Internally, performance measurement help identify strengths and weakness in the organization. Where problems are uncovered, they may highlight areas where quality is threatened and contribute to the subsequent attribution of responsibility. They may also indirectly enhance productivity by ensuring more effective use of resources and organizational capacities as well as helping managers prioritize activities and target resources more effectively. In addition, it facilitates internal communication by summarizing complex situations and

reducing the scope for ambiguity and misunderstanding (Czarnecki, 1999). Every non-profit should measure its progress in fulfilling its mission, its success in mobilizing resources, and its staff's effectiveness on the job (Sawhill and Williamson, 2001).

Historically, organizations have measured their performance primarily if not exclusively with measures derived from financial data (Zimmerman, 2004). However, financial measures do not tell NGOs how much public value they have produced through their efforts. Their goals are social goals not financial ones; in addition, their value is not measured primarily by the willingness of customers to spend their money to consume the goods and services offered. It is measured instead by non-financial measures consistent with their social mission (Moore, 2002).

Therefore the NGOs should strive and put in place Performance Measurement frameworks that will both take into account both financial and non-financial measures. One such framework that incorporates both financial and non-financial measures is the Balanced Scorecard. Rigby and Bilodeau conducted a study in 2005 and found that among the different Performance Measurement Frameworks (PMF), BSC scored 57% usage. In addition, another study conducted by Abdel- Kader and Wadongo (2011) found that majority of NGOs operating in Kenya use the Logical framework but this framework is mainly applicable at the operational level, where performance is measured against the achievement of outputs and outcomes. It is for this reason that this study aim to establish the effectiveness of the BSC as an ideal framework that incorporates both financial and non-financial measures of performance.

### **2.3 The concept of the Balanced Scorecard**

The Balanced Scorecard is a carefully selected set of measures derived from an organization's strategy. The measures selected for the scorecard represents a tool for leaders to use in communicating to employees and external stakeholders the outcomes and performance

drivers by which the organization will achieve its mission and strategic objectives (Niven, 2002 p12). The BSC can also be defined as a set of measurements that give top managers a fast, but comprehensive view of the business including operational measures on customer satisfaction and the organization's innovation and improvement activities as well as financial measurements (Martin, 2006).

The BSC was developed to address a number of significant weaknesses associated with 'traditional' performance measurement systems which were dominated by short term, backward looking or 'lag' financial metrics (Eccles, 1991; Cross and Lynch, 1992; Kaplan and Norton, 1992; Doyle, 1994; Brander and McDonnell, 1995; Epstein and Manzoni, 1997; Atkinson and Brander, 2001). Traditional systems that measure the business performance were based on short term financial goals. Such systems are no longer appropriate to master the challenges that confront companies nowadays. Besides taking into consideration the objectives of relevant stakeholders, companies have to ensure that their strategy is translated into corresponding actions (Ahn, 2001). The BSC is distinct from other strategic measurement systems in that it contains outcome measures and the performance drivers of outcomes linked together in cause and effect relationship ( Kaplan and Norton, 1996) making the performance measurement system a feed forward control system ( de Haas and Kleingeld, 1999).

The BSC was introduced in 1992 by Kaplan and Norton as a business performance measurement tool. In the original BSC, four dimensions commonly referred to as perspectives were key in helping organizations achieve their visions and strategies. This included financial, customer, internal business processes and finally learning and growth perspectives (Kaplan and Norton, 1992, 1996, 2001). The original BSC had the perspectives effectively interlinked with one another while determining vision and strategy of NGOs. This implies that the four



perspectives must exist for an organization to measure its performance. According to Lawrie (2005), the BSC evolved in three distinct phases; the original BSC fondly referred to as the first generation BSC evolved from 1990-1996. Its focus was more on how to use the BSC to measure performance. In the second phase, BSC shifted towards improving the management of performance at organizational level from 1996-2000. In the last phase, (which covered the period 2000 to date) the BSC method evolved into a clear on going and replicable process for strategic management. All these evolution processes focused more on the business sector. In 2001, Kaplan began to shift the BSC focus towards non-profit making organizations with modification of the bottom line from financial (making profit) to customer satisfaction. This trend was later borrowed by other scholars (Niven, 2008:2003:2002) who have demonstrated the need to apply this theory in the NGO sector. This new trend of the BSC has been applied in developed countries with reported success especially in fortune companies and UK companies. However, there is scanty literature on the theory's application in developing countries including Kenya.

A Balanced Scorecard initiative begins with identifying strategies derived from the organization's vision and mission. Strategic themes are then developed by viewing the vision and mission statements from four distinct perspectives including the financial, customer, internal business processes and learning and growth (Kaplan and Norton, 2004). According to Yang, Cheng and Yang (2005), the BSC applied in private enterprises differ in two ways: vision and mission which are more important to NGOs than to business; financial perspective is not the overriding priority as profit is not the most important issue to NGOs. Therefore NGOs should place their shareholders and customers at the top of their BSC and use the customer perspective to develop internal processes, and learning and growth perspectives to maximize customer value. For non-profits to successfully acquire external funding, maintain government contracts, retain

competent staff and/ or address the outcome, relevant to community stakeholders, they need to continuously improve their ability to measure results in order to make decisions that lead to long term sustainability (Forbes, 1998). The applicability of the different perspectives of the BSC has not received much attention in the NGO sector and especially in Kenya leading to a critical focus on the key BSC elements as discussed in the subsequent sections.

#### **2.4 Customer related factors on Performance of Non-Governmental Organizations**

The customer group was traditionally understood as people or organizations that buy or use the business or organization's products (Fretchling, 2006). On the basis of this, it is apparent that the NGOs may serve three 'customers' segments including donors, constituents and employees. According to Kaplan and Norton (1992), the customer perspective of the Balanced Scorecard (BSC) has to incorporate performance effectiveness as perceived by various customer segments. Based on the assessment information gained from the customer perspective, the organization can easily identify critical performance measures in the other three perspectives (internal processes, learning and growth and financial). Kaplan and Norton (1992) further argues that monitoring customer processes through the BSC helps non-profits collect information about customer's perceived value, service quality, delivery time and costs, and customer's satisfaction. Thus, they will be able to align their strategic plans to the achievement of higher customer intimacy, superior service quality perception and operational Excellency.

Hartnett and Matan (2011) supports the foregoing argument by asserting that this perspective is about the donor, volunteers or clientele ( users of the services) experience, which is found by measuring satisfaction and retention as well as assessing the non-profit's market in its niche. Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction. These are leading indicators: if the customers are

not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current picture may look good (Kaplan and Norton, 1992).

Niven (2003) concurs that being able to satisfy customer needs is fundamental to all corporations and to achieve positive financial results (both in the short and long term), many organizations gear themselves towards their customers and also include them in their mission. According to Kaplan and Norton (1996) by including the customer perspective in the BSC, organizations are forced to translate abstract statements into tangible and actionable measures.

Hartnett and Matan (2011), assert that every NGO should measure the attitude of its strongest and most loyal customers (supporters) to gain the most for the organizations. Keeping donors and volunteers engaged and enthusiastic and identifying ways to do that through the BSC provides an incredible advantage for any organization. Hassan (2010) argues that the determinants of NGOs' success are the relevance of services provided to social needs, which is a sole assessment of customers.

A study conducted by Morley *et al* (2001) found that approximately 78% of NGOs conducted client surveys designed to measure customer satisfaction, client outcomes to be used as performance measures. This finding is comparable to Carman and Fredrick's 2008 result that 67% of NGOs collect data on consumer or participant satisfaction on regular basis. From the foregoing arguments NGOs should therefore put in place mechanisms that will enable them get feedback on customer satisfaction for them to realize their missions. This is because customer satisfaction will also enable them access more donor funding which would ensure their continued survival.

## **2.5 Internal Processes related factors on Performance of Non-Governmental Organizations**

The internal processes perspective captures measures regarding organizational operations and processes necessary to meet customers' expectations and increase their satisfaction (Kaplan and Norton, 2000); Niven,2008). In other words, the internal business processes are more about value chain management. Revising and improving internal business processes is dependent upon performance measures identified by the customer perspective of the BSC (Niven, 2008).

This perspective involves measuring the cost, throughput and quality of the non-profits key operational processes. This internal focus gives leaders a thorough understanding of how well the non-profit is running and can help them determine which programmes and services are meeting the real needs of the community (Hartnett and Matan, 2011). According to Balanced Scorecard theory, creating customer value and satisfaction as defined in the customer perspective entails the efficient operation of a specific internal process within the organization, in order to serve the customer. These processes need to be identified and measures developed to track progress. To satisfy customers, new processes may have to be developed instead of making incremental improvement on existing ones (Kaplan and Norton, 1996). Common measures within this perspective are lead times, error reports and quality and productivity measures (Niven, 2002).

A study conducted by Atkinson (2006) to investigate the role of the Balanced scorecard in strategy implementation found that in the internal process perspective, key goals and measures should highlight critical skills and competencies, processes and technologies that will deliver current and future organizational customer and financial success. Niven (2003) argues that the NGOs must select and measure those processes that will lead to improved outcomes for the

customers, and ultimately allow them to work their mission. These processes to be selected must flow directly from the objectives and measures chosen in the customer perspective.

## **2.6 Learning and Growth related factors on Performance of Non-Governmental Organizations**

Operating as mission-based organizations, NGOs rely heavily on the skills and alignment of their staff to achieve their socially important goals (Niven, 2003). According to Makakane (2007), learning and growth perspective is about employee training, the organizational culture, tools, technology, infrastructure, skills and capabilities required to achieve the organizational objectives. It is essentially the foundation upon which the organizational success is built. The measures in this perspective are the enablers of all the other perspectives as they will ultimately lead the organization to achieve its results.

Fletcher and Smith ( 2004 ) also concurs by suggesting that the learning and growth perspective was the leading indicator of internal business process which in turn, was the leading indicator of customer satisfaction. A degree of improvement in internal business and the level of customer satisfaction will also affect the financial perspective. Kaplan and Norton (2000), argue that this perspective captures information about human capital and information technology needed to achieve competitive advantage. Since the staff and the volunteers represent the organization's major resources it is in order that their performance is appropriately measured.

Learning includes mentors and tutors, ease of communication among workers that allow them to readily get help on a problem when it is needed. Decisions concerning training and skill building can be based on, in part, their level of knowledge about the organization. The leadership should in addition take into account the business skills needed to advance the mission, donor

development, marketing and branding, leadership, communication and the use of technology to support every aspect of the organization (Hartnett and Matan, 2011). Niven (2003) observed that motivated employees with the right mix of skills and tools operating in an organizational climate designed for sustaining improvements are the key ingredients in driving process improvement working with financial limitations, and ultimately driving customer and mission success.

According to Niven (2002) organizations do not exist in a static, isolated environment: competition, new technology and other changes push forward the customer expectations and performance requirement of the organization, therefore organizations should always strive to learn all the time in order to actually know what their customers really want.

## **2.7 Financial related factors on Performance of Non-Governmental Organizations**

According to Hartnett and Matan, (2011) and Niven, (2002), the financial perspective includes the measurement of operating income, return on capital and economic value added. NGOs just like for profit companies, must have a solid understanding of their financial situation. Timely data on funding sources cost of services and overhead costs must be incorporated into the non-profit's strategic plan to provide a complete picture of the situation. The leadership must be comfortable with the financial statements and budgets which provide a solid basis for operations and build confidence with funding, grantors and other sources of revenue.

This perspective can also be defines financial strategic objectives and financial performance measures that provide evidence of whether or not the company's financial strategy is yielding increased profitability and decreased costs. This view also captures how the organization must look to the customers in order to succeed and achieve the organization's mission (Ronchetti, 2006). Niven (2008) asserts that the financial perspective of the BSC is imperative for non-profits because it captures information about how efficiently they are using

scarce resources and public/donor funds to offer quality services. This perspective improves organizations accountability towards the public and enhances its fund raising potential, consequently, making mission achievement much imminent. Niven (2003) and Lindvall (1995) further argue that no organization, regardless of its status, can successfully operate and meet customer requirements without financial resources. Financial measures in the public and non-profit sector scorecard model can best be seen as either enabler of customer success or constraints within which the group must operate. According to Niven (2002) an organization which is using significant time and resources on improving internal processes may effectively add little value if these improvements are not translated into improved financial performance.

Financial performance of NGOs can also be defined in terms of financial accountability. Financial performance has been one of the key elements in measuring overall performance and evaluating effectiveness of non-profits (Speckbacher, 2003; Ritchie and Kolodinsky, 2003; Sowa, Selden and Sandfort, 2004; Mc Cathy, 2007). As far as donors and community stakeholders are concerned, financial accountability focuses primarily on a non-profits reputation for fiscal transparency and honesty as reflected on the IRS 990 forms for organizations with over \$ 25,000 in annual revenue (Keating and Frumkin, 2003). More often than not accountability is represented by the data on these IRS forms and/ or the use of external independent auditors, operating standards, audit committees and boards' expertise (Whitaker et al 2004; Greenlee, Fischer, Geer, Macher and Cole, 2008).

A part from fiscal transparency, financial efficiency relates to the amount of money needed to bring in revenues and access funding sources. Ritchie and Kolodinsky (2003) identified three categories of financial performance that foundations use to evaluate the financial efficiency of non-profits: fundraising efficiency, fiscal performance and public support. The last

approach to assessing financial accountability is performance based budgeting (Joyce, 1997) in which funding and spending are linked to the actual goals strategies, programmes, revenues, services and results (Moravitz, 2008). Performance based budgeting consist of the following critical elements: creation of strategic plans linking missions with programmes, link strategic objectives to goals through a performance plan, use the budget to support the performance plan and priorities based on the financial resources and assessing progress against the plan periodically. Melkers (2008) argues that this approach encourages non-profits to move away from traditional line item budgets to those that are truly linked to service outcomes that document their social impact. Although NGOs are not financial generating entities, they are accountable to the funds donated by the benefactors. Therefore a clear measurement and indication of how financial resources are managed become critical and necessary elements for NGOs' performance evaluation (Bin Md. Som, H. and Theng Nam, R.Y., 2009c).

