

**BALANCED SCORECARD AND PERFORMANCE OF  
CONSOLIDATED BANK OF KENYA**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER  
OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS,**

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**NOVEMBER 2014**

## DECLARATION

This research project is my original work and has not been submitted in any other university.

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## **ACKNOWLEDGEMENTS**

I sincerely wish to thank our Almighty God for giving me the wisdom, the knowledge and the strength to complete this research. Without His help I wouldn't have come this far.

Secondly my special thanks goes to my supervisor Dr. Zack Awino for his dedication, patience his constructive suggestions, encouragement, prompt feedback and his wise guidance throughout the entire project, that has contributed to the success of this study.

I wish to really thank my family for their moral support, encouragement and their suggestions that helped the completion of this study.

Finally I express my uttermost gratitude to my friends and colleagues for their help and ideas that helped me bring this academic pursuit to the end.

## **DEDICATION**

I dedicate this research work to my family and all the stakeholders in the banking industry

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## **ABBREVIATIONS AND ACRONYMS**

<b>BSC:</b>	Balanced Scorecard
<b>HOD:</b>	Head of Department
<b>CBKL:</b>	Consolidated Bank of Kenya Limited
<b>GM:</b>	General Manager
<b>PWC:</b>	Price Water House Coopers
<b>NPL:</b>	Non Performing Loans
<b>SME:</b>	Small Medium Enterprises
<b>ROA:</b>	Return On Asset
<b>RBV:</b>	Resource Based View
<b>VRIN:</b>	Valuable, Rare, Inimitable and Non Substitutable
<b>GM:</b>	General Manager
<b>HRM:</b>	Human Resource Management



## **ABSTRACT**

Performance management of commercial banks is an important aspect of banking business management. One of the tools for measuring performance is the Balanced Scorecard. The balanced scorecard enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to improve strategic performance and results continuously. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise. This objective of this study is to determine the influence of Balanced Scorecard as a performance measuring tool, at the Consolidated Bank of Kenya and points out the challenges faced by the bank for relying solely on the traditional single application of financial indicators only which measures performance. It seeks to understand how the balanced scorecard raises the value of performance management appraisal system based on the introduction of customer factors, internal business processes, employee learning and growth and financial factors of the bank. To achieve this purpose, a case study was carried out. The Head of Human Resources and the General Manager were interviewed. The findings indicate that the balanced scorecard has been a useful tool for bringing the attainment of the mission of the Bank. This is explained by the ability of this tool to bring consensus around the vision and therefore chart the way for its execution. Some challenges have been faced including resistance to change, lack of sufficient knowledge of the staff, aspects of operation that are difficult to measure and lack of objectivity in appraisal of staff. The results in this study have implications for both theory and practice. The results imply Consolidated Bank of Kenya has been applying BSC as a method to measure performance and therefore adds to the growing body knowledge of balance score card application in the banking sector. This study serves as a blue print to policy makers, especially in the public sector for the formulation of policies and procedures that enhance performance of organizations.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

The Balanced Score Card (BSC) is a performance management approach that enables organizations to clarify their vision and strategy and translate them into action. The balanced scorecard (BSC) has received much literary acclaim from its originating protagonists, Professor Robert Kaplan and David Norton. Traditional performance measures have been one dimensional with a focus on financial measures that largely indicate past performance. BSC is multi dimensional as it incorporates both financial and non-financial measures enabling its results have both reporting and predictive value.

Mahoney and Pandian, (1992 ) states a Resource-Based View (RBV) of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier. Barney (1991) summarizes the criteria for evaluating resources as VRIN i.e. Valuable, Rare, Inimitable and Non Substitutable. Teece, (1997) defines Dynamic Capability Theory as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. New strategic assets such as capability, technology and customer feedback have to be integrated within the company. Existing strategic assets have to be transformed or reconfigured.

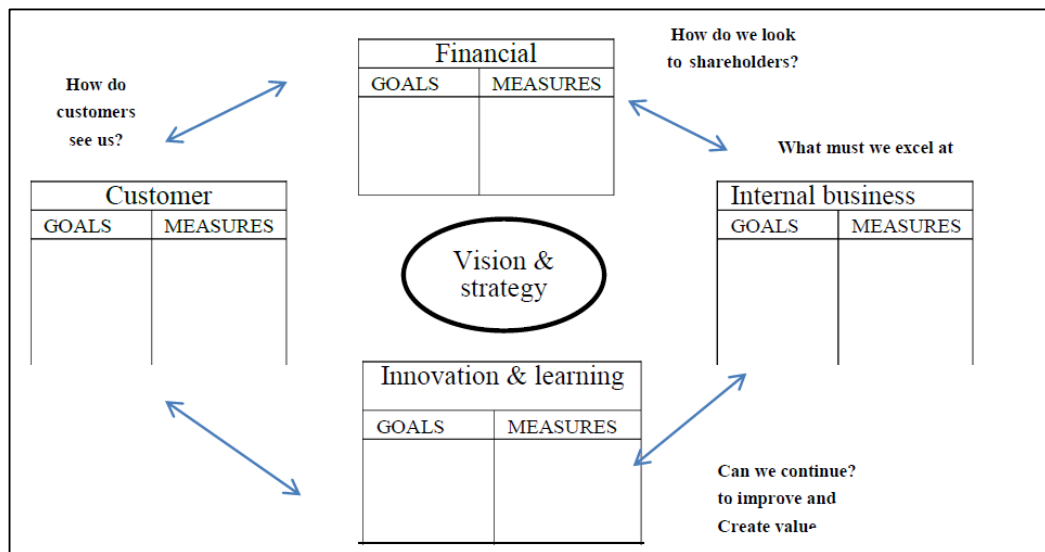
The current competition in the banking industry in Kenya enables the banks to rethink on better ways of measuring performance. Competition within this sector, as well as

customer awareness of different services offered by the banks, stimulates most banks and financial institutions to adopt non-financial measures in order to acquire competitive ability. Most banks and financial institutions are struggling to go further beyond the application of financial measures. Therefore non-financial measures arise as the result of limitations of financial performance measures and the rising prominence of intangible assets, Niven (2006). There are a total of 44 licensed Commercial Banks in Kenya.

### **1.1.1 The Concept of Balanced Scorecard**

The Balanced Scorecard (BSC) concept was created by Drs. Robert S. Kaplan and David P. Norton in 1992. It allows organizations to implement strategy rapidly and effectively by integrating the measurement system with the management system. Balanced score card provides a structured approach to deciding where the organization is heading (its strategies), what is needed to get there and what has to be measured and controlled now to ensure that it stays on course to deliver the desired outcome in the future.

Based on the simple premise that “measurement motivates”, the Balanced Scorecard has been integral to the success of organizations throughout the world. As shown in figure 1.1, measures are used in four broad areas - financial performance, customers, internal business processes, and learning and growth. These align individual, departmental, and organizational goals and identify entirely new processes for meeting customer and shareholder objectives.



**Figure 1.1: The Balanced Scorecard Framework**

**Source: Kaplan and Norton (1992)**

By going beyond traditional measures of financial performance, the concept has given a generation of managers a better understanding of how their companies are really doing. These nonfinancial metrics are so valuable mainly because they predict future financial performance rather than simply report what’s already happened. The point of emphasis for the balanced scorecard is that financial and nonfinancial measures must be part of the information system, at all levels of the organization, for all employees. The implication of this is that the front-line employees must understand the consequences of their decisions and actions and senior executives must understand the drivers of long term financial success.

This derives from the fact that the objectives and measures of the balanced scorecard are derived from a top down process driven by the mission and strategy of the business unit, which it translates into tangible objectives and measures (Kaplan and Norton, 1996). The perspectives of the balanced scorecard represent a balance

between the external measures for shareholders and customers and internal measures of critical business processes, innovation, learning and growth. They are also balanced with respect to the outcome measures (results from past efforts) and the measures that drive future performance. The balanced scorecard maintains a balance between objective easily quantifiable measures, and subjective, somewhat judgmental performance drivers of the outcome measures (Kaplan and Norton, 1996). Whereas the balanced scorecard has been used as a tactical or operational management system, it is more than that.