The frameworks and systems commonly used to assess the success of donor-funded development projects are based on an underlying assumption that NGOs should be accountable to their key stakeholders, most importantly to their donors and beneficiaries (Cutt and Murray 2000). But accountability is not just about donor control. It includes the fulfillment of public expectations and organizational goals as well as responsiveness to the concerns of their wider constituency. It is also noted by Herzlinger and Nitterhouse (1995) that NGOs with high asset turnover are considered as generating more programmes or services than those with low asset turnover. Moreover, NGOs with low turnover are more likely to invest their assets to earn income than to provide services. The liquidity ratio measures the relationship between assets and liabilities and also helps to determine the consistency of goals and resources.



## **2.8 Theoretical Framework**

A theory is a set of interrelated variables formed into propositions that represents a systematic view of a phenomenon by specifying relations among variables, with the purpose of explaining natural phenomena (Creswell, 2009). This study was based on the Balanced Scorecard theory by Kaplan (2001) which was modified from Kaplan and Norton (1992) BSC. Since the bottom line for NGOs is to satisfy their customers, the mission of NGOs is moved to the top. The financial perspective is moved to the second place because though their aim is not to make profit, they need the finances to satisfy their customers. This means that the financial perspective and the customer perspective have to be on the same level. In addition, the customers can only be satisfied if the organization engages in internal business processes together with employee learning and growth.

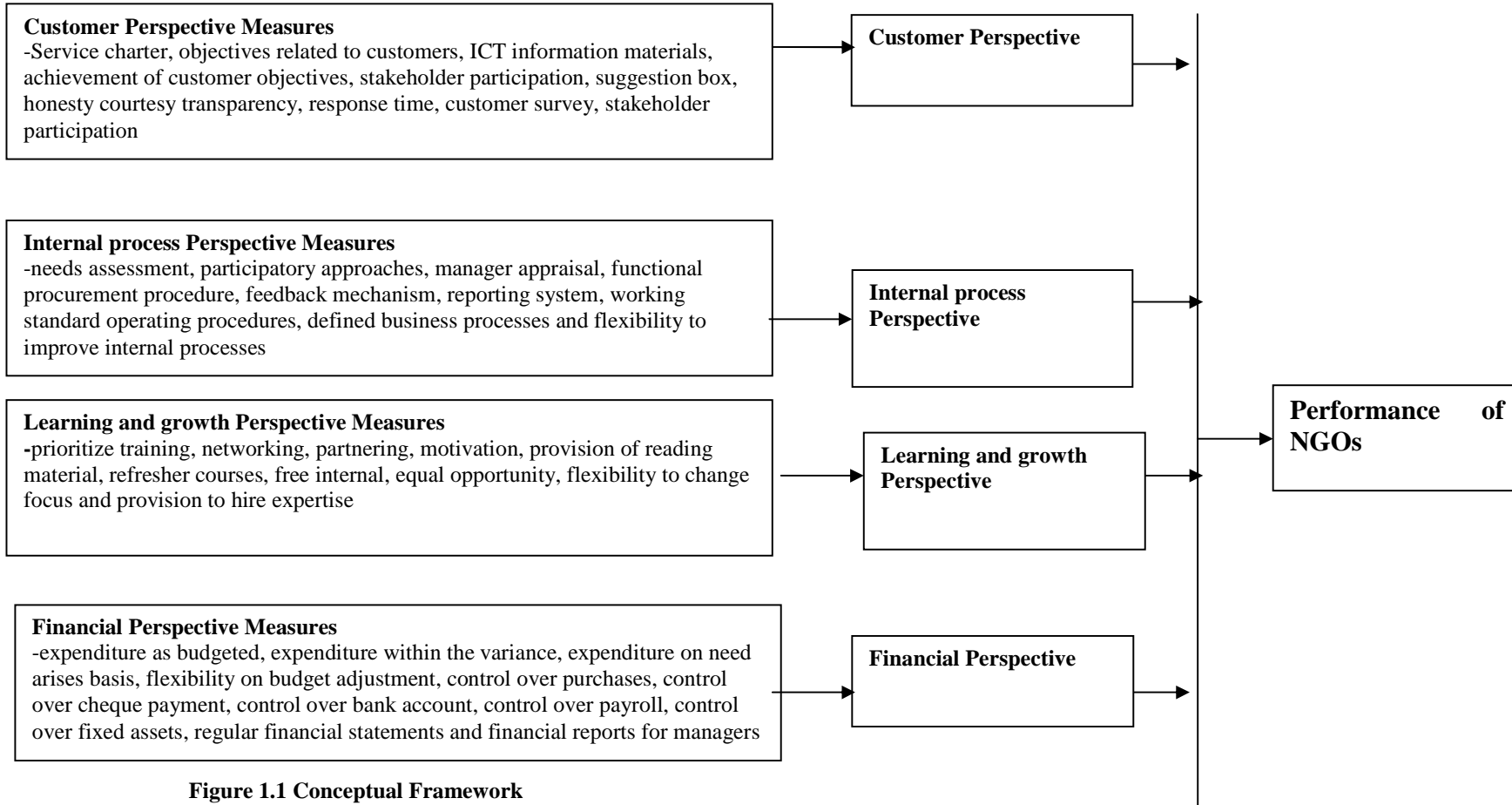
## **2.9 Conceptual Framework**

The conceptual framework was adapted from the Balanced Scorecard theoretical framework by Kaplan and Norton (1992) to explore the efficacy of the framework as a performance measurement tool within the Non-Governmental Organization (NGO) fraternity. In this framework the four main perspectives of performance measurement dimensions were modified within NGO/NPO mission and strategy. In this context, each performance measurement perspective had a number of item measures in relation to the mission of the NGO. The measures focused on all areas that attempted to reflect the perspectives within the organization. In addition, measurement items were aligned towards the achievement of the NGO's Mission. These item measures have been summarized in figure 4.1

**Independent variables (Input)**

**Through put**

**Dependent variable (Outcome)**



**Figure 1.1 Conceptual Framework**

### **Relationship of variables in the Conceptual Framework**

In this study the dependent variable was performance of Non-Governmental Organizations (NGOs). The performance of NGOs is quantified in terms of the ability of an organization to achieve its set goals within a given period of time and with the resources available. The independent variable was the Balanced Scorecard (BSC). The BSC has four components fondly referred to as perspectives namely customer, internal processes, learning and Growth and financial. The perspectives are interlinked with one another while determining vision and strategy of NGOs. The BSC framework was operationalized such that the customer perspective focused on measures including presence of service charter, quality objective related to customers, availability of ICT materials, availability of a suggestion box, honesty, courtesy, transparency, definite response time, stakeholder participation in project design, implementation and monitoring of activities, regular customer surveys, activities that respond to immediate needs of the customers, lastly ensuring that customer related objectives are achieved. The internal processes perspective focused on item measures such as needs assessment, participatory project design, participatory monitoring of activities, and participatory evaluation of activities, manager employee appraisal, employee self-appraisal, a well defined functional procurement procedure, a well defined communication mechanism, a well defined reporting system, well designed and working Standard Operating Procedure, a well defined business process and flexibility to improve on the internal business processes. The learning and growth perspective focused on training of employees, motivation, networking, partnerships, provision of ICT/ information materials, availability of equal opportunity for growth, frequent refresher courses, free internet facilities, flexibility to change focus, provision for expertise and organizational tours and staff

retreat. Finally, the financial perspective focused on item measures including expenditure incurred as budgeted, regular financial audits, flexibility to incur expenses on need arises basis, proper accounting records, proper control over purchases, proper control over payments by cheques, proper control over bank accounts, control over employee payroll, control over fixed assets, financial reports for managers and donors on use of finances among others and financial adjustment during inflation.

## **2.10 Summary of Literature Review**

This chapter reviewed literature on various studies that have been carried out on the use of Balanced Scorecard (BSC) on performance of Non-Governmental Organizations (NGOs). The BSC has four dimensions commonly referred to as perspectives that are key in helping organizations achieve their visions and strategies. These included customer, internal business processes and finally learning and growth and the financial perspectives.

The customer perspective enabled organizations to translate abstract statements into tangible and actionable measures. Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction. These are the leading indicators, if the customers are satisfied, they will eventually find other suppliers that will meet their needs. Therefore, NGOs must strive to satisfy the needs of their customers that is the donors, constituents and employees.

The internal processes perspective captured measures regarding organizational operations and processes necessary to meet customers' expectations and increase their satisfaction. In other words, the internal business processes are more about value chain management. Revising and

improving internal business processes is dependent upon performance measures identified by the customer perspective of the BSC.

Learning and growth perspective was about the organizational culture, tools, technology, infrastructure, skills and capabilities required to achieve the organizational objectives. It was essentially the foundation upon which the organizational success was built. The measures in this perspective are the enablers of all the other perspectives as they ultimately led the organization to achieve its results.

Lastly, the financial perspective defined financial strategic objectives and financial performance measures that provided evidence of whether or not the company's financial strategy was yielding increased profitability and decreased costs. This view also captured how the organization must look to the customers in order to succeed and achieve the organization's mission. This perspective of the BSC was imperative for non-profits because it captured information about how efficiently they are using scarce resources and public/donor funds to offer quality services. In addition, it improved organizations accountability towards the public and enhances its fund raising potential consequently, makes mission achievement much imminent. No organization, regardless of its status could successfully operate and meet customer requirements without financial resources. Therefore organizations must put in place mechanisms that would ensure financial accountability.

Based on the literature review, there was need to establish how relevant the BSC was in measuring performance of the NGOs. Previous studies have demonstrated its applicability in measuring performance in the profit-making organization and especially in the developed world. The literature also indicated that there was an on-going trend in research where the focus was on the BSC applicability in the NGOs performance measurement system especially in developed

countries; however, there was limited applicability of BSC in performance in the NGO sector in developing countries. This study aimed at closing these gaps by determining how key elements in the BSC were applied within the NGO sectors in Kenya.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter described the research methodology that was used in the study. These included research design, target population, the sample size and sampling procedure to be used. It further explained the research instruments to be employed in the study, a pilot study, measures to test reliability and validity of the study, data collection procedure and data analysis techniques. Finally, the chapter specified the ethical requirements followed throughout the period of data collection and after data collection.

#### **3.2 Research Design**

Research design refers to the systematic steps set up to accomplish the purpose of the study. According to Kothari (1990) research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. This study adopted a cross-sectional study design where data was collected once within a predetermined period of one month and analyzed. This design was appropriate because it did not allow for any form of manipulation of variables and it helped in assessing relationship between variables as they were during the period of assessment. Sekaran (2006) observes that, unlike longitudinal study design, cross-sectional study design is cost effective and less time consuming since data is collected once.

#### **3.3 Target Population**

The study population was drawn from NGOs operating in Kisumu County. This county is located in Nyanza and borders Lake Victoria to the West, Siaya, Vihiga and Nandi counties to

the North, Kericho County to the East and Homa Bay County to the South. The region covers an area of 2,086 Km<sup>2</sup> and has a population of 968,909 individuals. The study established a sampling frame (population) made up of 3 top managers including programme/project managers, monitoring and evaluation, and accountant of Non-Governmental Organizations. Since the eligible number of NGOs was 30 the target population for this study was 90 managers.

### **3.4 Sample size and Sample selection**

This section covered sample size and sample selection of the study.

#### **3.4.1 Sample Size**

Sample size refers to the actual number of subjects chosen as a sample to represent the population characteristics. Based on the sampling frame established which was made up of 90 top managers. All the 90 managers were eligible for the study and hence a saturated sample included to participate. A reliable and a valid sample should enable the researcher to generalize the findings from the sample to the population under investigation (Sekaran, 2006). This implies that generalization of findings of this study could only be made within this population or sampling frame and within Kisumu County.

#### **3.4.2 Sampling Selection**

Sampling is the process of selecting a sufficient number of elements from the population, so that a study of the sample and an understanding of its properties or characteristics would make it possible to generalize such properties or characteristics to the population elements (Sekaran, 2006). In this study, non-probability sampling where all the participants had equal chance to be chosen as sample subjects was used in sampling selection. A purposive selection was done where



the participant were chosen on the basis of their knowledge and participation in the performance measurement system. Based on this criteria, top three managers; the programme/project manager, monitoring and evaluation manager, and the accountant of 30 Non-Governmental Organizations (NGOs) operating in Kisumu County, were purposively selected. The managers by virtue of being in the management position are best suited to respond to information about performance measurement.

### **3.5 Research Instruments**

This section covered the research instruments that were used in the study.

Data was collected using semi-structured questionnaires. The questionnaires were structured into sections thematically organized to capture the BSC key performance measurement elements including customer perspectives, internal business processes perspectives, learning and growth perspectives and financial perspectives. Each element had a set of item measures on which measurements were based. Measurements of key variables were done by objectives as follows:

To determine customer related factors as a component of the Balanced Scorecard perspectives in measuring performance of Non-Governmental Organizations in Kisumu County, all measures such as presence of service charter, quality objective policies related to customers, availability of ICT materials, availability of a suggestion box, honesty, courtesy, transparency, customer standard of operation, response time, customer service and cost formed statement based questions using a Likert scale system of measurement on a continuum ranging from 1-5 where 1 corresponds to strongly disagree and 5 corresponds to strongly agree ( see annex 1).