Innovative companies are using it as a strategic management system, to manage their strategy over the long run. This they do by using the measurement focus of the scorecard to accomplish critical management processes of clarifying the and translating the vision and strategy, communicating and linking strategic objectives and measures, planning, target setting and aligning of strategic initiatives and the enhancement of strategic feedback and learning (Kaplan and Norton, 1996).

There are two sets of elements that function in the Balanced Scorecard: coherency and balance, and cause-effect relationships and quantification. "Coherency" in the Balanced Scorecard means no discontinuities in the management process. An organization is required to maintain its activities in a continuum that translates into actions by individuals, thereby realizing the strategy. "It is one step in a logical continuum that moves an organization from a high-level mission statement to the work performed by frontline and back-office employees." (Kaplan & Norton, 2001)

In this regard, management should ensure that this translation is done effectively. The term "balance" means the appropriate allocation of things that an organization has or will have. To realize its vision and strategy, an organization has to undertake many actions. In the Balanced Scorecard, "balance" and "coherency" are like two sides of the same coin. Without coherency, an organization could not balance. Balance also means appropriate allocation of strategic objectives throughout an organization. In the process of deploying a strategy, an organization should adjust strategic objectives horizontally and vertically.

The Balanced Scorecard implies the need for larger organizations to balance among lower organizations. For example, a large corporation generally deploys a strategy by business unit or an indirect division, and then the strategy cascades down to other organizational units. Vertically, the business unit has to adjust strategic objectives among lower units so it can attain the goal as one organization. Horizontally, organizations share common strategic objectives with each other.

### **1.1.2 Organizational Performance**

Organizational performance is one of the most important constructs in management research. It comprises the analysis of a company's performance as compared to goals and objectives. According to Richard et al. (2009) organizational performance encompasses three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment.), product market performance (sales, market share.) and shareholder return (total shareholder return and economic value added).

Organizational performance is the ultimate dependent variable of interest for researchers concerned with just about any area of management. This broad construct is essential in allowing researchers and managers to evaluate firms over time and compare them to rivals. In short, organizational performance is the most important criterion in evaluating organizations, their actions, and environments. This importance is reflected in the pervasive use of organizational performance as a dependent variable.

March and Sutton (1997) found that of 439 articles in the *Strategic Management Journal*, the *Academy of Management Journal* and *Administrative Science Quarterly* over a three year period, 23% included some measure of performance as a dependent variable. In contrast to the dominant role that organizational performance plays in management fields, is the limited attention paid by researchers to what performance is and how it is measured.

The definition of 'organizational performance' is a surprisingly open question with few studies using consistent definitions and measures (Kirby, 2005). Performance is so common in management research that its structure and definition is rarely explicitly justified; instead its appropriateness, in no matter what form, is unquestionably assumed (March & Sutton, 1997). Sadly, 10 years later, these assumptions continue largely unquestioned.

Although organizational performance dominates the strategic management literature, not to mention economics, finance, and accounting, it is not unchallenged. Performance is one type of effectiveness indicator, with some advantages and disadvantages. It encompasses three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment, etc.); market performance

(sales, market share, etc.); and shareholder return (total shareholder return, economic value added, etc.). The narrower domain of organizational performance provides the useful potential to make meaningful comparisons across firms and industries. However, what is evident is that even with a narrower domain organizational performance is not a one-dimensional theoretical construct nor is it likely to be characterizable with a single operational measure.

Although the multi-dimensionality of performance is recognized in accounting (Callen, 1991) and finance (Henri 2004) and discussed theoretically in the management literature (Venkatraman & Ramanujam, 1986), empirically the lack of consistency in the measurement of organizational performance in management research has revealed a surprising lack of researchers “walking the walk”. The administration of performance management is complex. Managers have many demands on their time and so their attention must be rationed. For performance management to work there must be sufficient attention paid to key processes by line managers.

A firm must be inclined to not only carrying out the various formal requirements, but also in undertaking the various informal activities which help increase employees’ perceptions of fairness and their credibility in the management process. Prominent in this regard could be ongoing appraisal, coaching, counseling, and monitoring. Managers can be constrained by short-term goals of the company. This can lead to managers and employees concentrating on narrowly prescribed tasks, making commitments to teamwork problematic. The bureaucracy of the management process is also of concern for managers, taking as it does a considerable amount of their time in an already presumed schedule.



In the journey of organizational transformation, the critical challenge lies in evolving a performing organization so that the business deliverables can contribute to the operative efficiency of the organization (Meyer, 2002). Studies on organizational performance management have centered on employee performance management practices in the private security services industry; relationship between performance management principles and firm performance; involvement of unionized employees in the application of performance management program.

One of the main reasons for many organizations to be unsuccessful is that they fail to understand and adhere to the objectives that have been set for the organization. The balanced scorecard provides a solution for this by breaking down objectives and making it easier for management and employees to understand. Planning, setting targets and aligning strategy are two of the key areas where the balanced scorecard can contribute. Targets are set out for each of the four perspectives in terms of long-term objectives. However, these targets are mostly achievable even in the short run. Measures are taken in align with achieving the targets. Strategic feedback and learning is the next area, where the balanced scorecard plays a role.

Therefore, organizational performance is important to scholars across the entire domain of management research. Strategy and accounting scholars seek to influence and measure organizational performance. Similarly, scholars in marketing, operations and human resource management seek to understand and improve performance, each adopting discipline-specific measures such as customer satisfaction, productivity and employee satisfaction (see, Chenall & Langfield-Smith, 2007).

However, understanding how discipline-specific measures load onto the dimensions of organizational performance and the interrelationships between specialist measures is essential to understanding the relationships between multiple organizational actions. This makes the valid measurement of an overarching performance construct important in allowing researchers in fields such as strategy, marketing and human resource management to appreciate the linkages between the phenomena they study and to have a basis of ready comparison as to the veracity of their discipline based research.

### **1.1.3 Commercial Banks in Kenya**

The history of banking in Kenya dates back to the colonial period. Colonial rule brought in its wake new forms of banking. British commercial banks started operations in Kenya during the 1890s. The operations of these foreign-owned banks were characterised by high degree of concentration, branch banking, and an almost exclusive concern with financing external trade and for many decades, a lack of interest in, or involvement with, the African population. As Kenya became more and more part of this capitalist world economy, the banks established themselves in the colony to provide services for financing exports and imports.

Three British banks dominated banking in colonial Kenya. The National Bank of India (later National and Grindlays Bank) began operations in 1896. It was followed in 1910 by the Standard bank of South Africa (later standard Bank and Standard Chartered), and shortly thereafter the national Bank of South Africa entered the field. In 1925, the latter merged with two other British banks to form Barclays Bank Dominion Colonial and overseas (later Barclays Bank)

Previously prior to the modern banking in Kenya, people used to exchange goods and services, you give me what you have, I give you what I have which is generally known as trade by barter. Trading was mainly controlled by the forces of demand and supply. There was no policy guidance or central bank to formulate guidelines and fiscal policies. If nobody is interested in what you have, they will either perish if they are perishable or rot away. There was nothing like bank in Kenya then. Eventually the monetary system was introduced along side with banks and banking system which simply means the collection of deposits and lending of funds to qualified individuals with interest.

In modern day Kenya, there is a reasonably sophisticated banking system. Commercial banks account for much of the total deposit in the country. There are a total number of 44 licensed commercial banks in Kenya that provide services to several large corporations and medium sized businesses as well as small business enterprises and individuals. The banking industry is governed by the Companies Act, the Banking Act and the Central Bank of Kenya Act and various prudential guidelines issued by the Central Bank of Kenya. Responsibility for formulating and implementing monetary policy, fostering solvency and ensuring proper functioning of the financial system is bestowed on the Central Bank of Kenya, which falls under the Minister for Finance. PriceWaterHouseCoopers, (2009).