To assess internal processes related factors as a component of Balanced Scorecard perspectives in measuring performance of Non-Governmental Organizations in Kisumu County, all measures such as needs assessment, participatory project design, participatory monitoring of activities, participatory evaluation of activities, manager employee appraisal employee self-appraisal and procurement procedure formed statement based questions using a Likert scale system of measurement on a continuum ranging from 1-5 where 1 corresponds to strongly disagree and 5 corresponds to strongly agree ( see annex 1).

To establish learning and growth related factors as a component of Balanced Scorecard perspectives in measuring performance of Non-Governmental Organizations in Kisumu County, all measures such as training of employees, networking, partnerships, organizational tours and staff retreat will form statement based questions using a Likert scale system of measurement on a continuum ranging from 1-5 where 1 corresponds to strongly disagree and 5 corresponds to strongly agree (see annex 1).

To assess financial related factors as a component of Balanced Scorecard perspectives in measuring performance of Non-Governmental Organizations in Kisumu County, all measures including expenditure process in relation to budget, expenditure rate, financial audit, flexibility on use of finances among others and financial adjustment during inflation formed statement based questions using a Likert scale system of measurement on a continuum ranging from 1-5 where 1 corresponds to strongly disagree and 5 corresponds to strongly agree.

### **3.5.1 Pilot Testing**

A pilot study was carried out among 15% of the sample size amounting to 14 eligible respondents. These respondents were part of the selected sample to be used in the study so they were excluded from the study sample. The pilot study adopted the same procedures and sampling

technique adopted in the main study. After pilot testing data was analyzed, the resultant product was used to provide suggestions on how the research instruments could be reviewed and revised to become suitable for the study. This was done in order to test for the validity and reliability of the research instruments.

### **3.5.2 Validity of Research Instruments**

Validity refers to the extent to which recorded observations accurately reflect the construct they intend to measure (Judd, Smith and Kidder, 1991). Construct validity was assessed by evaluating the opinion of the respondent against each score using principle axis factoring. The researcher used simple, clear and non-ambiguous language in the instruments. The supervisor reviewed the tools to see if they answer the objectives and research questions. After the exercise of data collection, all the questionnaires were verified to check if all the questions were well answered to the end to ensure validity of collected data.

### **3.5.3 Reliability of Research instrument**

Reliability refers to the extent to which a research instrument yields consistent results or data after repeated trials (Mugenda and Mugenda, 2003). In this study reliability was tested using split-half method to measure internal consistency of the items measuring each construct. The research instrument was administered to the 15% of the respondents and data obtained split into two sub sets (the sets had odd numbers and even numbers). All even numbered items and odd numbered responses in the pilot study were computed separately. Reliability test statistics based on Cronbach alpha revealed coefficients greater than 0.7 across all perspective measures. This indicated an acceptable instrument.

### **3.6 Data Collection Procedure**

The researcher obtained a research permit from the National Council of Science and Technology headquarters allowing her to collect data from Non-Governmental Organizations (NGOs) in Kisumu County. The 90 questionnaires were then administered by the researcher to the respective managers in their offices upon booking an appointment.

### **3.7 Data Analysis techniques**

This section dealt with the data analysis techniques that were employed in the study.

Data was analyzed using descriptive statistics where quantitative and qualitative approaches were used. Quantitative data analysis was done by objectives. Data collected using semi-structured questionnaires was entered into Statistical Package for Social Sciences (SPSS) version 19.0 spreadsheet and cleaned. Descriptive statistics were run to establish the accuracy of entry of scores by assessing range, mean, standard deviation and normality of data. Inferential statistics mainly hierarchical regression was used to assess the contribution of each of the perspectives as performance measurement measures by objectives. In this analysis all the item measures for each perspective were subjected to descriptive analysis followed by factor analysis and finally linear regression to show the most widely practiced aspects of the key measures of perspectives. All the data were analyzed at 95% level of significance or  $\alpha=.05$  and the degrees of freedom depending on the particular case was determined.

Qualitative data was analyzed using the content analysis method which entailed grouping data with similar meanings and themes together. The information obtained by the observational sheet was used to cross check and add on the information gathered questionnaire.

### **3.8 Ethical Consideration**

Before the study was conducted, the proposal was presented to the University of Nairobi for approval. Relevant local authorities were informed of the study for clearance to access the Non-Governmental Organizations. Verbal consent was sought from the respondents before they participated in the study. The respondents who chose to participate were assured that the information they gave was confidential and would not be used for any other purpose except for this study. Every questionnaire remained anonymous, as the respondents were only assigned identity numbers instead of writing their names.

## **CHAPTER FOUR**

### **DATA PRESENTATION, INTERPRETATION, ANALYSIS AND DISCUSSION**

## **4.1 Introduction**

This chapter presents findings of the study under thematic areas namely Questionnaire Response Rate, Background of the study participants, Customer perspective, Internal Processes perspective, Learning and Growth perspective and finally Financial perspective.

## **4.2 Questionnaire Response Rate**

Response rate refers to the percentage of subjects who respond to questionnaires (Mugenda and Mugenda, 2003). The study set out to administer 90 questionnaires to a sample of 30 Non-Governmental Organizations. However, only 64 questionnaires were returned duly filled and completed. This meant 71.1 % eligible response rate. This was attributed to 12 respondents who were either out in the field through the entire study period or declined to participate and 14 respondents who were used in the pilot study. This is in line with Mugenda and Mugenda (2003) who noted that a response rate of 60% is good and a response rate of 70% and over is very good.

## **4.3 Background information**

The study sought to investigate the background of the respondents. They were classified into two categories; demographic characteristics and organization characteristics.

### **4.3.1 Demographic Characteristics of the respondents**

This section presents analysis of the demographic descriptions of the respondents by gender, age, nationality, position in the organization and duration of service. This information was necessary to give an overview of the characteristics of the respondents. The results of the analyses are summarized in the subsections below.

#### **4.3.1.1 Distribution of Respondents by Gender**

To establish the distribution of the top 3 managers by gender, the respondents were asked to state their gender to assess whether the Non-Governmental Organizations were in line with the constitutional requirement that ‘any organization must have 30% representation of either gender. Table 4.1 indicates the results.

**Table 4.1 Distribution of Respondents by Gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	43	67.2
Female	21	32.8
<b>Total</b>	<b>64</b>	<b>100</b>

Table 4.1 shows that out of the total number of respondents 64, 43 (67.2%) were male while 21 (32.8%) were female. Even though the distribution was slightly skewed towards the males, the findings indicate that the NGOs in Kisumu County were in line with constitutional requirement of 30% representation of either gender.

#### **4.3.1.2 Distribution of Response by Age**

The researcher purposed to assess the ages of the respondents who were sampled for the study. The total number of respondents was 64 and the results are summarized in table 4.2

**Table 4.2 Distribution of Respondents by Age**

<b>Age</b>	<b>Frequency</b>	<b>Percent</b>
20-35	38	59.4
36-50	26	40.6
<b>Total</b>	<b>64</b>	<b>100</b>

Table 4.2 shows that out of the 64 respondents who participated in the study, the youthful age bracket 20-35 was 38 (59.4%) while 36-50 was 26 (40.6%). This implies that majority of the top managers are in the youthful age bracket. This is very crucial for project implementation as these age bracket is full of energy needed for project implementation.

#### **4.3.1.3 Distribution of Respondents by Nationality**

The researcher sought to establish the distribution of the respondents according to their nationality. The results are summarized in table 4.3

**Table 4.3 Distribution of Respondents by Nationality**

<b>Nationality</b>	<b>Frequency</b>	<b>Percent</b>
Kenyan	63	98.4
Foreigner	1	1.6
<b>Total</b>	<b>64</b>	<b>100</b>

From table 4.3 out of the 64 respondents, majority of the respondents 63 (98.4%) were Kenyans. There was only 1 (1.6%) foreigner. This implies that the majority of those in the top management of NGOs we have in Kenya are headed by locals (Kenyans).



#### 4.3.1.4 Distribution of Respondent by Position in the Organization

The study sought to assess the particular positions held by the respondents who were sampled for the study. The total number of respondents was 64 and the results were summarized in table 4.4

**Table 4.4 Distribution of Respondents by Position in the Organization**

<b>Position in the organization</b>	<b>Frequency</b>	<b>Percent</b>
Programme/project manager	37	57.8
Monitoring and evaluation manager	10	15.6
Accountant/finance officer	17	26.6
<b>Total</b>	<b>64</b>	<b>100</b>

Table 4.4 shows the distribution of the respondents by position in the organization. Out of the 64 respondents, 37 (57.8%) of the respondents were programme/project managers, they were closely followed by accountants/ finance officers 17 (26.6%) and lastly the monitoring and evaluation managers 10 (15.6%). This could be attributed to the fact that some organizations do not have the monitoring and evaluation departments but source for these services from external consultants.

#### 4.3.1.5 Distribution of Respondents by Duration of Service

It was also of interest to establish the distribution of the respondents according to their duration of service to ascertain whether they were conversant with performance measurement practices. The responses were summarized in table 4.5.

**Table 4.5 Distribution of Respondents by Duration of Service**

<b>Duration of Service</b>	<b>Frequency</b>	<b>Percent</b>
Less than 6 months	4	6.3
6-12 months	7	11.1
Over 12 months	53	82.5
<b>Total</b>	<b>64</b>	<b>100</b>

Table 4.5 shows the duration that the respondents had had in their various organizations. Out of the 64 respondents, 53 (82.5%) had stayed in their organization for more than 12 months. This was followed by those who had stayed for 6-12 months 7 (11.1%) lastly those who had stayed for less than six months 4 (6.3%). This implies that the information that was given in the study was given by those who had stayed in the organization for more than 12 months.

#### **4.3.2.1 Organization characteristics**

The study sought to establish the classification of the various NGOs that were visited. This is because NGOs are organized around different focuses including livelihood, capacity building, and those that focus on both livelihood and capacity building. The responses were summarized on table 4.6.

**Table 4.6 Distribution of Respondents by Classification of NGOs Focus**

<b>Focus of the organization</b>	<b>Frequency</b>	<b>Percent</b>
Livelihood	30	47.5
Livelihood and Capacity Building	18	27.9
Capacity Building	16	24.5
<b>Total</b>	<b>64</b>	<b>100</b>

Table 4.6 shows that out of the 64 respondents, 30 (47.5%) indicated that the NGOs they represented mainly focused on livelihood, followed by NGOs that focused on both livelihood and capacity building 18 (27.9%) while those that focused on capacity building were only 16 (24.5%). This implies that most NGOs majorly focus on improving the livelihood so as to lower the poverty levels given that the Nyanza region according to Kenya Demographic Health Survey (2010) has been classified as poor.

#### **4.4 Customer perspective related factors as a component of the Balanced Scorecard**

The researcher sought to find out how customer related factors as a component of the Balanced Scorecard affect performance of Non-Governmental Organizations. The customer perspective had 10 items measures including presence of a service charter, presence of objectives related to customer service, existing relevant ICT/materials, existing suggestion box for customers, values of honesty, courtesy and transparency, definite response duration for customer feedback, stakeholder participation in design, implantation and monitoring of activities, regular customer satisfaction surveys, activities that respond to immediate needs of the customers, and finally ensuring that customer related objectives are achieved. These item measures were put to test for their applicability in the Non-Governmental Organizations (NGO) working in Kisumu County. Descriptive statistics were run for all the items to assess for the accuracy of entry of

data, mean score for each item and normality. Table 4.6 shows the means recorded across all item measures.

**Table4. 6 Mean customer perspective item measures**

Customer perspective item measures (n=64)	Min	Max	Mean	SD	Skewness
Presence of Service charter.	1.00	5.00	4.14	1.05	-1.387
Presence of objectives related to customer service.	1.00	5.00	4.45	.92	-2.159
Existing relevant ICT/information materials	1.00	5.00	4.40	.95	-2.038
Existing suggestion box for customer	1.00	5.00	3.38	1.54	-.341
Values of honesty, courtesy and transparent.	2.00	5.00	4.64	.68	-2.290
Definite response duration for customer feedback.	1.00	5.00	3.96	.89	-.634
Stakeholder participation in design, implementation and monitoring of activities.	2.00	5.00	4.55	.71	-1.537
Regular customer satisfaction surveys.	1.00	5.00	3.80	1.23	-.899
Activities that respond to immediate needs of the customers.	1.00	5.00	4.47	.89	-1.783
Ensuring that customer related objectives are achieved.	2.00	5.00	4.53	.71	-1.475

Table 4.6 shows that high means above average were recorded across all item measures with three items, existing suggestion box for customers, stakeholder participation in design, implementation and monitoring activities and lastly regular customer satisfaction surveys registering the lowest means. All the item measures were normally distributed except for the case of presence of objectives related to customer service, existing relevant ICT/ information materials and definite response duration for customer feedback.

Further analysis was conducted to identify those items that were strongly practiced by the organizations. All the 10 item measures for customer perspectives were first tested for sample size adequacy using Kaiser Meyer Olkins (KMO) and Bartlett's test of sphericity. The results indicated that the sample size was adequate for each item (KMO=.705;  $\chi^2=163.037$ ;  $df=45$ ;  $p<0.05$ ) leading to factor analysis. These item measures were further subjected to extraction to determine which factors could be extracted. They have been summarized in table 4.7

**Table 4.7 Total variance explained by customer perspective factors**

Factor	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.072	30.72	30.72	1.726	17.258	17.258
2	1.693	16.93	47.65	1.448	14.476	31.733
3	1.230	12.30	59.96	1.311	13.111	44.844
4	1.009	10.09	70.045	.762	7.619	52.463
5	.926	9.26	79.30			
6	.551	5.51	84.81			
7	.504	5.04	89.85			
8	.387	3.87	93.72			
9	.348	3.48	97.20			
10	.280	2.80	100.00			

Table 4.7 shows the number of possible item measures that could be extracted from the customer perspective measures. About 10 possible factors could be extracted, however based on the standard eigenvalues set at 1; only 4 factor clusters were valid. The overall variance for the customer perspective item measures accounted for by the factors was 52.46 %. These findings confirm that the information gained from the customer perspective can be used by an organization to identify critical measures in other perspectives (internal processes, learning and growth and financial). Factor 1 registered the highest variance of 17.25 % followed by Factor 2 (14.48 %) then Factor 3 (13.11 %) and finally Factor 4 (7.619 %).

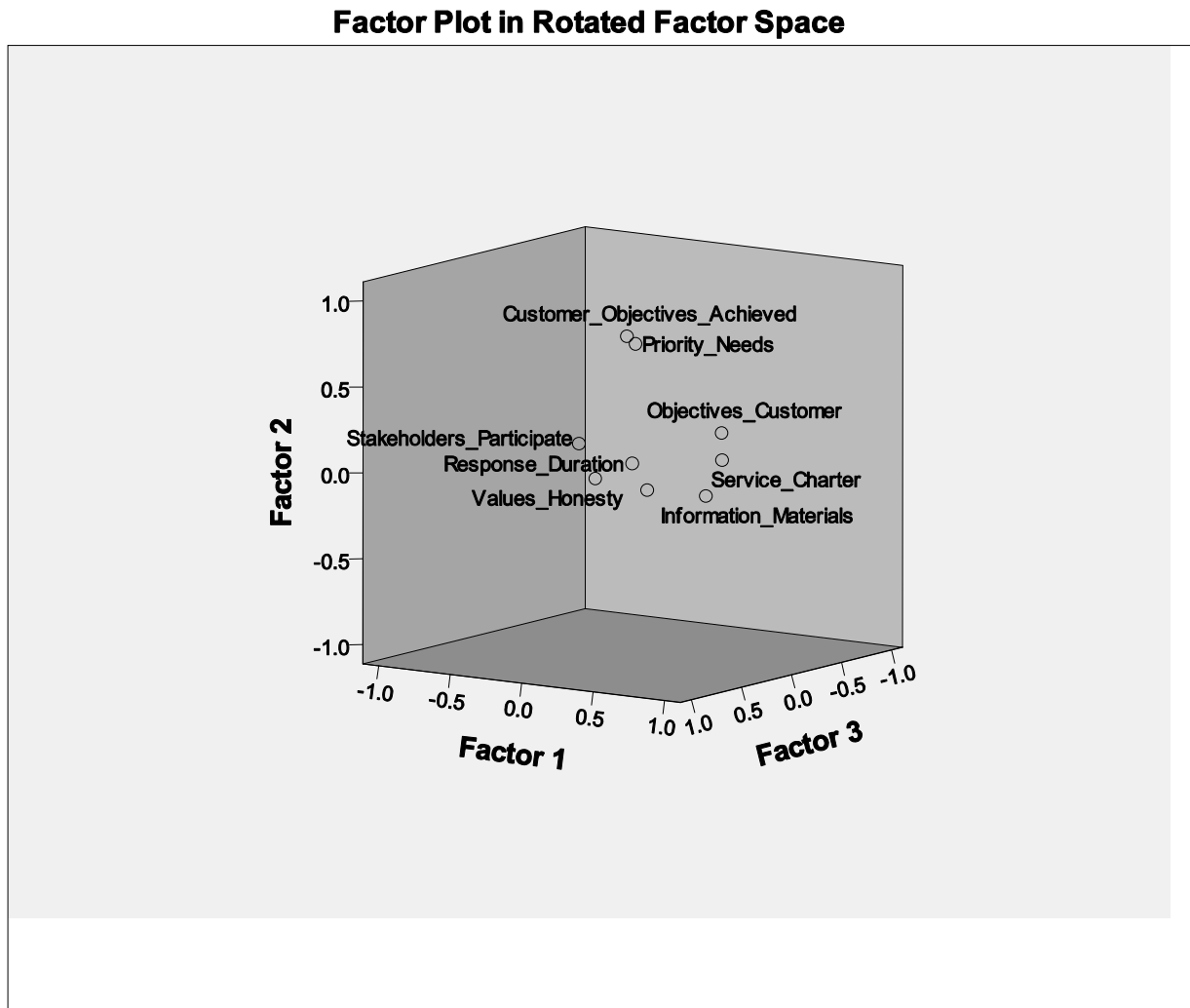
The subsequent analysis displayed the four Factors in a rotated factor matrix revealing three factor clusters, and a single factor item as indicated in table 4.8

**Table 4.8 Rotated Factor Matrix for Customer Perspective**

Customer perspective item measures (n=64)	Factor			
	1	2	3	4
Presence of Service charter.	.659			
Presence of objectives related to customer service.	.793			
Existing relevant ICT/information materials	.663			
Existing suggestion box for customer				
Values of honesty, courtesy and transparency.			.828	
Definite response duration for customer feedback.				
Stakeholder participation in design, implementation and monitoring of activities.			.633	
Regular customer satisfaction surveys.				.727
Activities that respond to immediate needs of the customers.		.719		
Ensuring that customer related objectives are achieved.		.797		

Table 4.8 shows that when small coefficients were suppressed to below 40 percent in the Principal Axis Factoring based on *varimax* rotation, only those items displayed in the table were extracted as key measures of the customer perspective. Only 8 out of the 10 item measures were extracted. These item measures included presence of a service charter, objectives related to customer service, existing relevant ICT/ information materials, values of honesty, courtesy and transparency, stakeholder participation in design, implementation and monitoring of activities, regular customer satisfaction surveys, activities that respond to immediate needs of the customers, finally ensuring that customer related objectives are achieved. It emerged that 2 item measures were not extracted. This included presence of a suggestion box and definite response duration for customer feedback. This implies that these item measures that were not extracted are not widely practiced in NGOs in Kisumu County.

In order to show the distribution of factors, all the item measures were loaded into a factor space. These results are displayed in figure 4.2



**Figure 4.2** Distribution of customer perspective items into factor loading space

Figure 4.2 shows the item measures that were loaded into a factor loading plot. Those factors that were not extracted were excluded. In addition, Factor 4 item measure; the organization conducts regular customer satisfaction surveys was shown clustered around Factor

3 item measures since depicting the fourth dimension in a three dimensional representation was not possible.

Further analysis was done to show the magnitude of predictors of Factor 1. The model output revealed that the three items including the presence of a well stated service charter, a well stated objectives related to customer service, and availing relevant ICT/information materials significantly explained up to 86.7% of the total variance in customer perspective category-1 ( $R=0.867$ ,  $F=137.92$ ,  $p<0.05$ ). Table 4.9 summarizes these factors.

**Table 4.9 Regression Analysis of customer perspective category -1**

		Unstandardized		Standardized		
		Coefficients		Coefficients		
Factor 1 Model (Y)		B	Std. Error	Beta	t	Sig.
1	(Constant)	-5.648	.285		-19.791	.000
	Presence of Service charter. ( $X_1$ )	.323	.061	.303	5.316	.000
	Presence of objectives related to customer service. ( $X_2$ )	.633	.074	.523	8.610	.000
	Availability relevant ICT/information materials ( $X_3$ )	.339	.065	.289	5.178	.000

Table 4.9 shows an attempt to establish the most powerful predictor of factor 1. It revealed that the presence of a well stated objectives related to customer service was the best predictor of factor 1 ( $\beta=0.523$ ,  $t=8.61$ ,  $p<0.05$ ). This was followed by the presence of a well stated service charter ( $\beta=0.303$ ,  $t=5.316$ ,  $p<0.05$ ) and availability of relevant ICT/information materials to customers ( $\beta=0.289$ ,  $t=5.178$ ,  $p<0.05$ ) This clearly indicates that NGOs have implemented measures that are tailored toward customer needs.



A similar analysis for Factor 2 was done using regression to display the strength of prediction of the organization activities that respond to immediate needs of the customers as well as ensuring that customer related objectives are achieved. The two customer perspective category-2 measures significantly accounted for 90.7 % of the variance ( $R=0.907$ ,  $F=308.54$ ,  $P < 0.05$ ). The results are presented in table 4.9

**Table 4.10 Regression Analysis for customer perspective category -2**

Factor 2 Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Coefficients		
1 (Constant)	-7.062	.290		-24.322	.000
Activities that respond to immediate needs of the customers.	.553	.062	.430	8.941	.000
Ensuring that customer related objectives are achieved.	1.013	.077	.631	13.110	.000

Table 4.10 shows the regression model which revealed that the most powerful predictor of customer perspective category -2 was ensuring that customer related objectives are achieved ( $\beta=0.631$ ,  $t=13.110$ ,  $p < 0.05$ ) followed by immediate response to the needs of the customer ( $\beta=0.43$ ,  $t=8.941$ ,  $p < 0.05$ ). This implies that organizations have put in place mechanisms that ensures that customer related objectives are achieved and those that respond to immediate response to the needs of customers are also put in place.

Customer perspective category-3 (Factor3) also had two measures which were further tested as predictors in a linear regression as in the case of Factor 1 and 2. The two customer perspective category-3 measures significantly accounted for 83.6 % of the variance ( $R=0.836$ ,  $F=161.47$ ,  $P < 0.05$ ) and these are presented in table 4.10

**Table 4.11 Regression Analysis for customer perspective category-3**

Factor 3 Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Coefficients Beta		
1 (Constant)	-7.830	.445		-17.593	.000
Values of honesty, courtesy and transparency	1.247	.107	.728	11.618	.000
Stakeholder participation in design, implementation and monitoring of activities	.449	.102	.276	4.409	.000

Table 4.11 shows the regression model which revealed that the most powerful predictor of customer perspective category -3 was values of honesty, courtesy and transparency ( $\beta=1.247$ ,  $t=11.618$ ,  $p < 0.05$ ) followed by stakeholder participation in design, implementation and monitoring activities ( $\beta=0.449$ ,  $t=4.409$ ,  $p < 0.05$ ). This implies that the NGOs have put in place mechanisms that ensure that the customers are involved in the projects for successful implementation of projects.

A similar analysis for customer perspective category -4 (Factor 4) which had a single item measure was done using linear regression to display the strength of prediction. The single customer perspective category-4 measure, the organization conducts regular customer satisfaction surveys significantly accounted for 71.5% of the variance ( $R=0.715$ ,  $F=158.73$ ,  $P < 0.05$ ) and the results were presented on table 4.12

**Table 4.12 Regression Analysis for customer perspective category-4**

Model	Unstandardized Coefficients		Standardized	t	Sig.
	B	Std. Error	Coefficients Beta		
1 (Constant)	-3.279	.274		-11.988	.000
The organization conducts regular customer satisfaction surveys.	.864	.069	.848	12.599	.000

Table 4.12 revealed that the organizations conduct regular customer satisfaction survey was a powerful predictor of customer perspective category -4 ( $\beta=0.848$ ,  $t=12.60$ ,  $p < 0.05$ ). This implies that the NGOs in Kisumu County conduct regular customer satisfaction surveys. This finding confirms Morley *et al* (2001) study that found that approximately 78% of NGOs conduct client surveys designed to measure customer satisfaction, client outcomes to be used as performance measures. These findings are comparable to Carman & Fredrick (2008) who also noted that 67% respectively of NGO conducted client surveys designed to measure customer satisfaction.

#### **4.5 Internal Processes Perspective related factors a component of the Balanced Scorecard**

The internal processes perspective captures measures regarding organizational operations and processes to meet customers' expectations and increase their satisfaction. The study sought to assess how internal process related factors as a component of the Balanced Scorecard affect performance. This perspective had 12 item measures put to test for their applicability in the Non-Governmental Organizations (NGO). Descriptive statistics were run for all the items to assess for the accuracy of entry of data, mean score for each item and normality. These have been summarized in Table 4.13

**Table 4.13 Mean Internal Process perspective item measures**

<b>Internal business perspectives</b>	<b>Min Statistic</b>	<b>Maxi Statistic</b>	<b>Mean Statistic</b>	<b>SD Statistic</b>	<b>Skewness Statistic</b>	<b>S E</b>
The organization conducts needs assessment regularly	2.00	5.00	4.2344	.88627	-.909	.299
Uses participatory approaches during project design.	2.00	5.00	4.3125	.87060	-.961	.299
Uses participatory approaches in monitoring.	2.00	5.00	4.4844	.73446	-1.309	.299
Uses participatory approaches in evaluations.	2.00	5.00	4.4063	.72853	-1.061	.299
Uses managers to appraise staff on performance.	2.00	5.00	4.5469	.68845	-1.529	.299
Uses employees' self-appraisal.	2.00	5.00	4.2656	.99590	-1.161	.299
Presence of a well-defined functional procurement procedure.	3.00	5.00	4.5313	.71200	-1.203	.299
A well-defined communication and feedback mechanisms.	1.00	5.00	4.2969	.97068	-1.604	.299
Presence of a well-defined reporting system.	2.00	5.00	4.5000	.71270	-1.358	.299
Presence of a well designed and working Standard Operating Procedures (SOPs).	1.00	5.00	4.4219	.88738	-2.077	.299
Presence of a well-defined business processes.	1.00	5.00	4.3281	.90947	-1.755	.299
Flexibility to revise and improve on the internal business processes.	1.00	5.00	4.0469	.98286	-.924	.299

Table 4.13 revealed that high means above average were recorded across all item measures. All the item measures were normally distributed except for the case of presence of working Standard Operating Procedures (SOPs). Further analysis was conducted to identify those items that were strongly practiced by the organizations. All the 12 item measures for internal process perspective were first tested for sample size adequacy using Kaiser Meyer Olkins (KMO) and Bartlett's test of sphericity. The results indicated that the sample size was adequate for each item (KMO=.744;  $\chi^2=305.846$ ;  $df=66$ ;  $p<0.05$ ) the results were presented in table 4.13 leading to further analysis.