It is noted in the Central Bank of Kenya Supervision Annual Report (2001) that the banking system remained stable during the year 2001 and recorded remarkable increase in levels of profitability. Aggregate net profits before tax rose from Ksh. 2.8 billion in 2000 to Ksh. 8.9 billion in 2001. The overall audited performance of the banking sector measured in terms of capital adequacy, asset quality, liquidity and

earnings remained fair, based on the Central Bank's internal rating system. The sector however, has continued to be faced with a number of challenges. These include reduced business activity arising from slowdown in economic growth, and attempts made during the year aim at re-introducing interest rate controls. The stock of non-performing loans still poses a major challenge.

The total number of banking institutions decreased by 5 during the year 2001, as a result of liquidations and mergers. The increasingly advanced levels of information technology embraced by banks have had a positive impact in the sector, though this has led to a massive reduction in the workforce. The new and dynamic information systems adopted by most banks have enabled them to process data faster and efficiently. This, coupled with increased use of Automated Teller Machines (ATMs) and on-line banking, has freed bank staff from the mundane manual processing tasks. In recent years, a number of mergers and acquisitions have taken place in the banking sector.

Some of the mergers have been triggered by the need to meet the increasing minimum core capital requirements, and also to enhance institutions' market share in the highly competitive local banking environment through the resulting synergies. Over the last few years, there has been a tendency by some banks to reduce the number of their branches. This has in most cases been done with the objective of cutting down costs through staff reduction and to offer quality services to customers. There has been a change in assets composition due to harsh economic conditions that have led to the closure of a number of businesses and low effective demand for bank credit at both personal and corporate level.

The banking sector has continued to experience growth in assets, profitability and product offering (PWC, 2009). Stability in the sector remained during the period to May 2009 with all the banks being adequately capitalized. Total shareholders' funds increased by 26%, to 172.4 billion (Central Bank of Kenya, 2009). The aggregate balance sheet of the banking sector grew to Kshs 1,133 billion from 1,220 billion by May 2009. This was a 7.7% increase (Central Bank of Kenya, 2009). The main components of the balance sheet were net loans and advances, government investments and placements, which accounted for 45%, 19% and 9.0% of total assets respectively.

The stock of gross non-performing loans (NPLs) increased by 19.9 percent from Ksh8.3 billion to Ksh 69.9 billion in May 2009. As a result, the quality of assets, which is measured by the ratio of net non-performing loans (NPLs) to gross loans declined from 4.2 percent to 3.5percent in May 2009. Gross loans and advances increased by 15.9 percent to Ksh707.8 from Ksh 610.7 in May 2008.

#### **1.1.4 Consolidated Bank of Kenya Ltd**

Consolidated Bank of Kenya Limited was incorporated on 7th December, 1989. The Bank was set up with an aim to stabilize the financial sector through the acquisition of nine insolvent institutions and thereafter restructuring them into a viable, professionally run commercial bank. In 2001, CBKL was granted a full commercial banking license after successfully collecting the debts of the failed legacy financial institutions (Consolidated Bank website).

CBKL has positioned itself as a Small Medium Enterprise (SME) Bank of choice providing flexible financial solutions that support its customers achieve success. The Bank enjoys an independent, dynamic, result oriented culture and a flexible and innovative approach. CBKL offers one of the widest range of banking products and services in the market today. We realize that a growing business demands a lot of time and energy. With years of banking experience and special focus on SMEs, CBKL are in a strong position to help growing businesses unlock their potential and sail through the complexities they may face.

As of December 2013, the total asset valuation of the bank was about US\$189.7 million (KES:16.7 billion), with shareholders' equity valued at approximately US\$14.09 million (KES:1.24+ billion). At that time, the bank's total deposits were valued at US\$145 million (KES:13.29 billion) and the total loan book stood at US\$123 million (KES:10.85 billion).

The Bank is fully owned by the Government of Kenya with the majority shareholding in the Bank (51%) held by the Treasury through the Deposit Protection Fund. The remaining shareholding is spread over twenty five (25) parastatals and other government related/controlled organizations. As such the Bank is considered as a Government parastatal. As at June 2014, the bank had a branch network of 17 branches spread over various counties and an agency network over 15 agents all over the country.

## **1.2 Research Problem**

In order for strategy implementation to be successful, there is need for a clear alignment and synergy between all the factors or parameters that make up an organization; customers, processes, people or employees and capital or financials. Today's organizations recognize that competitive advantage comes through intangible knowledge, capabilities and relationships created by employees, and not from physical assets and access to capital.

Leading organizations agree on the need to have a structured methodology for using performance measurement information to design goals, allocate and prioritize resources and communicate business expectations as well as change policies to suit the organization's desired direction and strategy. Since 1989, Consolidated Bank of Kenya Ltd mandate was to collect the debts of the failed legacy financial institutions and not to compete with other commercial banks. Being a government parastatal it was laden with bureaucracy and did not have any performance systems in place even after being a fully-fledged licensed commercial bank in 2001. The Bank had been a loss making institution until 2009 when the bank started making profits.

The major reason for this was it had finally been able to accomplish its original mandate of collecting debts of the failed legacy financial institutions. Since accomplishing its original mandate CBKL has in the last five years been working on a turn around and is now focused on growth. In order to attain this, CBKL two years ago embarked on a performance management framework that was aimed at identifying goals and targets to be achieved by the individual employee over a one-year period.

This framework to some extent has worked but it has failed to give a balanced focus and weighting to the various perspectives of organization performance, people, customers, financial and internal process as the main focus was on the achievement of financial targets and profits. In selecting to use the balanced scorecard as a performance measurement tool, the Bank needs to create clarity in its effort to achieve its strategy as well as to accord the performance framework the necessary balance to ensure that none of its important parameters of business suffer. Velnampy and Nimalathan (2007) did a Comparative Study of State and Private Sector Banks in North and Eastern Provinces of Sri Lanka to find out the impact of Balance Score Card and Organizational Performance.

The results from the operational hypotheses indicated that four perspectives of BSC have a significant relationship with organizational performance which means, as the total perspectives increase organizational performance increases in state banks, where as learning growth perspectives significantly contributes to total perspectives in both banks are important contributors to positive organizational performance, Specially learning growth and financial perspectives are significantly contributing organizational performance in private banks.

Hoque and James (2000) surveyed Australian manufacturing firms on their usage of non financial measures typically found in discussions of BSC development. Organizational performance was a self-reported measures relative to peers within the same industry. Their results indicate a significantly positive relationship between the usage of typical BSC measures and superiors performance.



In an extensive field study of a large manufacturing organization, Malina and Selto (2001) investigates the effectiveness of the BSC in communicating strategies, objectives and serving as a management control device. They find evidence of an indirect relationship between BSC's management control function and improved performance on BSC measures. Further, managers in their study perceived improved performance on the BSC would lead to improved efficiency and profitability. Ittner et al. (2003) provide contradictory evidence to the two previously mentioned studies by finding a negative association between BSC usage and financial performance (ROA) in an expensive study of the financial services industry.

They also find that while 20% of the respondents reporting using the BSC, over 75% of these firms reported not relying on business models that causally link performance drivers to performance outcomes. Stephen and Gabriel (2013) studied the application of balanced scorecard in performance measurement at Essar Telecom Kenya Limited and found out that benefits of balanced score card outweighed the costs if implemented fully, efficiently and effectively and that it complemented the financial measures of past performance with operational measures that were likely to drive future performance and growth.

Opiyo (2010) in her study on the application of balanced scorecard on employee job satisfaction at Cooperative Bank of Kenya Ltd focused on the benefits of BSC aligning the operations to strategy by effecting performance measurement. Though the emphasis was strategic alignment the component of performance measurement was highlighted, as key driver of the alignment.

Lenah (2013) carried out an investigation on the effect of the balanced Scorecard model on employees' performance within the banking sector, a case of Kenya Commercial Bank. The results showed that the employee performance was greatly influenced by the four aspects of the balanced Score Card; the financial perspective affected employee performance to a great extent, continuous and timely employee training enabled them perform well, flexible and friendly internal business processes led to improved employee performance and improved customer service highly motivated the employees.

Magu (2013) while conducting a study on balanced scorecard as a performance measurement tool in the insurance firms in Kenya noted that the balance scorecard as a tool for measuring performance was widely used by the insurance firms and is an effective tool for measuring performance in the organizations.