**Table 4.14 Total variance explained by Internal Process perspective factors**

Factor	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.422	36.852	36.852	2.546	21.219	21.219
2	1.616	13.463	50.315	2.516	20.971	42.189
3	1.384	11.533	61.848			
4	1.045	8.706	70.553			
5	.788	6.563	77.117			
6	.662	5.513	82.629			
7	.564	4.699	87.328			
8	.506	4.213	91.541			
9	.370	3.086	94.627			
10	.284	2.365	96.992			
11	.197	1.646	98.637			
12	.164	1.363	100.000			

Table 4.14 shows the number of possible item measures that could be extracted from the internal processes perspective. About 12 item measures could be extracted. However, based on the standard eigenvalues set at one (1), only TWO factor clusters were extracted. The overall variance for internal process perspective measures accounted for was 42.19%. Factor 1 registered the highest variance (32.66%) indicating that it was the best measure for internal processes perspective followed by Factor 2 (9.5 %).

Further analysis displayed the factors in a rotated factor matrix revealing the two factor clusters as summarized in table 4.15

**Table 4.15 Rotated Factor Matrix for Internal Process Perspective**

Internal Process perspective item measures (n=64)	Factor	
	1	2
The organization conducts needs assessment regularly		
Uses participatory approaches during project design.		.704
Uses participatory approaches in monitoring.		.692
Uses participatory approaches in evaluations.		.738
Uses managers to appraise staff on performance.		
Uses employees' self-appraisal.		.522
Presence of a well-defined functional procurement procedure.		.431
A well-defined communication and feedback mechanisms.	.439	
Presence of a well-defined reporting system.	.511	.439
Presence of well designed and working Standard Operating Procedures (SOPs).	.885	
Presence of a well-defined business processes.	.761	
Flexibility to revise and improve on the internal business processes.	.664	

The results revealed that Factor 1 was made up of the organization has a well defined communication and feedback system, well defined reporting system, well designed working SOPs, well defined business processes and flexible to revise and improve on the internal business processes. Factor 2 consisted of use of participatory approaches during project design, use of participatory approaches in evaluation, use of employee self appraisal to assess performance, presence of a well defined functional procurement procedure and a well defined reporting system.

In order to show the distribution of factors, all the factors were loaded into a factor space and displayed in figure 4.3

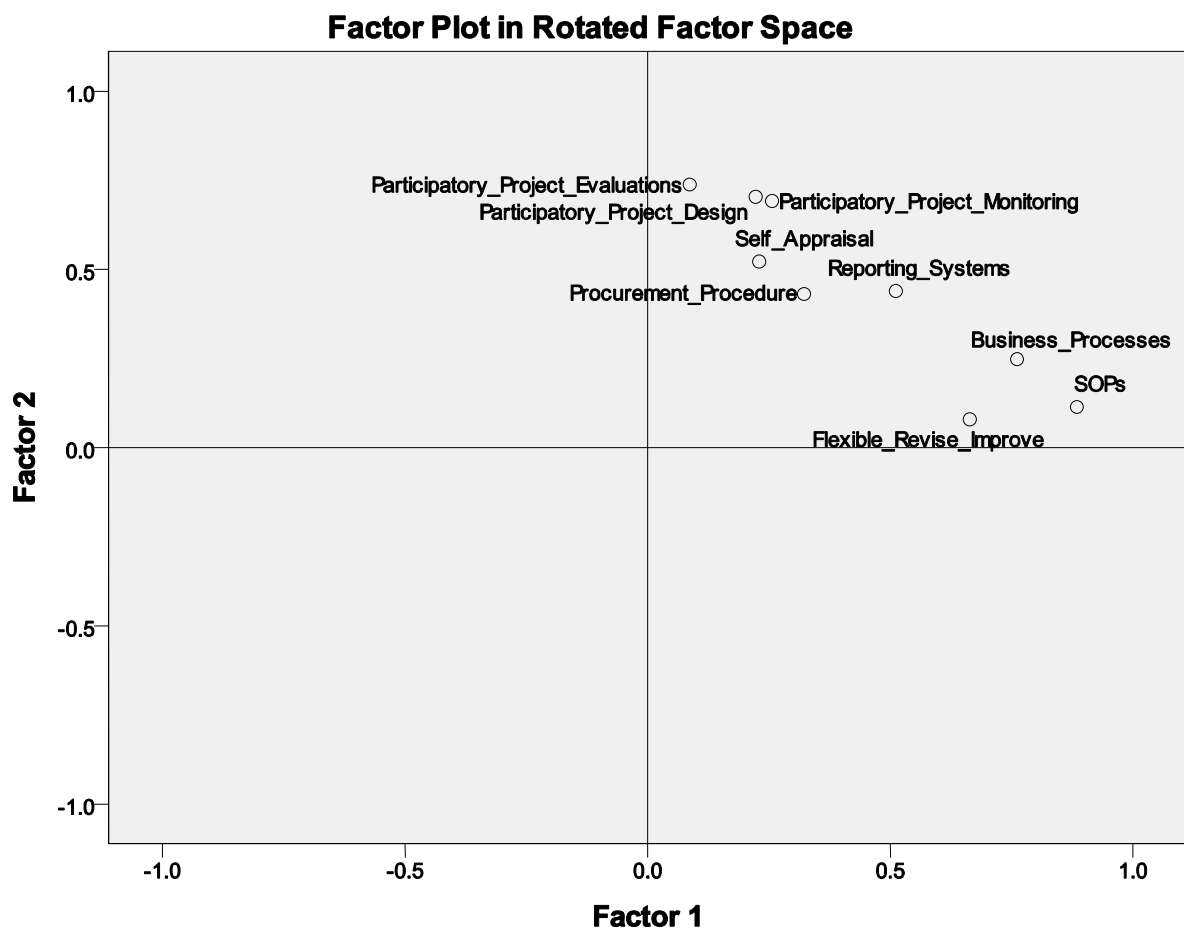


Figure 4.3 Distributions of internal process items measures into factor loading space

Figure 4.3 shows the item measures that were loaded into a factor loading plot. Those factors that were not extracted were excluded.

Further analysis was done to show the power of predictors of Factor 1. The model output revealed that the five items; organization has a well defined communication and feedback mechanism, has a well defined reporting system, has a well designed and working Standard Operating Procedures, has a well defined business procedure finally, the organization flexible to revise and improve on the internal business processes significantly explained up to 95.5% of the total variance in the internal processes perspective category-1 as presented in Table 4.16

**Table4.16 Regression Analysis for internal process perspective category-1**

Factor 1 Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	-5.618	.204		-27.494	.000
	Presence of a well-defined communication and feedback mechanisms.	.040	.035	.036	1.146	.257
	Presence of well designed and working SOPs.	.884	.055	.722	16.029	.000
	Presence well-defined business processes.	.191	.051	.160	3.720	.000
	Flexibility to revise and improve internal business processes.	.225	.038	.204	5.912	.000
	Presence well-defined reporting systems.	-.045	.051	-.029	-.879	.383

Table 4.16 shows that an attempt to establish the most powerful predictor of Factor 1 revealed that presence of well designed and working Standard Operating Procedures ( $\beta=0.722$ ,  $t=16.03$ ,  $p<0.05$ ) was the best predictor of Factor 1. This was in line with the Balanced Scorecard theory in that creating customer value and satisfaction entails the efficient operation of a specific internal process within the organization. This was followed by flexibility to revise and improve on the internal business processes ( $\beta=0.204$ ,  $t=5.912$ ,  $p<0.05$ ) and presence of well defined business processes ( $\beta=0.160$ ,  $t=3.720$ ,  $p<0.05$ ). Other predictors such as presence of a well defined reporting system and presence of a well defined communication and feedback

mechanism were insignificant ( $p>0.05$ ). The results on SOPs is consistent with Hartnett and Matan (2011) who observed that internal focus gives leaders a thorough understanding of how well the non-profit is running and can help them determine which programmes and services are meeting the real needs of the community.

A similar analysis for Factor 2 was done to display the strength of prediction. The six internal processes perspective category-2 measures significantly accounted for 89.8 % of the variance ( $R=0.898$ ,  $F=93.869$ ,  $P< 0.05$ ) as presented in Table 4.17.

**Table 4.17 Regression Analysis for internal process perspective category-2**

Factor 2 Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	-7.444	.390		-	.000
Uses participatory approaches during project design.	.445	.071	.343	6.247	.000
Uses participatory approaches in monitoring.	.228	.097	.148	2.353	.022
Uses participatory approaches in evaluations.	.742	.094	.478	7.857	.000
Uses employees' self-appraisal method to assess performance.	.209	.054	.185	3.903	.000
Presence of well-defined and functional procurement procedure.	.170	.073	.107	2.351	.022
Presence well-defined reporting systems.	-.095	.076	-.060	-1.251	.216

Table 4.17 shows that the most powerful predictor of internal processes perspective category -2 was use of participation approaches in evaluations ( $\beta=0.478$ ,  $t=7.857$ ,  $p < 0.05$ ) followed by use of participatory approach in project design. ( $\beta=0.343$ ,  $t=6.247$ ,  $p < 0.05$ ) then the organization uses employee self appraisal to assess performance ( $\beta =0.185$ ,  $t=3.903$ ),  $p <0.05$  this was followed by use of participatory approaches in monitoring ( $\beta=0.148$ ),  $t=2.352$ ,  $p<0.05$  lastly was that the organization has a well defined functional procurement procedure ( $\beta=0.107$ ),  $t=2.351$ ,  $p<0.05$ . Only one item measure; the organization has a well defined reporting system was insignificant ( $p>0.05$ ).



#### 4.6 Learning and Growth perspective related factors as a component of the Balanced Scorecard

Since NGOs operate as mission based organizations, they rely heavily on the skills and alignment of their staff to achieve their socially important goals. The study sought to establish the learning and growth related factors a component of the BSC. This perspective had 10 item measures put to test for their applicability in the Non-Governmental Organizations (NGO). Descriptive statistics were run for all the items to assess for the accuracy of entry of data, mean score for each item and normality and presented in table 4.18

**Table 4.18 Mean learning and growth perspective item measures**

	Minimum Statistic	Maximum Statistic	Mean Statistic	SD Statistic	Skewness Statistic	Std. Error
Prioritizes training and professional development of employees.	1.00	5.00	4.0938	1.06486	-1.088	.299
Networking with other organizations.	3.00	5.00	4.6406	.65143	-1.613	.299
Partnering with other organization to achieve vision and mission.	3.00	5.00	4.6875	.53080	-1.469	.299
Motivating employees through tours and staff retreats.	1.00	5.00	3.8125	1.23282	-.785	.299
Provision of reading materials relevant for employees' growth.	1.00	5.00	4.0938	1.16454	-1.246	.299
Frequent refresher courses for employee's growth.	1.00	5.00	3.9219	1.13116	-.997	.299
Free internet facilities for employees' learning and growth.	1.00	5.00	4.3594	.98185	-1.618	.299
Provision of equal opportunity for employees to participate in leadership activities.	2.00	5.00	4.2187	.84457	-.603	.299
Flexible to change focus on key areas of intervention.	2.00	5.00	4.2187	.84457	-.766	.299
Provision to hire highly skilled expertise to mentor existing employees on specific professional areas.	1.00	5.00	4.2813	1.01526	-1.820	.299

Table 4.18 shows that high means above average were recorded across all item measures. All the item measures were normally distributed.

Further analysis was conducted to identify those items that were strongly practiced by the organizations. All the 10 item measures for learning and growth perspective were first tested for sample size adequacy using Kaiser Meyer Olkins (KMO) and Bartlett's test of sphericity. The

results indicated that the sample size was adequate for each item (KMO=.739;  $\chi^2=243.985$ ; df=45;  $p<0.05$ ) leading to factor analysis. The results were presented in table 4.19

**Table 4.19. Total variance explained by learning and growth perspective factors**

Factor	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.141	41.409	41.409	2.365	23.652	23.652
2	1.341	13.413	54.822	1.742	17.416	41.068
3	1.220	12.195	67.017	1.401	14.009	55.078
4	.790	7.902	74.919			
5	.748	7.480	82.399			
6	.504	5.042	87.441			
7	.450	4.504	91.945			
8	.347	3.465	95.410			
9	.279	2.792	98.203			
10	.180	1.797	100.000			

Table 19 shows the number of possible item measures that could be extracted from the learning and growth perspective. About 10 item measures were extracted based on the standard eigenvalues set at one (1) all the items were extracted and regrouped into three factors clusters were extracted. The overall variance for learning and growth perspective measures accounted for was 55.078%. Factor 1 registered the highest variance (36.973%) indicating that it was the best measure for learning and growth perspective followed by Factor 2 (9.150 %) and Factor 3 (8.954%).

Based on these results further analysis displayed the factors in a rotated factor matrix revealing the three factor clusters which were presented in table 4.20

**Table 4.20 Rotated Factor Matrix for learning and growth Perspective**

Learning and Growth perspective Item Measures	Factor		
	1	2	3
Prioritizes training and professional development of employees.	.729		
Networking with other organizations.			.932
Partnering with other organization to achieve vision and mission.			
Motivating employees through tours and staff retreats.			.521
Provision of reading materials relevant for employees' growth.	.783		
Frequent refresher courses for employee's growth.	.571		
Free internet facilities for employees' learning and growth.	.662		
Provision of equal opportunity for employees to participate in leadership activities.		.514	
Flexible to change focus on key areas of intervention.		.752	
Provision to hire highly skilled expertise to mentor existing employees on specific professional areas.		.666	
Prioritizes training and professional development of employees.	.512	.469	

Factor 1 was made up of the organization prioritizes training and professional development of employees, motivation of employees through tours and staff retreats, provision of reading materials for employee growth, refresher courses for employee growth and provision to hire experts to mentor employees. Factor 2 consisted of provision of free internet facilities for employee learning and growth, equal opportunity for employee participation in leadership activities, flexible to change focus on key areas of intervention and provision to hire experts to mentor employees. Factor 3 consisted of the organization networking with other organization, and partnering with other organizations to achieve vision and mission.

In order to show the distribution of factors, all the items were loaded into a factor space and displayed in figure 4.4

### Factor Plot in Rotated Factor Space

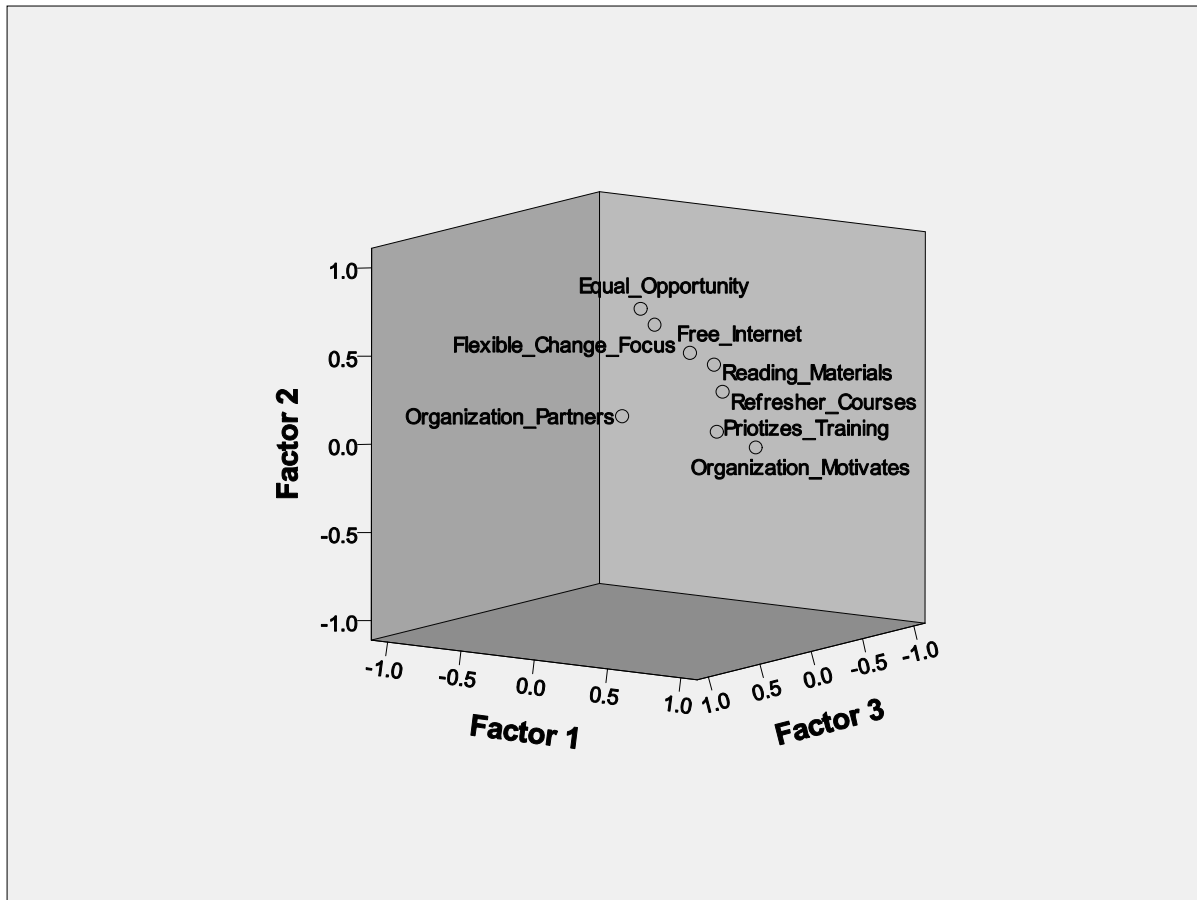


Figure 4.4 Distribution of learning and growth perspective items into factor space

Figure 4.4 shows all the item measures that were loaded into a factor loading plot. Those factors that were insignificant were excluded. In addition, Factor 4 item measure; the organization conducts regular customer satisfaction surveys was shown clustered around Factor 3 item measures since depicting the fourth dimension in a three dimensional representation was not possible.

Further analysis was done to show the power of predictors of Factor 1. The model output revealed that the five items; the organization prioritize training and professional development of employees, motivates the employees through tours and staff retreats, provides frequent refresher courses for employee growth, provides reading materials relevant for employee growth and has provision to hire experts to mentor employee. These item measures significantly explained up to 89.4% of the total variance in the learning and growth perspective category-1 ( $R=0.894$ ,  $F=106.189$ ,  $p<0.05$ ). These findings were presented in table 4.21

**Table 4.21 Regression Analysis for learning and growth perspective category-1**

Factor 1 Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-4.262	.229		-18.578	.000
1 Prioritizes training and professional development of employees.	.206	.065	.196	3.172	.002
1 Motivating employees through tours and staff retreats.	.548	.052	.603	10.473	.000
1 Provision of reading materials relevant for employees' growth.	.138	.052	.144	2.668	.010
1 Frequent refresher courses for employee's growth.	.170	.057	.172	2.998	.004
1 Provision to hire highly skilled expertise to mentor existing employees on specific professional areas.	.023	.054	.021	.428	.670

Table 4.21 shows an attempt to establish the most powerful predictor of Factor 1 revealed that the organization motivates employees ( $\beta=0.603$ ,  $t=10.473$ ,  $p<0.05$ ) was the best predictor of Factor 1. This was followed by the organization prioritizes training and professional development of employees ( $\beta=0.196$ ,  $t=3.172$ ,  $p<0.05$ ) then, frequent refresher courses for employee growth ( $\beta=0.172$ ,  $t=2.990$ ,  $p<0.05$ ) finally, the organization provides reading materials relevant for employee growth ( $\beta=0.144$ ,  $t=2.668$ ,  $p<0.05$ ). Only one predictor, the organization has a provision to hire experts to mentor employees was insignificant ( $p>0.05$ ).

Given the above findings, similar analysis for Factor 2 was done to display the strength of prediction. The four learning and growth perspective category-2 measures significantly

accounted for 88.8% of the total variance ( $R=0.888$ ,  $F=126.344$ ,  $P< 0.05$ ) and were presented in table 4.22

**Table 4.22 Regression Analysis for learning and growth perspective category-2**

Factor 2 Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-6.606	.309		-21.398	.000
Provision of free internet.	.267	.061	.223	4.354	.000
Equal opportunity for employees participation	.819	.075	.590	10.995	.000
Flexibility to change focus on key areas of intervention.	.447	.077	.322	5.826	.000
Hiring experts to mentor existing employees on specific professional areas.	.023	.060	.020	.390	.698

Table 4.22 shows that the most powerful predictor of learning and growth perspective category-2 was the organization provides equal opportunity for employees to participate in leadership activities ( $\beta=0.590$ ,  $t=10.995$ ,  $p < 0.05$ ) followed by the organization is flexible to change focus on key areas of intervention. ( $\beta=0.322$ ,  $t=5.820$ ,  $p < 0.05$ ) then the organization provides free internet facilities for employee learning and growth ( $\beta =0.223$ ,  $t=4.354$ ,  $p <0.05$ ). Only one item measure; the organization has provision to hire experts to mentor employees on specific professional areas was insignificant ( $p>0.05$ ).

Further analysis for Factor 3 was done to display the strength of prediction. The two learning and growth perspective category-2 measures significantly accounted for 95.8% of the total variance ( $R=0.958$ ,  $F=710.885$ ,  $P< 0.05$ ).The results were presented in table 4.23

**Table 4.23 Regression Analysis of learning and growth perspective category -3**

Factor 3 Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-7.517	.257		-29.230	.000
	Networking with other organization.	1.582	.050	.969	31.349	.000
	Partnering with other organization	.038	.062	.019	.606	.547

Table 4.23 indicates that the most powerful predictor of learning and growth perspective category -3 was the organization networks with other organizations ( $\beta=0.969$ ,  $t=31.344$ ,  $p < 0.05$ ). The other predictor, the organization partners with other organizations to achieve vision and mission was insignificant ( $p>0.05$ ).

These findings confirm Makakane (2007) that this perspective is essentially the foundation upon which the organizational success is built and that the measures in this perspective are the enablers of all the other perspectives as they will ultimately lead the organization to achieve its results.

#### **4.6 Financial Perspective related factors as a component of the Balanced Scorecard**

The financial performance of Non-Governmental Organizations is defined in terms of financial accountability. Financial performance has been one of the key elements in measuring overall performance and evaluating effectiveness of Non-Governmental Organizations. The study sought to assess how financial perspective related factors affect the performance of NGOs. In this study, the financial perspective had 14 item measures put to test for their applicability in the Non-Governmental Organizations (NGO). Descriptive statistics were run for all the items to assess for the accuracy of entry of data and mean score for each item and were summarized in table 4.24.

**Table 4.24 Mean financial perspective item measures**

Financial Measures	Minimum	Maximum	Mean	SD
Expenditure incurred as budgeted.	3.00	5.00	4.7188	.51851
Expenditure rate is always within the acceptable variance ( $\pm 10\%$ ).	1.00	5.00	4.3906	1.01758
Regular financial audit.	3.00	5.00	4.7969	.50958
Readiness to incur expenses on a need arises basis.	1.00	5.00	3.5781	1.23191
Flexible on financial budget adjustments.	1.00	5.00	3.7344	1.19844
Proper accounting records	3.00	5.00	4.7969	.44292
Proper control mechanisms over purchases	2.00	5.00	4.6094	.68120
Proper control mechanisms over payments by cheque	3.00	5.00	4.7813	.51851
Proper control over bank account	3.00	5.00	4.8125	.46718
Proper control for employee payroll management.	1.00	5.00	4.6563	.69508
Proper control over fixed assets	1.00	5.00	4.6875	.75330
Financial statements produced	3.00	5.00	4.7188	.57649
Produces financial reports for Managers	3.00	5.00	4.7188	.54827
Produces periodic financial reports for donors	3.00	5.00	4.7969	.50958

Table 4.24 shows that the item measures scored high means except two item measures; readiness to incur expenses on a need arises basis and flexibility on financial budget adjustment.

Further analysis was conducted to identify areas of financial practices across NGOs. All the 14 item measures for financial perspectives were first tested for sample size adequacy using Kaiser Meyer Olkins (KMO) and Bartlett's test of sphericity. The results indicated that the sample size was adequate for each item (KMO=.783;  $\chi^2=367.27.037$ ;  $df=91$ ;  $p<0.05$ ) leading to factor analysis which were presented in table 4.25



**Table 4.25 Total variance explained by financial perspective factors**

Factor	Initial Eigenvalues			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.157	36.838	36.838	3.180	22.716	22.716
2	1.865	13.320	50.159	1.628	11.626	34.342
3	1.247	8.905	59.064	1.601	11.439	45.780
4	1.086	7.758	66.822	1.553	11.093	56.873
5	.866	6.187	73.009			
6	.721	5.149	78.158			
7	.671	4.793	82.951			
8	.567	4.053	87.004			
9	.472	3.374	90.378			
10	.379	2.706	93.083			
11	.332	2.368	95.452			
12	.250	1.785	97.237			
13	.221	1.578	98.815			
14	.166	1.185	100.000			

Table 4.25 shows the number of possible item measures that could be extracted from the financial perspective. About 14 factors could be extracted. However, based on the standard eigenvalues set at one (1), only four factors clusters were extracted. The overall variance for financial perspective measures accounted for was 56.87%. This clearly indicates that the financial perspective is an imperative perspective in any NGO. This supports Niven (2003) and Lindvall (1995) who argued that no organization, regardless of its status, can successfully operate and meet customer requirements without financial resources. Niven (2002) further argues that an organization which is using significant time and resources in improving internal processes may add little value if these improvements are not translated into financial performance. Factor 1 registered the highest variance (22.7%) indicating that it was the best measure for financial perspective followed by Factor 2 (11.6 %) then Factor 3 (11.4%) and finally Factor 4 (11.1%).

Further analysis displayed the factors in a rotated factor matrix revealing the four factor clusters as presented in table 4.26

**Table 4.26 Rotated factor matrix for the financial perspective**

Financial perspective item measures	Factor			
	1	2	3	4
Expenditure incurred as budgeted.	.597			
Expenditure rate is always within the acceptable variance ( $\pm 10\%$ ).				
Regular financial audit.		.575		
Readiness to incur expenses on a need arises basis.				.742
Flexible on financial budget adjustments.				.938
Proper accounting records	.597			
Proper control mechanisms over purchases			.542	
Proper control mechanisms over payments by cheque	.630			
Proper control over bank account	.850			
Proper control for employee payroll management.	.488			
Proper control over fixed assets			.964	
Financial statements produced	.544	.536		
Produces financial reports for Managers		.755		
Produces periodic financial reports for donors	.719			

Table 4.26 shows that Factor 1 was made up of expenditure budgeted, proper accounting records, control of payments, control of payroll, proper financial statements and proper financial reports for donors. Factor 2 consisted of regular financial audits, proper financial reports for managers, proper financial statements and periodic financial statements for donors. Factor 3 was made up of expenses incurred on a need arises basis and flexible budget. Lastly, Factor 4 had two item measures namely proper control over fixed assets and proper control over purchases.