Although many studies have been carried out on the Balanced Scorecard in Kenya and especially in the banking sector, no enough research has been done on the impact of Balanced Scorecard on the performance of Consolidated Bank of Kenya. Therefore does the balanced scorecard have any influence on the business performance of Consolidated Bank of Kenya?

### **1.3 Research Objectives**

The objectives of the study were;

- i) To determine the influence of Balanced Scorecard on the performance of Consolidated Bank of Kenya Ltd
- ii) To identify the challenges associated with sole reliance of financial performance measures

## **1.4 Value to the Study**

To policy makers, especially in the public sector serves as a blue print for the formulation of policies and procedures that enhance performance of organizations. It has become common for the public sector to craft strategies that look good on paper but are never actualized. It further informs regulatory policy for the Banking industry as it provides the regulator with tools to appraise firm's capability to measure their own performance that is critical in the Risk Based Supervisory framework.

This study enriches the Theory of the Balance Score Card as a performance measurement tool by providing insights on the underlying principles once evaluated by an industry in application. In addition to obtaining insights on the four perspectives of the Balance Score Card the concepts providing a theoretical basis for this research was also evaluated and the insights obtained enriches the theories of Resource Based View and Dynamic Capability Theory.

This study helps CBKL identify the challenges of relying solely on financial performance indicators as a performance management system. At the same time the study assists CBKL in identifying the importance of incorporating non-financial performance metrics in their performance management framework and how this affects its current financial performance and also how it can influence its future financial performance.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The aim of this chapter is to provide relevant literature in the field of BSC and its application as a strategic and performance measurement model. First, we will review theories describing how organizations can use the balanced scorecard as a strategic and performance measurement tool and relate that on how they can measure their performance using the balanced scorecard concept.

#### **2.2 Theoretical Foundation**

Over the past two-and-a-half decades, RBV has emerged as perhaps the most fruitful and controversial contemporary perspective in strategic management. It has fuelled the conversation within the field of strategy (Mahoney & Pandian, 1992) with numerous advances and arguments, and also some aporias. In terms of advances, RBV research has been credited with restoring the balance between internal and external analysis in strategic management theory (Collis, 1991), RBV has been argued to provide the basis for a new theory of the firm (Conner, 1991), and it has been offered as a theory of competitive advantage (Peteraf, 1993), a theory of rents (Amit & Schoemaker, 1993), and a theory of value creation (Peteraf & Barney, 2003).

The resource-based view (RBV) of the firm is an influential theoretical framework for understanding how competitive advantage within firms is achieved and how that advantage might be sustained over time (Barney, 1991). This perspective focuses on the internal organization of firms, and so is a complement to the traditional emphasis of strategy on industry structure and strategic positioning within that structure as the

determinants of competitive advantage (Henderson & Cockburn, 1994; Porter, 1979). RBV approach assumes that organizations can be conceptualized as sets of resources that are heterogeneously distributed across the organizations and their differences persist over the time (Amit and Schoemaker, 1993). The theory emphasizes the firm-specific capabilities and assets and the existence of isolating mechanisms as the fundamental determinants of firm performance (Penrose, 1959; Rumelt, 1984).

According to Barney (1991) a firm resource to have the potential of generating competitive advantage, it must have the following the four empirical indicators: (1) valuable, in the sense that it exploits opportunities, (2) rare, among a firm's current and potential competition (3) imperfectly imitable and (4) without strategically equivalent substitutes.

The resource based view has been a common interest for management researchers and numerous writings could be found for same. The RBV explains the ability of the firm to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier (Mahoney & Pandian 1992).

Recently, scholars have extended RBV to dynamic markets (Teece 1997), in these markets, where the competitive environment is continuously changing the dynamic capabilities by which the firms managers integrate, build, and reconfigure internal and external competencies to address rapidly changing environments (Teece 1997) become the source of sustained competitive advantage.

Dynamic capability framework considers the ability of a firm to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. This framework or theory refers to the resources in the resource base theory as proposed by Barney, (1986) & Wernerfelt (1984). They are those specific physical (specialized equipment, geographic location) human (expertise in chemistry) and organizational (superior sales force) assets that can be used to implement value creating strategies.

Teece, (2009) overtime a firm's assets may become co-specialized, meaning that they are uniquely valuable in combination. An example is where the physical assets (example the plants), human resources (such as the researchers) and the intellectual property (like patents and tacit knowledge) of a company provide a synergistic combination of complementary assets. Such co-specialized assets are therefore more valuable in combination than in isolation. The combination gives a firm a more sustainable competitive advantage.

While extreme forms of dynamic competition are characteristic of product markets, dynamically competitive conditions also are present in the markets for resources. Indeed, competitive conditions in product markets are driven, in part, by the conditions of competition in the markets for resources (Barney 1986).

Hansen, (1999) also indicates that other dynamic capabilities focus on reconfiguration of resources within firms. Transfer processes including routines for replication and brokering are used by managers to copy, transfer and recombine resources, especially knowledge based ones, within the firm.

### **2.3 Balanced Scorecard and Organizational Performance**

There is considerable empirical support for the use of multiple performance measures or performance measurement diversity in the literature. For example, in a study of 128 manufacturing firms in both US and Europe, Van der Stede (2006) found that organizations with more extensive performance measurement systems, especially ones that include objective and subjective nonfinancial measures, have higher performance.

Bryant (2004) reported that when firms implement a performance measurement system that contains both financial and non-financial measures, they will benefit more than the firms that rely solely on financial measures. Banker (2000) also found that when nonfinancial measures are included in the compensation contract, managers more closely aligned their effort to those measures, resulting in increased performance. Specifically on BSC measures, Hoque and James (2000) found support for the main effect of overall BSC measures usage on firm performance.

The balanced scorecard (BSC) is essentially a performance measurement system. According to Kaplan and Norton (1992, 1996, 2001) multiple performance measures reflect the organization's changing business environment as well as the achievement of its goals. They further argued that the BSC provides a new framework for describing value - creating strategies that link tangible and intangible assets. Basically, the BSC comprises a combination of multidimensional performance measures which include financial, customer, internal business processes and innovation and learning perspectives (Kaplan and Norton, 1996; 2001).

However, in the earlier version of the BSC framework, Kaplan and Norton (1992) had used innovation and learning instead of innovation and learning perspective. The BSC is a revolutionary tool that motivates staff to make the organization's vision happen. It does more than just measure performance. It is a management system that focuses the efforts of people, throughout the organization, toward achieving strategic objectives. It gives feedback on current performance and targets future performance. Putting it another way, The Balanced Scorecard converts an organization's vision and strategy into a comprehensive set of performance and action measures that provides the basis for a strategic measurement and management system.

In the context of organizational performance management, the BSC is a strategic management tool that improves performance and organizational success (Brignall & Modell, 2000; Ellinson & Wambsganss, 2001; Johnsen, 2001; Kaplan, 2001; Niven, 2003; Wilson et al., 2003). In strategic feedback and learning, the management gets up-to-date reviews regarding the success of the plan and the performance of the strategy. Clearly, many companies already have myriad operational and physical measures for local activities. But these local measures are bottom-up and derived from ad hoc processes.

The scorecard's measures, on the other hand, are grounded in an organization's strategic objectives and competitive demands. And, by requiring managers to select a limited number of critical indicators within each of the four perspectives, the scorecard helps focus this strategic vision. In addition, while traditional financial measures report on what happened last period without indicating how managers can improve performance in the next, the scorecard functions as the cornerstone of a company's current and future success.



Moreover, unlike conventional metrics, the information from the four perspectives provides balance between external measures like operating income and internal measures like new product development. This balanced set of measures both reveals the trade-offs that managers have already made among performance measures and encourages them to achieve their goals in the future without making trade-offs among key success factors. Many companies that are now attempting to implement local improvement programs such as process reengineering, total quality, and employee empowerment lack a sense of integration.

The balanced scorecard can serve as the focal point for the organization's efforts, defining and communicating priorities to managers, employees, investors, even customers. As a senior executive at one major company said, "Previously, the one-year budget was our primary management planning device. The balanced scorecard is now used as the language, the benchmark against which all new projects and businesses are evaluated."