Figure 4.5 shows relative positions of key extracted items for measuring the financial perspective as displayed in the rotated factor space of factor plot.

### Factor Plot in Rotated Factor Space

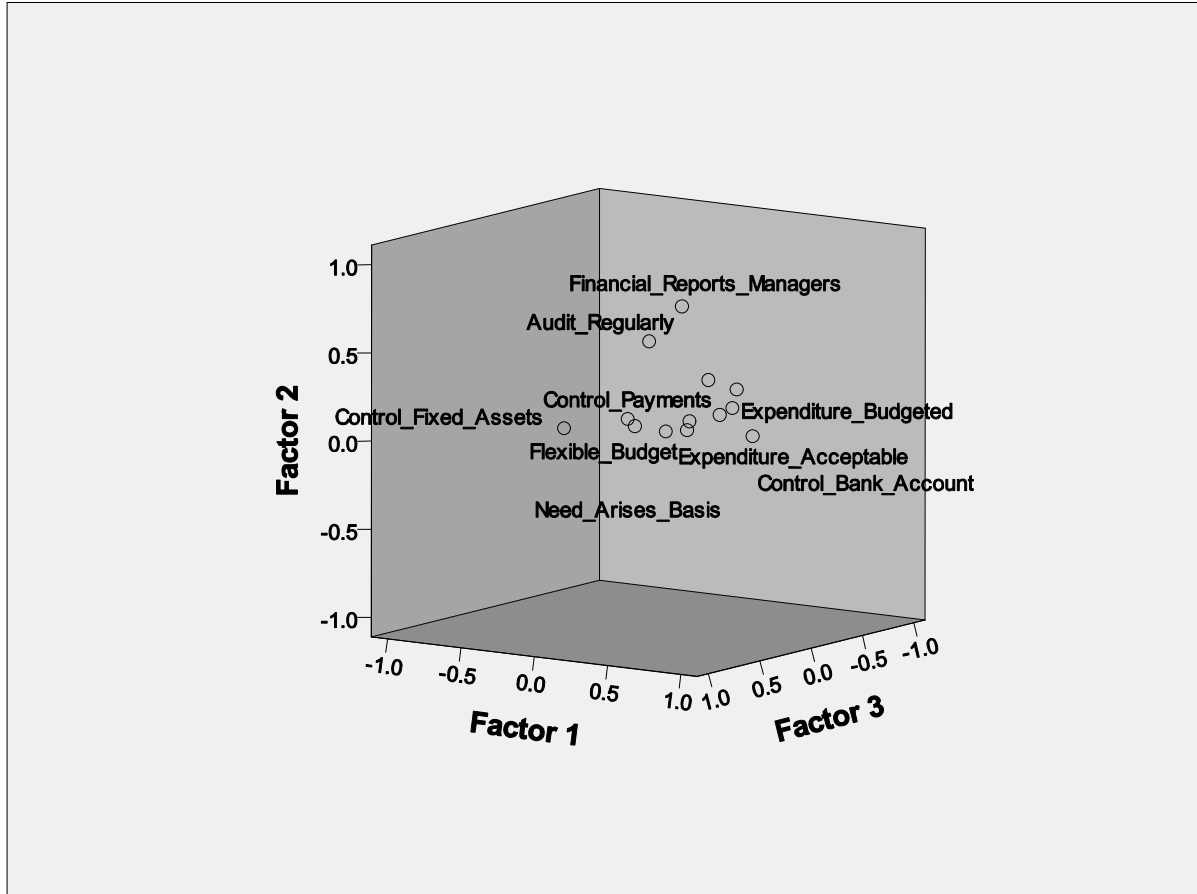


Figure 4.5 Distribution of financial perspective items into factor space

Figure 4.5 shows the item measures that were loaded into a factor loading plot. Those factors that were not extracted and those that were insignificant were excluded. In addition, Factor 4 item measures; flexibility on financial budget adjustments and readiness to incur expenses on need arises basis were shown clustered around Factor 3 item measures since depicting the fourth dimension in a three dimensional representation was not possible.

Further analysis was done to show the power of predictors of Factor 1(Category -1). The model output revealed that the seven items including the expenditure incurred as budgeted, proper accounting records, control of payments, control of payroll, proper financial statements and proper financial reports for donors significantly explained up to 90% of the total variance in the financial perspective category-1 (R=0.90, F=81.35, p<0.05). From the findings it is evident that Factor 1 is the best predictor of the financial perspective. This concurs with the findings of Moxhan (2010) who conducted a study in Britain and found that NGOs demonstration of accountability was manifested mainly by scrutiny of expenditure.

**Table 4.27 Regression analysis for financial perspective category -1**

Factor 1 Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-11.504	.544		-21.138	.000
Expenditure incurred as budgeted.	.461	.106	.218	4.357	.000
Proper accounting records	-.227	.139	-.092	-1.629	.109
Proper control mechanisms over payments by cheque	.367	.116	.174	3.160	.003
Proper control over bank account	1.694	.156	.723	10.824	.000
Proper control for employee payroll management.	.106	.074	.068	1.447	.153
Financial statements produced	-.195	.101	-.103	-1.943	.057
Produces periodic financial reports for donors	.195	.135	.091	1.450	.153

Table 4.27 shows an attempt to establish the most powerful predictor of Factor 1 revealed that proper control of bank account ( $\beta=0.723$ ,  $t=10.82$ ,  $p<0.05$ ) was the best predictor of Factor. This was followed by the practice of incurring expenditure as budgeted ( $\beta=0.218$ ,  $t=4.36$ ,  $p<0.05$ ) and proper control mechanisms over payments ( $\beta=0.174$ ,  $t=3.16$ ,  $p<0.05$ ). Other predictors such as control of payroll, Proper accounting records proper financial statements and proper financial reports for donors were insignificant ( $p>0.05$ ).

A similar analysis for Factor 2 was done to display the strength of prediction regular financial audit, financial reports produced for managers and financial statement produced. The three financial perspective category-2 measures significantly accounted for 81.8 % of the variance ( $R=0.818$ ,  $F=95.5$ ,  $P < 0.05$ ) and were presented in table 4.28

**Table 4.28 Regression Analysis for financial perspective category -2**

Factor 2 Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-10.907	.703		-15.520	.000
Regular financial audit	.680	.149	.287	4.572	.000
Financial reports produced for managers	1.629	.154	.740	10.569	.000
Financial statement produced	-.008	.145	-.004	-.056	.955

Table 4.28 shows that the most powerful predictor of financial perspective category -2 was financial reports produced for managers ( $\beta=0.74$ ,  $t=10.57$ ,  $p < 0.05$ ) followed regular financial audit ( $\beta=0.287$ ,  $t=4.572$ ,  $p < 0.05$ ). Financial perspective category-3 (Factor3) also had two measures including proper control over purchases and proper control over fixed assets. These two financial perspective category-3 measures significantly accounted for 94.8 % of the variance ( $R=0.948$ ,  $F=573.43$ ,  $P < 0.05$ ) which were presented in table 4.29

**Table 4.29 Regression Analysis of financial perspective category -3**

Factor 3 Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-6.116	.217		-28.239	.000
Proper control over purchases	-.037	.054	-.025	-.687	.495
proper control over fixed assets	1.341	.048	.989	27.658	.000

Table 4.29 shows that the most powerful predictor of financial perspective category -3 was proper control over fixed assets ( $\beta=0.989$ ,  $t=27.65$ ,  $p<0.05$ ). Proper control over purchases was an insignificant predictor of financial perspective category-3.

Financial perspective category-4 (Factor 4) had two measures including readiness to incur expenses on need arises basis and flexibility on financial budget adjustments. These two financial perspective category-4 items significantly accounted for 99.1 % of the variance ( $R=0.991$ ,  $F=3569.5$ ,  $P< 0.05$ ) and presented in table 4.30

**Table 4.30 Regression Analysis for Financial perspective category -4**

Factor 4 Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-3.389	.043		-79.504	.000
Readiness to incur expenses on need arises basis	.164	.014	.192	11.826	.000
Flexibility on financial budget adjustments	.751	.014	.854	52.738	.000

Table 4.30 shows that the most powerful predictor of financial perspective category -4 was flexibility on financial budget adjustments ( $\beta=0.854$ ,  $t=52.74$ ,  $p<0.05$ ) followed by readiness to incur expenses on need arises basis ( $\beta=0.192$ ,  $t=11.83$ ,  $p<0.05$ ). Both items were significant predictors.

These findings corroborates Niven (2008) who observed that the financial perspective captured information about how efficiently the NGOs are using scarce resources and public/donor funds to offer quality services. This is evident from the item measures under the financial perspective that were extracted and were significant in measuring this perspective. Majority of the item measures focused on control over bank accounts, payroll, payments and fixed assets. Other items also included expenditure as budgeted, expenditure within the variance ( $\pm 10\%$ ) and regular financial audits.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDECTIONS**

#### **5.1 Introduction**

This chapter summarizes the main findings of the study. This is followed by conclusions arising from the findings, and then recommendations, contribution to knowledge, and suggestion for future research.

#### **5.2 Summary of findings**

The study sought to determine how customer related factors as a component of Balanced Scorecard affect performance of Non-Governmental Organizations in Kisumu County; assess how internal process related factors as a component of the Balanced Scorecard affect performance of Non-Governmental Organizations in Kisumu County; to establish how learning and growth related factors affect performance of Non-Governmental Organizations in Kisumu County; and to assess financial related factors as a component of the Balanced Scorecard affect performance of Non-Governmental Organizations in Kisumu County.

Organizations do not exist in a static, isolated environment: competition, new technology and other changes push forward the customer expectations and performance requirement of the organization, therefore organizations should always strive to know what their customers really want. The researcher sought to find out how customer related factors as a component of the Balanced Scorecard affect performance of Non-Governmental Organizations in Kisumu County. The findings revealed that the customer perspective is effective in measuring performance of NGOs. Out of the 10 item measures that were listed, 8 emerged as the true predictors of the customer perspective after factor extraction. These item measures included presence of a service

charter, presence of objectives related to customer service, availability of relevant ICT/information materials, values of honesty, courtesy and transparency, stakeholder participation in design implementation and monitoring of activities, regular customer surveys, activities that respond to immediate needs of the customers, and ensuring that the customer related objectives are achieved. These item measures accounted for a variance of 52.46% of the total variability. This clearly showed that the customer perspective is key in measuring performance.

The second objective was to assess how internal processes related factors as a component of the Balanced Scorecard affect performance of NGOs in Kisumu County. The internal process perspective captures measures regarding organizational operations and processes necessary to meet customers' expectations and increase their satisfaction. There were twelve items measures that were used to measure this perspective. Factor extraction revealed that ten items accounting for a total variance of 42.19% were actually the key measures of the internal process perspective. It was also noted that out of the ten item measures that were extracted eight were significant. The findings revealed that presence of well designed and working procedures were significant in the internal processes perspective.

The third objective sought to establish how learning and growth related factors as a component of the Balanced Scorecard affect performance of perspective. All the ten item measures that were identified were actually key for measuring the learning and growth perspective. Variance accountability for these factors was 55.08%. It was noted that the learning and growth perspective was a leading indicator with a variance of 55.08% after the financial perspective. It was noted that motivation of employees and prioritizing their training and professional development were some of the best predictors of this perspective. Organizations do not exist in a static, isolated environment: competition, new technology and other changes push



forward the customer expectations and performance requirement of the organization, therefore organizations should ensure that their employees are kept abreast with the changing environment.

The last objective was to assess how financial related factors as a component of the Balanced Scorecard affect performance of NGOs in Kisumu County. The financial performance of Non-Governmental Organizations is defined in terms of financial accountability. Financial performance has been one of the key elements in measuring overall performance and evaluating effectiveness of Non-Governmental Organizations. In this study, the financial perspective had 14 item measures put to test for their applicability in the Non-Governmental Organizations (NGO) registering a total variance of 56.87%. It was noted that 13 out of the 14 item measures proposed were actually key in measuring the financial perspective except one which was not extracted the best factor predictor of this perspective dealt with those item measures that revolved around expenditure.

### **5.3 Conclusions**

Based on the findings we therefore conclude by objectives as follows:

The customer perspective item measures are widely utilized by organizations. The most dominantly practiced were: presence of objectives related to customer service, presence of a service charter and availability of relevant ICT/Information materials in that order of ranking. These were closely followed by ensuring customer related objectives are achieved and activities that respond to immediate needs of customers in that order. The third category consisted of values of honesty, courtesy and transparency, and stakeholder participation in project design, stakeholder participation implementation and stake holder participation in monitoring activities in that order. The last item measure in

the customer perspective was that the organization conducts regular customer satisfaction surveys. However, use of suggestion box and definite response duration for customer feedback were not widely practiced.

The internal process perspectives are widely practiced by the Non-Governmental Organizations. The most dominantly practiced items were: the organization has well designed and working Standard Operating Procedures, is flexible to revise and improve on the internal business processes, presence of a well designed business processes in that order. The next category was made up of presence of well designed and reporting systems and presence of communication and feedback mechanism. The last category consisted of use of participatory approaches in project evaluation, use of participatory approaches in project design, use of employee self appraisal to assess performance, use of participatory approaches in monitoring activities and lastly the organization has well defined functional procurement procedure. Nonetheless, use of managers to appraise staff on performance was not widely practiced.