The balanced scorecard is not a template that can be applied to businesses in general or even industry-wide. Different market situations, product strategies, and competitive environments require different scorecards. Business units devise customized scorecards to fit their mission, strategy, technology and culture.

## **2.4 The Balanced Scorecard as a Strategic Implementation tool**

Strategies are a critical element in organizational functioning, but whereas most organizations have good strategies, successful implementation remains a major challenge. The notion of strategy implementation might seem quite straightforward; a strategy is formulated and then implemented.

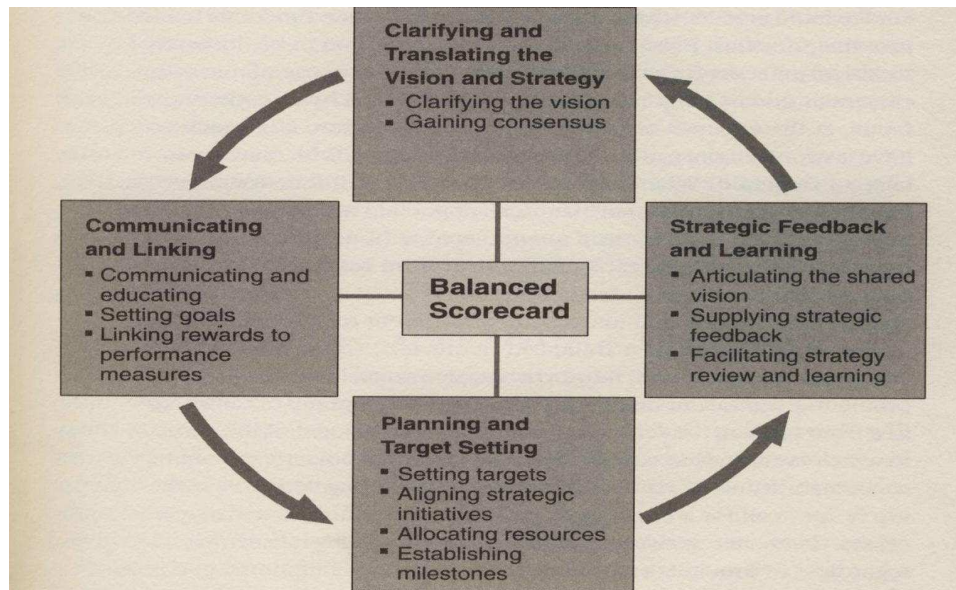
To the contrary, transforming strategies into action is far complex, difficult and a challenging undertaking and therefore not as straight forward as one would assume (Aaltonen and Ikavalko, 2001). Thompson and Strickland (1989) have described strategy implementation as acting on what has been done internally to put the formulated strategy into place and achieve desired results. Successful strategy implementation involves empowering others to act on doing all the things that need to be done to put strategy in place and execute it proficiently.

As indicated and well expounded in figure 2.1, Strategy implementation is the management activity of acquiring and allocating financial resources alongside the development of structures necessary to put a strategy into operation (Pearce and Robinson, 1991). It involves the assignment of responsibility for the success of all or part of a strategy to the appropriate employees, while also allocating resources.

The balanced scorecard has been used to communicate the new strategies to all employees, and then align departmental, team and individual goals to the successful implementation of the strategy. Although senior managers might disagree on the benefits of rapidly and explicitly linking compensation to scorecard measures, they agree that the communication and goal setting process has dramatically improved the alignment of all organizational participants to the strategy (Kaplan and Norton, 2000).

The failure to link action programs and resource allocation to long term strategic priorities is another barrier to strategy implementation. In many organizations, there are separate processes for long term strategic planning and short term (annual) budgeting. The impact of this is that discretionary funding and capital allocations are often unrelated to strategic priorities.

Due to this, major initiatives, for example reengineering are undertaken without regard to priority or strategic impact, and monthly or quarterly reviews focus on explaining deviations between actual and budgeted operations, not on whether progress is being made on strategic objectives. This arises out of the lack of foresight of those involved in strategic planning and finance over how their efforts can be integrated, not pursued as separate financial agendas (Kaplan and Norton, 1996).



**Figure 2.1: The Balanced Scorecard as a strategic framework for action**

Source: Kaplan, R. and Norton, D. (1996). *Translating strategy into action: The balanced scorecard*, Harvard Business School Press. p.11

An important aspect of the balanced scorecard is seen in its ability to expand business unit objectives beyond summary financial measures. This enables corporate executives to measure how their business units create value for current and future customers and how they must enhance internal capabilities and investment in people, systems and procedures necessary to improve this performance. While retaining an interest in the short term performance via the financial perspective, the balanced scorecard clearly reveals the value drivers for superior long term and competitive performance (Kaplan and Norton, 2000).

The balanced scorecard provides feedback around both the internal business processes and external outcomes so as to continually improve strategic performance and results. The balanced scorecard is a methodology suited for deploying an organization's strategic direction, communicating its expectations to all employees and measuring its progress towards the agreed-to objectives. As a tool, it has helped companies focus and align their executive teams, business units, human resources, information technology and financial resources to their organization's strategy (Johnson et.al, 2005).

As earlier mentioned, given a choice, most organizations would concentrate on financial measures of performance at the expense of others. To rectify this anomaly, the balanced scorecard emphasizes that financial and non-financial measures must form part of the information system for all employees at all levels. The objectives and measures of the balanced scorecard are not a random collection of financial and nonfinancial measures. Rather, they are derived from a top down process driven by an organization's mission and strategy of the business unit.

An important contribution of the balanced scorecard is seen in its ability to translate a business unit's mission and strategy into tangible objectives and measures (Kaplan and Norton, 2001). Kaplan and Norton (1996) derive the term "balance" out of the fact that the measures of performance represent a balance between external measures of shareholders and customers and internal measures of critical business processes, innovation, learning and growth. The measures are also balanced as far as to outcome measures are concerned. This is viewed with respect to the results from past efforts vis a vis the measures that drive future performance.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the research design that was adopted, the study population, the sampling the methods of collecting data, the research procedures, method of analyzing and presenting data.

#### **3.2 Research Design**

The research carried out was a case study. A case study is an in depth study of a particular situation rather than a sweeping statistical survey. It is a method used to narrow down a very broad field of research into one easily researchable topic. Whilst it does not answer a question completely, it gives some indications and allows further elaboration and hypothesis creation on a subject. The case study research design is also useful for testing whether scientific theories and models actually work in the real world.

Researchers are sometimes guilty of becoming bogged down in the general picture and it is important to understand specific cases and ensure a more holistic approach to research (Shuttleworth, 2008). Case study research is appropriate for the examination of a complex issue or object and can extend experience or add strength to what is already known through previous research. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships (Soy, 1997).

The choice of this method was informed by the fact that researchers, (Mugo 2007, D'Souza 2007, and Mwangi 2006) have successfully used the case study research method in similar research studies. This qualitative research method has been widely used to examine contemporary real-life situations and provides the basis for the application of ideas and extension of methods.

It has been argued that because a case study is such a narrow approach that its results cannot be generalized. However, it is also true that a case study provides more realistic results than a purely statistical survey. Another thing about case study research is flexibility. A case study might introduce new and unexpected results during its course, and lead to research taking new directions (Shuttleworth, 2008). The method was chosen so as to enable an in-depth investigation of the implementation of strategy using the balanced scorecard technique at the Consolidated Bank of Kenya Ltd.

### **3.3 Data Collection**

The methodologies adopted for this research was qualitative methods. Structured interviews and questionnaires were designed to collect data on the strategic objectives of CBKL in order to identify relevant measures/metrics used under the four perspectives of the balanced scorecard. The officers of the banks interviewed included the General Manager (GM) and the Head of Human Resources.

The reason for selecting these two categories of staff was because they are directly responsible for formulating and implementing strategies, policies and guidelines in connection with the bank's financial performance, training and human resource development, and operational procedures and guidelines. This was most specifically targeted at collecting data on metrics under customer perspective, the internal business processes and, learning and growth perspectives.

### **3.4 Data Analysis**

This is a qualitative study; the data analysis will be qualitative in nature, making use of content analysis in the identification of key themes, concepts and arguments. Content analysis is an overall approach, a method and an analytic strategy that entails the systematic examination of forms of communication to document patterns objectively. It is generally applied to narrative texts and seeks to determine, through close examination of the language of those texts about the respondents understanding of phenomena and terminology, as well as their beliefs.

In using content analysis as a method, the objective was to get at aspects of meaning by examining the data qualitatively. In effect the method is used to examine how respondents view and understand certain issues (Shuttleworth, 2008). Content analysis has been successfully used in similar studies (Mugo, 2007; D'Souza 2007, and Mwangi 2006).



## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter presents the results of the analysis of data collected through questionnaires. This chapter is organized as follows. The first section presents the results of demographic analysis. The second section presents the results on the application of balance scorecard in Consolidated Bank of Kenya. The last section is the discussion of findings.

#### **4.2 Demographic Results**

The study targeted to interview 2 staff of the Consolidated Bank of Kenya of which all were senior level managers. All staff were interviewed which constituted a 100% response rate. The respondents were asked to state the number of years they had worked in the bank. The study found that the respondents had worked in the organization for a period of between 4 to 6 years. Therefore, the respondents were very experienced employees in the organization and were therefore vastly experienced in the activities of the bank.

#### **4.3 Rationale for the application of the balanced scorecard**

The respondents were asked to state if they ever heard of CBKL balanced scorecard. The results showed that all of them agreed that they were aware of the same. This suggests that there was a high level of awareness among the respondents and therefore the entire organization, on the existence of the balance scorecard as a performance measurement tool for Consolidated Bank of Kenya Ltd.

The general manager stated that the major reason that informed the application of the balanced scorecard at the Bank was to enhance the quality of CBKL controlling system while the head of human resource felt that there was need to adopt BSC in the bank so as to improve the performance management system of the bank. The respondents felt that this was a critical element to assist in performance management and improvement of the performance of the bank as a whole if the BSC was to be adopted well effectively and efficiently.

They noted that before the adoption of this tool, staff performed their duties but there was no clear link between these duties and the overall performance strategy of the organization. Therefore, even though the bank had formulated strategy in the previous periods, there had been a lack of a clear guideline on the measurement and management of performance which caused the organizational members to pull in different directions, hence resulting in sub optimization of effort and goals.

#### **4.4 Preparation for the adoption of the balanced scorecard**

Respondents were asked if other techniques were considered for the measurement and management of performance. The head of human resource stated that before the adoption of Balanced Scorecard in the bank, other techniques for managing performance were considered which included risk management. Risk Management was meant to identify, analyze and either accept or mitigate any uncertainty in investment decision-making in the bank. Essentially, risk management was to help the bank analyze and attempt to quantify the potential for losses in the investments they made and then take the appropriate action (or inaction) given their investment objectives and risk tolerance.

Even though it was a good option too, it did not meet the mark for the bank since it focused more on financial perspectives. Balanced Scorecard was considered more appropriate since it had a higher chance of improving the overall performance of the bank. Concerning the communication of the BSC to the entire Organization, both the human resource manager and the General Manager stated that this was done which was through circulars then followed by a management meeting.

The management meeting was meant to facilitate buy in by the staff involved. For the rest of the staff, this was done through training and development, capacity building and through emails. Workshops were organized for the entire bank staffs to train and acquaint them with the use of Balanced Scorecard in CBKL. When the respondents were asked how the application of the balanced scorecard was communicate to them, well they affirmed that this was done through Email and training.

Regarding how they communicated the idea of BSC to the staff under them, they said that this was done through staff meeting and one on one meeting with the staff. Both the general manager and the human resource manager said that this was done so that the idea of BSC could be well understood and internalized by each staff to mitigate or avoid change resistance and opposition of the same.

The respondents were requested to explain how they prepare the Balanced Scorecard for their departments and the response received was that both the Head of Human resource and the general manager work in tandem through preparation of budgets and staff meetings. They said this was so since budgets force them to think ahead by requiring them to formalize their planning efforts. These budgets provide a blueprint for accomplishing a set of stated bank-wide objectives and fitting their department into the overall plan.

They stated that budgets provide definite goals and objectives which serve as benchmarks for evaluating subsequent performance and set up a warning system for conditions requiring some type of remedial action. In an overall sense, the respondents suggested that budgeting coordinates the activities of the entire institution by integrating the plans and objectives of the various departments and help the administration to ensure that the goals of their department are consistent with the broad goals of the entire bank.

#### **4.5 The contribution of BSC to the objectives of CBKL**

According to the head of human resource management, the mandate of the HRM department was good service delivery to all departments while that of the general manager was deduced to be Budget, Finance and Operations. The respondents were also asked how the mandate contributed to the achievement of the overall objectives at CBKL. The general manager acknowledged that the mandate actually contributed to the achievement of the overall objectives of CBKL by facilitating communication across the entire bank and enhanced the understanding of the bank's vision, mission and corporate strategy.

The human resource manager agreed that the mandate of HRM actually contributed to the overall objectives at CBKL by developing human resources in each and every department. Consultants were involved in the facilitation of the process, according to the head of human resource and the general manager. These worked in tandem with the head of finance. In so doing, the lead staffs were imparted with knowledge that they used in training.

The lead division in the balanced scorecard project was the head of budget and finance. In addition, there were champions appointed in all divisions. The top management then cascades the scorecard to direct reports, who are the Deputy CEO's. They use it to prepare their own scorecards. This process flows until it gets to the individuals forming the various units who construct their scorecards with reference to that of their immediate superior.

The respondents agreed that the first balanced scorecard was constructed by the Heads of departments but at the top management in the bank, in conjunction with consultants. The initial scorecard had only one perspective; financials. It failed to give a balanced focus and weighting to the various perspectives of organization performance, people, customers, financial and internal process as the main focus was on the achievement of financial targets and profits. With time, it has been revised to include the traditional four perspectives. This has been done to ensure that it covers all the critical areas of operation of the bank. Each perspective has key result areas, targets and weighting which speak about its importance in as far as attaining the vision is concerned.

#### **4.6 Balanced Scorecard and the Corporate Strategy of CBKL**

Results from the respondents affirmed that there is a relationship between the balanced scorecard and the CBKL corporate strategy. Both the head of human resources and the general manager stated that the CBKL BSC was used to implement the corporate strategy. It showed what objective to be achieved is, which measure to use to accomplish the objective and who is to implement the said objective.

At the end of the period, the SC is able to identify and measure whether that objective has been met or not and how effective it has been. This derives from the fact that each year, the senior management forum of the bank formulates the CEO's balanced scorecard (the balanced scorecard of the Bank) which sets the agenda for the following year. By constructing the scorecard as a team, they are able to agree on what activities are important for the attainment of the vision. This scorecard is derived from the vision of the bank and the areas of emphasis vary each year according to their importance.

The respondents agreed that the balanced scorecard helped the top management and all the staff of CBKL to implement the corporate plan of the bank more effectively. This implies that there is a relationship between what the balanced scorecard sets out to measure and the actual activities that take place on the ground. In the same way, the head of human resources agreed that the balanced scorecard assists them in discharging their day to day duties. This they said help by giving clear guidelines and the expectations from each staff member and how each of these expectations contributes to the overall corporate strategy of the bank.

This is to the extent that it helps them focus on the critical activities that add value. The General Manager concurred that CBKL BSC has really helped in execution of day to day work by clarifying about actual measurements of performance, the specific objectives to be achieved which of the objectives are to be achieved and how. This confirms that actually, the CBKL balanced scorecard has been of major significance to the entire achievement of the vision, mission and goals of the organization.

Concerning the contents of the balanced scorecard i.e objectives, target and measures and how they correlated to the actual objectives, targets and measures given to their departments, both the head of human resource management and the general manager agreed that the objectives, targets and measures in the balanced scorecard actually corresponded. This signifies that there is a relationship between what the balanced scorecard sets out to measure and the actual activities that take place in the various departments of the bank.