The learning and growth perspective had all the item measures widely utilized by the Non-Governmental Organizations. The most widely practiced item measures were motivating employees through tours and staff retreats, prioritizing training and professional development, frequent refresher courses for employee growth. The second category consisted of equal opportunity for employee participation, flexibility to change focus on key areas of intervention and finally, provision of free internet services. The last category was made up of one item measure; the organization networks with other organizations. However, there were some item measures that were insignificant including provision of reading materials relevant for employee growth, provision to hire experts to

mentor employees and the organization partnering with other organizations to achieve vision and mission.

The financial perspective had item measures widely utilized by the Non-Governmental Organizations. The most dominantly practiced item measures were proper control of bank account, expenditure incurred as budgeted and proper control mechanism over payments the second category following closely was made up of financial reports produced for managers, regular financial audits. The third category was made up of one item measure that is proper control over fixed assets. The following factors were insignificant indicating that they were not widely practiced in the NGOs. These were control of pay roll, proper financial statements, proper financial reports for donors and proper control over purchases.

In summary based on the findings, the BSC is an effective performance measurement framework that has been implemented in a number of NGOs operating in Kisumu. Even though some NGOs did not have the Balanced Scorecard, they had majority of the item measures in the BSC a clear indication that the BSC can be implemented as a performance measurement framework in NGOs.

#### **5.4 Recommendation**

In view of the findings of the study and the above conclusions, the following recommendations were made:

Use of suggestion box as an item measure of the customer perspective was not widely used by the NGOs. However, the suggestion box can also complement the customer surveys since feedback from the suggestion box would be immediate unlike the surveys that are conducted after a given period of time. Another performance measure that should be put in place

is definite response duration for customer feedback. This would help improve service delivery in that the organization would be able to respond to the needs of their customers as they arise. The other item measures were widely practiced in the NGOs and should be re-emphasized since they emerged as the true predictors of the customer perspective

Manager appraisal of the staff emerged as an item measure that was not practiced in the Non-Governmental Organizations. As much as employee appraisal was significantly practiced, it would also be in order for managers to appraise employees to increase the credibility of the appraisal systems. This can be achieved when the managers and employees strike a balance during appraisal. Even though the item measures; the organization has a well defined reporting system and organization has a well defined communication and feedback mechanism were practiced in NGOs, they were not significant therefore NGOs should put more emphasis on these item measures. This would limit conflicts within organizations since the employees would be aware of whom to report to.

Partnering with other organizations to achieve vision and mission, provision of relevant materials for employee growth and provision to hire experts to mentor employees were practiced in the NGOs but they were insignificant. These item measures should be implemented in the organizations to enable them avoid duplication activities, Partnering would also enable them understand some of the peculiar needs of their constituents.

The management team of the NGOs should ensure that item measures control of pay roll, proper financial statements, proper financial reports for donors and proper control over purchases are enforced in their organizations. This would improve efficiency and effectiveness in these organizations.

## 5.5 contribution of the study to the body of knowledge

The study made the following contributions to the body of knowledge:

**Table 23 Contribution of the study to the body of knowledge**

Objectives	Contribution
1. To determine how customer related factors as a component of Balanced Scorecard affect performance of Non -Governmental Organizations in Kisumu County.	Customer perspective is an aspect of the BSC that is widely implemented as performance measurement indicator among the NGOs in Kisumu County.
2. To assess how internal processes related factors as a component of the Balanced Scorecard affect Performance of Non-Governmental Organization in Kisumu County.	Internal Process perspective is an aspect of the BSC that is widely implemented as performance measurement indicator among the NGOs in Kisumu County.
3. To assess how learning and growth related factors as a component of the Balanced Scorecard affect Performance of Non-Governmental Organization in Kisumu County.	Learning and Growth perspective is an aspect of the BSC that is widely implemented as performance measurement indicator among the NGOs in Kisumu County.
4. To assess how financial related factors as a component of the Balanced Scorecard affect Performance of Non-Governmental Organization in Kisumu County.	Financial perspective is an aspect of the BSC that is widely implemented as performance measurement indicator among the NGOs in Kisumu County.

**Suggestion for further research**

1. This study was limited within the objectives stated and therefore may have left out certain aspects of the research based on Balanced Scorecard unexplained.
2. This study was limited to NGOs within Kisumu County, there is need to conduct a study that will cover a wider area of NGOs operation. A similar study among all the NGOs operating in Kenya needs to be done to validate the effectiveness of this model.
3. The study only focused on the opinion of top management officials, yet performance also depends on understanding of those working at operational level. Further studies need to assess the effectiveness of BSC among NGO employees including workers at operational level.
4. This study treated each pillar of the BSC independently so it was not possible to compare which of the perspectives is the best predictor of performance. Further research need to compare the competition among the perspectives of BSC and if possible focus on their interactions as measures of performance.

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## APPENDICES

### *Appendix 1: Questionnaire*

#### **EFFECTIVENESS OF THE BALANCED SCORECARD ON PERFORMANCE OF NON-GOVERNMENTAL ORGANIZATION IN KISUMU COUNTY, KENYA**

#### QUESTIONNAIRE FOR THE TOP MANAGERS OF NON-GOVERNMENTAL ORGANIZATIONS

Greetings

My name is \_\_\_\_\_ I am involved in the study to investigate: effectiveness of the Balanced Scorecard in measuring performance of non-governmental organizations in Kisumu County. This study may be useful to project management team to implement policies that will address the challenges faced by Non-Governmental Organizations in implementing projects. It may also contribute to the body of knowledge especially in the strategic management by understanding performance measurement and management in the voluntary sector in developing countries thus helping to test generalizability of the performance management frameworks.

Please note that confidentiality will be maintained and the information will be used strictly for the purposes of this study.

#### **Part A: Personal Information**

Please tick or write where applicable

1. Gender

1) Male           2) Female

2. Nationality

1) Kenyan           2) Foreigner

3. Position in the organization

1) Program/project officer

2) M&E Manager

3) Accountant/Finance officer

3. Age

1) 20-35 years

2) 36-50 years

3) Over 50 years

5. What is the focus of the organization?

1) Livelihood

2) Capacity building

6. How long have you served in this organization?

1) Less than six months

2) 6-12 months

3) Over 12 months

7. What is your area of specialty? \_\_\_\_\_

8. Highest level of education \_\_\_\_\_

9. Does your organization have well stated mission/vision statement?

1) Yes

2) No

10. If yes, provide the following:

Vision statement

Mission statement

**Part B:** The following set of statements relate to your feelings and perceptions based on performance measurement items applied in your organization. For each statement, please tick (√) the extent to which you agree with each of the statements.

Scores:

Strongly Disagree=1

Disagree=2

Neutral=3

Agree=4

Strongly agree=5

Statement of the Balanced Scorecard Performance measures	Score					What is the reason for the choice of the score
<b>Customer Perspective</b>						
Our organization has a well stated service charter (ask for evidence)	1	2	3	4	5	
Our organization has a well stated objectives related to customer service (ask for evidence or statements)	1	2	3	4	5	
Our organization avails ICT/information materials to customers (ask for evidence or make observation)	1	2	3	4	5	
Our organization suggestion box for customer feedback and complaints (ask for evidence or make observation)	1	2	3	4	5	
Our organization values honesty, courtesy and transparent (probe for the score)	1	2	3	4	5	
Our organization has a definite response duration for customer feedback (probe for the score)	1	2	3	4	5	

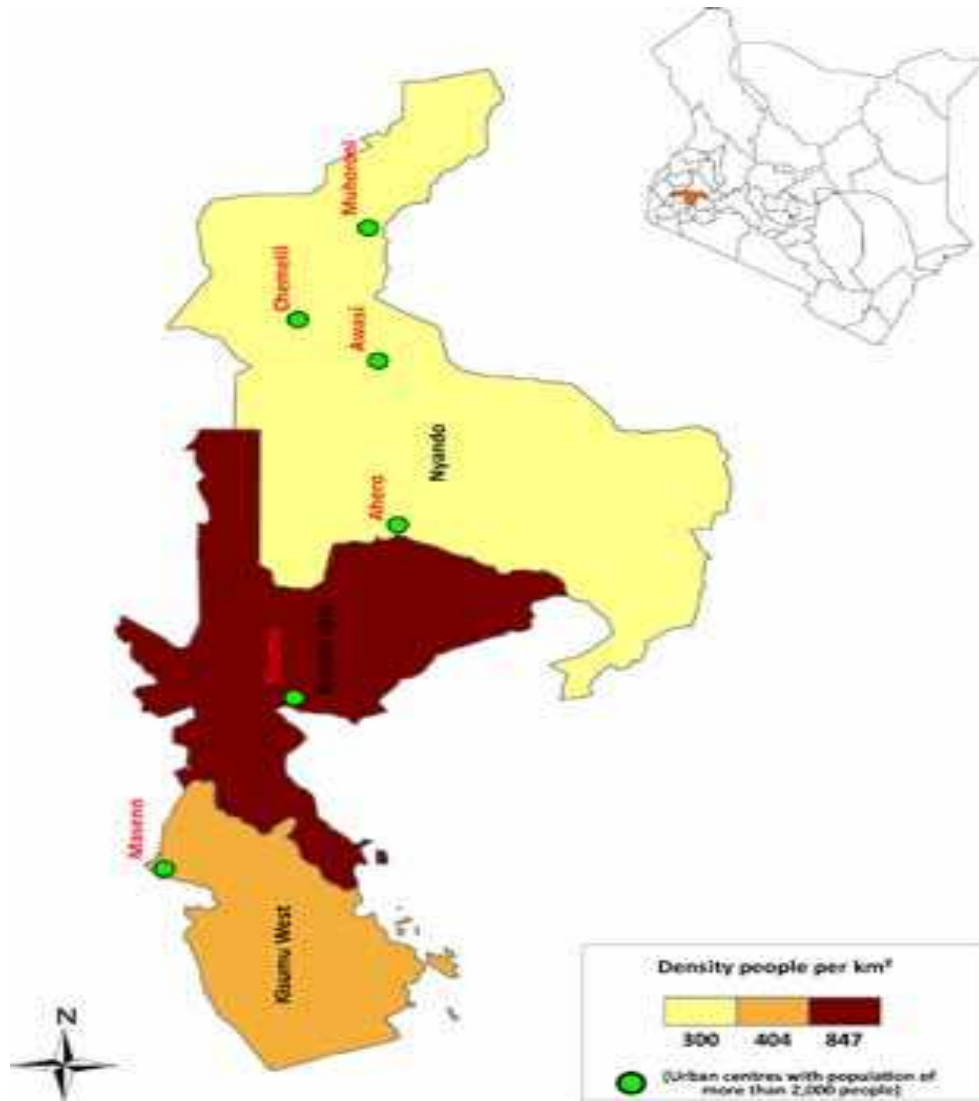
<b>Financial Perspective</b>	1	2	3	4	5	
This organization always ensures that expenditure is incurred as budgeted (probe for the score).	1	2	3	4	5	
The organization's yearly expenditure rate is always within the acceptable variance (probe for the score).	1	2	3	4	5	
The organization conducts financial audit regularly (probe for the score).	1	2	3	4	5	
The organization is always ready incur expenses on a need arises basis (probe for the score).	1	2	3	4	5	
The organization is flexible on financial budget adjustments (probe for the score).	1	2	3	4	5	
<b>Internal Process Perspective</b>						
The organization conducts needs assessment of priority areas on regularly basis (probe for the score).	1	2	3	4	5	
The organization uses participatory approaches during project design (probe for the score).	1	2	3	4	5	
The organization uses participatory approaches in monitoring (probe for the score).	1	2	3	4	5	
The organization uses participatory approaches in evaluations (probe for the score).	1	2	3	4	5	
The organization uses managers to appraise staff on performance (probe for the score).	1	2	3	4	5	
The organization uses employees' self-appraisal method to assess performance (probe for the score).	1	2	3	4	5	
The organization has a well-defined and functional procurement procedure (probe for the score).	1	2	3	4	5	



<b>Learning and growth perspectives</b>						
The organization prioritizes training and professional development of employees (probe for the score).	1	2	3	4	5	
The organization networks with other organization (probe for the score).	1	2	3	4	5	
The organization partners with other organization to achieve vision and mission (probe for the score).	1	2	3	4	5	
The organization motivates employees through organization of tours and staff retreats (probe for the score).	1	2	3	4	5	

Thank you

*Appendix 2: Map of Kisumu County*



### **Appendix 3: Research Permit**

REPUBLIC OF KENYA



## NATIONAL COUNCIL FOR SCIENCE AND TECHNOLOGY

Telephone: 254-020-2213471, 2241349, 254-020-2673550  
Mobile: 0713 788 787 , 0735 404 245  
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When replying please quote  
secretary@ncst.go.ke

P.O. Box 30623-00100  
NAIROBI-KENYA  
Website: www.ncst.go.ke

Our Ref: **NCST/RCD/14/013/1074**

Date: **20<sup>th</sup> June 2013**

Nasline Akinyi Ouko  
University of Nairobi  
P.O Box 825-40100  
Kisumu.

### **RE: RESEARCH AUTHORIZATION**

Following your application dated **11<sup>th</sup> June, 2013** for authority to carry out research on "*Effectiveness of the balanced scorecard on performance of Non-Governmental Organizations in Kisumu County, Kenya.*" I am pleased to inform you that you have been authorized to undertake research in **Kisumu County** for a period ending **31<sup>st</sup> December, 2014**.

You are advised to report to **the Directors of Selected Non-Governmental Organizations, Kisumu County** before embarking on the research project.

On completion of the research, you are expected to submit **two hard copies and one soft copy in pdf** of the research report/thesis to our office.

  
**SAID HUSSEIN**  
**FOR: SECRETARY/CEO**

Copy to:  
The Director  
Selected Non- Governmental Institution.

*"The National Council for Science and Technology is Committed to the Promotion of Science and Technology for National Development".*

D