#### **4.7 Benefits of the application of Balanced Scorecard**

Balanced Scorecard was reported in this study to provide focus and clear lines of accountability, providing the ability to measure the achievement of agreed outcomes. BSC was also reported to facilitate communication across the entire organization and enhance understanding of vision, mission and strategy. BSC was reported to be useful through tying the vision, mission and strategy to goals and objectives of individuals and departments concerned.

Other benefits included helping define clear metrics for better understanding and more objective performance management and facilitating a clear understanding of the reasons behind strategic initiatives. These findings concur with the assertion by Kaplan and Norton (2001) who transformed BSC into a strategic management system describing management processes and principles to develop and implement a strategy focused and aligned management system built on sound, formal accounting principles. This indicates that the BSC in CBKL enables them to implement their strategies successfully.

The respondents agreed that the application of CBKL balanced scorecard has benefited the bank in various ways. First, the scorecard has been able to help the CBKL system to move from analysis of historical data to encompassing broader CBKL goals thus becoming more future oriented. Secondly there has been the alignment of corporate and individual goals according to general manager. This has caused a clear link between individual goals and responsibilities and the corporate strategy.

Thirdly, a culture high performing teams has been created informed by rewards at the end of the year for exceeding the set targets. This has provided a mechanism for differentiating and rewarding high performance. Again, the scorecard has embedded a culture of responsibility and ownership. The head of HR and the finance and budget manager review the scorecard every quarter to determine whether progress is being made towards the set targets. This allows corrective action to be taken where there are disparities between the set targets and the reality on the ground.

The balanced scorecard as stated by the head of human resources assisted in breaking down the overall corporate vision into daily measurable targets for employees to implement. This enabled them to focus on the important tasks that are critical to their performance as measured by the scorecard, and hence work towards the execution of the organization's vision. The balanced scorecard has greatly assisted in the turnaround of the Bank from being a loss making institution to being one of the most profitable indigenous banks. It has also enabled the company to become more customer focused.



The head of human resources continued to say that the scorecard became an early warning system and a controlling system that helped the management to detect potential business threats in time to initiate effective counter measures. This largely has helped the bank in gaining a stronger competitive position in the banking industry. The general manager stated that the balanced scorecard is used in the daily operations of the bank through daily, weekly and monthly performance checks, targets measurements and recording the same for future use and comparison. The scorecard helped the respondent in understanding individual objectives and targets and how they related to the overall strategy of the bank.

#### **4.8 Challenges encountered in application of the CBKL BSC**

Several challenges have been experienced by the various departments and individuals in the application of the balanced scorecard as indicated by the respondents. One of the major challenges as pointed out by the general manager was the fact that the scorecard did not take into consideration the current market forces which could end up making the set targets irrelevant. Such forces included demographic factors like age, attitude, and factors like the change of customer preference, purchasing power, technology changes, political changes, economic changes and social changes.

Another challenge found in the study was turning some of the nonfinancial variables like values into measurable metrics and getting the metrics right. There are inherent challenges when certain metrics are not very clear or are ambiguous. These do not translate easily into operational and measurable metrics that provide useful guidelines to action at the local level. This concurs with what Kaplan and Norton (1999) indicated in relation to the BSC implementation.

In implementation of the BSC, the importance of clear strategic objectives, cause and effect relationships between strategy and measures and management commitment to the implementation process are emphasized or else the success of the BSC is compromised. Having efficient data collection and reporting systems to cater for non-financial data for the non-financial perspectives was another challenge cited by the respondents.

CBKL did not have these systems in place and because perspectives need to be defined, resources committed to them for data collection and subsequent reporting, it has at times been seen collecting metrics data as too much time and energy consuming, which makes it challenging for data to be captured. There was resistance to change especially by the employees at the cost centres, since there had not been an individual performance management tool in the bank before. Hence, the employees viewed the technique with suspicion.

This is especially because an individual's performance is used as a basis for remuneration (year-end bonus) and consideration for promotion. This was depicted by the head of human resources. The HR also stated that there has been a challenge in knowledge on the part of the staff since most are not able to formulate SMART objectives. This has been attributed to insufficient training. This is because it's the individual staff and the line manager that are responsible for the direct report's scorecard. In the event that both are not conversant with the technique, the objectives, measures and targets end up either being unrelated to the vision or cannot be measured.

The general manager pointed out that it has been difficult to measure the qualitative, non financial aspects of the business which are difficult to assign a value to even though they constitute the overall corporate performance. Issues like employee morale, which though important for the attainment of the bottom line cannot be quantified. Another issue has been how the bank can attain standardization without replicating the balanced scorecards across the business.

This not only affects the quality of the scorecard but also compromises vision attainment because this means that there is duplication of effort. The internalization of the scorecard was indicated to be another challenge by the general manager given that the bank is a government parastatal where performance management is not readily accepted. This entailed a change of the bank's organizational culture to one that is performance based, which was not the case before.

#### **4.9 Discussion**

The notion of the Balanced Scorecard was described as "a framework for multi dimensional performance evaluation and performance management." (Kaplan, 1992) This framework urges an organization to break down its strategy and vision into quantitative objectives in terms of cause-effect relationships that can be represented by the four perspective model: financial, customer, internal business process, and learning and growth. The main goals of BSC are to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals.

This study presents an analysis of the practical implementation of the Balanced Scorecard (BSC) as a performance management tool in Consolidated Bank of Kenya Ltd. The main goal of this work is to help in clear understanding of some of the BSC performance indicators as well as develop a strategic map in order to support the implementation of the BSC methodology based tool capable of measuring strategic alignment by identifying and communicating the strategy, developing action plans to enable monitor, manage and use data to improve company performance. Agostino (2011) supports this by pointing out that effective application BSC shapes the outcome of the performance of an organization

The study found that the respondents were in agreement that they were sufficiently engaged in performance measurement setting. The results showed that the current performance measurement tool was ample and effective with respect to measurement of performance. This is consistent with a number of prior studies such as Niven (2006) which concluded that the balance scorecard was a valuable tool for measuring performance.

The study found that there were so many pitfalls for relying solely on the financial aspects of the balanced score to measure and manage the performance of the bank. This study indicates that other perspectives of the BSC which includes customer perspective, internal processes, innovation, learning and growth, are equally important and should not be ignored if the organization is to achieve its mission, vision, goals and objectives effectively as supported by Kaplan (1992) which points out the balanced scorecard as a powerful performance management and measurement tool.

The study found that the financial performance measure of the balance scorecard adequately measures the success of the operations in meeting the strategic objects. These results are therefore consistent with Henry (2004) who noted that Balance scorecard measured adequately performance of organizations. The balanced scorecard has proved to be an effective tool for measuring business performance. Organizations should their strategy in a balanced and coherent manner with the vision placed above and strategic objectives broken down into four perspectives as refelected in the balanced scorecard.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary of findings, conclusions of the study, limitations of the study, recommendations, and suggestions for further research.

#### **5.2 Summary of Findings**

In essence the commercial banks are comprehensive, multi-function financial enterprises, which is in terms of profits and operates financial assets and financial services as a target. In the current financial innovation would be difficult to produce differentiated, so the service relationship is the direction the bank want to lead to. The Balanced Scorecard can provide support in this regard: they are in the face of rapidly changing business environment.

The objective of this study was to determine the influence of Balanced Scorecard on the performance of Consolidated Bank of Kenya Ltd and the challenges involved in the sole reliance of the financial perspective only. Towards this end, the concepts of organizational performance and the balanced scorecard were identified and their application within the bank sought. Respondents interviewed comprised of senior managers in the bank drawn from Human Resources and the general manager. In total, 2 respondents were interviewed. The study established that the Consolidated Bank of Kenya Ltd has applied the balanced score card in corporate strategy implementation and performance management.

The tool was adopted as means to align organizational performance to the corporate strategy and instill a performance driven culture and align the individual goals to the overall organizational goals, as stated by 100% of the respondents. Both the GM and the head of HR mentioned that this approach was introduced in the bank in order to isolate employee performance, clarify the individual goals and the organizational goals and therefore improve the performance of the individual staff and the entire bank as a whole.

CBKL has also applied the BSC to measure profitability, market share, employee and organizational productivity, identify areas of excellence, enhance personnel development, change employee attitudes and create a sense corporate social responsibility and finally create a balance between short range and long range objectives.

Also, it was done in a bid to involve employees in performance management since it was viewed as an objective means of performance appraisal and linking performance to remuneration of the staff and end of year bonus. Both the General Manager and the head of Human Resources pointed out that the balanced scorecard had been a useful tool for the realization of the organization's strategy, whereas the general manager affirmed that the measures, targets and objectives relate to their day to day activities.

Therefore, it can be said that the balanced scorecard has helped the organization translate its strategy into action, clarify it in terms of day to day activities for staff to implement and be better able to communicate it. Due to this, the activities of the employees have become more focused on what is important, namely the vision of the bank and how to implement it.

This has caused a clear link between individual goals and responsibilities and the corporate strategy. A culture of high performing teams has been created informed by rewards at the end of the year for exceeding the set targets. This has provided a mechanism for differentiating and rewarding high performance. Again, the scorecard has embedded a culture of responsibility and ownership.

### **5.3 Conclusion**

From the results of the study, it can be concluded that the balanced scorecard has succeeded both as a strategy implementation tool and as a performance management tool. The earlier BSC adopted by the bank failed since it only focused on the financial objectives but since the adoption of the new scorecard which incorporates all the aspects of the balanced scorecard i.e: Financial aspect, Customer aspect, internal processes aspect and the learning and growth perspective, the CBKL BSC has since been successful.

The major factor that emerged is that the balanced scorecard has been used as a tool to communicate and clarify strategy and directions within the business, gain consensus and therefore rally the organizational members in the same direction. The resultant effect has been that employees, regardless of their job or grade have been able to piece together how the role they perform fits into the whole and therefore provided purpose for their day to day work.



This has made the attainment of the vision of the organization everyone's job, therefore creating ownership and responsibility. The application of the balanced scorecard to implement strategy has been acclaimed as one of the factors that have contributed to the turnaround of the Bank from a previously loss making government parastatal to one of the largest indigenous bank in Kenya.

#### **5.4 Limitations of the Study**

The study focused on Consolidated Bank of Kenya Ltd only. Therefore, the results herein cannot be generalized to the banking industry. Attempts to interpret these results in other organizations should therefore be approached with care. The study also used primary data which was collected through questionnaires. This is only one method among others which may have been used in this study.

Reliance on one data source for a study does not allow for triangulation and therefore this was one of the major limitations of the study, the use of questionnaires only. The study concentrated on interviewing the top management officials only, that is the general manager and the head of human resource thus, does not give the views of the other staff regarding the success or failure of the balanced scorecard as a performance management tool in CBKL.

#### **5.5 Suggestions for further Study**

The study suggests that this study be replicated to other industries other than the banking industry, to examine whether the results found here still hold for other corporate organizations. This will aid in enhancing comparability of findings. The study also suggests that further studies in this area need to expand the sources of information.

Instead of relying on questionnaires as the only source of data, there is need to use other methods such as focus group discussions in order to triangulate results. The study recommends that a research be done on the acceptability, adaptability and the effectiveness of automating the balanced scorecard in the banking sector and if how applicable it is to other industries other than the banking industry.

This will help organizations to adapt to the dynamic environment and be more competitive. Other factors such as global economic growth or regional trade development and other factors might also have affected the improvement of the CBKL's performances. Therefore future research should incorporate these aspects into research models in investigating the use of corporate scorecard in the banking industry.

## **5.6 Recommendations and Implications of the study on Policy, Theory and Practice**

The following recommendations are made following the study results. First, the study recommends that some of the internal policies and procedures which are outdated be revised and improved so as to make the balanced scorecard concept more in line with today's practices. The results in this study have implications for both theory and practice. The results imply Consolidated Bank of Kenya has been applying BSC as a method to measure performance and therefore adds to the growing body knowledge of balance score card application in the banking sector.

The study recommends that other banks that seek to measure their performance should adopt the use of balance scorecard as it is a very effective tool in measuring performance in organizations. The study also recommends that bank managers need to engage more in the management of performance in their organizations by using tools

such as balance scorecard which measure both their internal processes as well as the customer aspect of performance. A main contribution of this study is that expected outcomes of a new managerial innovation such as the BSC in an organization depends on the coherent link between policies and rules imposed from outside and strategies, programs and performance measurement systems implemented in accordance with the mission and goals of the organization. It demonstrates that a coherent link between the policies and rules imposed from outside and strategies and performance measurement systems developed and used inside organization is a key factor in achieving expected outcomes of new managerial innovation practices.

The study will assist the policy makers in the banking industry to draw up policies that help the banking industry to be more effective and competitive. The findings of this study enriches the Theory of the Balance Score Card as a performance measurement tool by providing insights on the underlying principles once evaluated by an industry in application. In addition to obtaining insights on the four perspectives of the Balance Score Card the concepts providing a theoretical basis for this research was also evaluated and the insights obtained enriches the theories of Resource Based View and Dynamic Capability Theory.

This study explores the relevance of resource-based view of strategy to how a combined balanced scorecard and the banking industry approach serves as a high-order dynamic capability which includes core capabilities and core competences, cross-functional management, and top executive audits, which, when managed properly, explicate a new view of strategic fit, as a form of nested hierarchies of dynamic capabilities

The outcome of this study provides a framework and importance of application of Balance Score Card in Banking Industry. The other Industry may also take benefit of this study. These findings have various implications in the applicability of the BSC in CBKL. They will provide focus and clear lines of accountability, providing the ability to measure the achievement of agreed outcomes, facilitate communication across the entire organization and enhance understanding of vision, mission and strategy. The application of these findings in the bank will facilitate the linkage between the vision, mission and strategy to goals and objectives of individuals and departments concerned.

The findings of this study also will help in improving the Bank's Performance due to implementation of Balance score card models in different perspectives. The four perspectives out of five: financial, customer, internal process and learning and growth perspective has remarkable contribution in improving Bank's overall performance. However, the vision and strategy perspective could have insignificant role in Bank's Performance

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## **APPENDIX 1: INTERVIEW GUIDE**

NB: The information collected will be treated confidentially and will not be used for any other purpose other than for this study.

1. How many years have you worked at CBKL?
2. What informed the adoption of the BSC at CBKL?
3. Were other techniques for managing performance considered?
4. Have you ever heard about the CBKL BSC?
5. How was the concept of the BSC communicated to the entire organization?
6. How was the application of the balanced scorecard communicated to you?
7. How did you communicate the idea of the BSC to staff under you?
8. How do you prepare the BSC for your department/branch?
9. What is the mandate of your department/branch, and how does it contribute to the achievement of the overall objectives at CBKL?

10. Prior to the rolling out of the BSC methodology, were any preparations done?
11. Was there a lead person/ department in CBKL's BSC project, and if so who were they?
12. Who constructed the first CBKL BSC? Does the current CBKL BSC cover all aspects of it CBKL operations?
13. Does CBKL have various stages in its corporate plan, and if so how is this reflected in its BSC?
14. Is there any relationship between the BSC and corporate strategy?
15. What are the benefits of applying the BSC at CBKL?
16. Are there any challenges that have been encountered in the process? comment on the success or failure of the BSC application
17. Is there any other information that you would like to share about the application of the BSC at CBKL?
18. Is there any relationship between the CBKL BSC and the CBKL corporate strategy?

19. Has the BSC helped in the discharging of your day to day work, and if so, how?
20. Do the contents of the BSC (objectives, target and measures) correlate with the actual objectives, targets and measures given to your department/branch?
21. Are there any challenges you have faced/are facing in the application of the BSC?
22. Is there any other information you would like to share regarding the application of the BSC at CBKL?
23. How does your department/branch use the BSC in its daily operations?
24. Do the contents of the BSC especially the objectives, measures and targets correlate with the actual measures, objectives and targets given to you by your immediate supervisor?
25. Does the BSC help you in any way in the course of executing your duties?
26. What challenges have you been facing in using the BSC?
27. Is there anything you would like done in order for you to be able to use the BSC more effectively?
28. Comment on whether the BSC has succeeded or failed
29. Is there any other information you would like to share about your experience with the BSC?