CHALLENGES FACED BY THE CO-OPERATIVE BANK OF KENYA IN INTEGRATING BALANCED SCORECARD IN THE PERFORMANCE MANAGEMENT PROCESS

BY

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DECLARATION

I hereby declare that this is my original work and has not been presented at any other university for a degree.

Date: 02/12/08

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

Date: 02/12/08

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DEDICATION

I would like to dedicate this study to my parents Mr. and Mrs. James Gituara Macharia, my brothers Antony and Eric Macharia, my Sister Dr. Josephine Macharia and nephew Ryan Macharia.
ACKNOWLEDGMENT

I would like to express my humble gratitude to God for giving me the strength, wisdom and grace I needed to undertake this project. I would also like to sincerely acknowledge my parents for their love, outstanding support and dedication, to my sister and brothers for the unwavering patience and understanding, for my little nephew who is bringing laughter, joy and happiness. I would like to thank my supervisor Prof. P. O. K’obonyo for his encouragement, support and guidance on my project, friends and my colleagues at the Cooperative Bank of Kenya Limited for their input and participation.

I would also like to thank the staff (teaching and non teaching) of the School of Business for their valuable support, and finally I would like to thank my MBA class of 2005/6 for their companionship during the program.

Thank you all.
ABSTRACT

The study aimed at finding out the challenges faced in integrating the balanced scorecard in the performance management process at the Co-operative Bank of Kenya Limited. The primary data was collected through questionnaires distributed to 140 respondents. Data was analyzed using the content and descriptive statistics. Microsoft Excel software packages were used to process the data.

From the study, a number of challenges were established which included ensuring that the balanced scorecard measures were reviewed whenever there were fundamental changes in the organization, ensuring that each business unit has its own strategic measures in balanced scorecard that matter most to them and empowering employees to participate effectively in the development and implementation of balanced scorecard.

Finally, recommendations to overcome challenges in integrating the balanced scorecard in the performance management are given. Also limitations of the study and suggestions for further research were presented.
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1.1 Background

In the late 1970's and 1980's, scholars expressed a general dissatisfaction with traditional back-ward-looking accounting-based performance measurement systems identifying their shortcomings and arguing for change (Petitt, et al 2000).

According to Neely (1999) evidence suggests that there are seven main reasons why so many people have become so interested in business performance measurement so recently. These reasons include the changing nature of work, increasing competitiveness, specific improvement initiatives, national and international quality awards, changing organisational roles, changing external demands and the power of information technology.

Since 1980 and late 1980's when the need for better integrated performance measurement systems was identified, there have been publications emphasising the need for more relevant, integrated, balanced, strategic, improvement oriented and dynamic performance measurement systems. This resulted in the development of frameworks, models, methodologies, tools and techniques to facilitate the development of new performance measurement systems (Boseley, et al 2000). These new frameworks placed emphasis on non-financial measures and placed looking performance measures (Petitt, et al 2000).

2.1.1 Performance Management

Performance management refers to managing all elements of the organizational process that affect how and employees perform. Performance management process may thus encompass; goal setting, worker selection and placement, performance appraisal, compensation, training and development and career management in other words, all those parts of the human resource process that affect how an employees performs (Boseley, 2004). According to Armstrong (2006) performance management is a continuous and much wider process of management that clarifies expected responsibilities, supports the support role of managers who are expected to act as coachees.
CHAPTER ONE: INTRODUCTION

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rather than judges and focuses on the future. Rankin (2003) noted that it is equally challenging to set targets and identify assessment criteria for use in performance management systems. He also noted that it is increasingly difficult to produce meaningful targets for many jobs, particularly in the expanding service sector of the economy. Some of the benefits from performance management systems are better communication between line manager and employee, improved performance at all levels of the individual and help rebuild communication and commitment from the grassroots upwards after restricting and redundancy exercise (Rankin 2003).

1.1.2 Balanced scorecard

The traditional performance measures developed from costing and accounting systems have been criticized for encouraging short termism, lacking strategic focus, encouraging local optimization, encouraging minimization of variance rather than continuous improvement, not being externally focused (Platts, et al 2000). Steeple (2000) noted that performance measurement incorporating non-financial measures has been a topic of interest throughout most of 1990’s. This is mainly because non-financial measures overcome the limitations of just using financial performance measures. Kiragu (2005) noted that the main reasons for adopting the balanced scorecard was getting an effective strategic planning system and the need for an improved control system or performance measure. Other reasons include employee motivation, increased demand by customers for high quality and a search for a better basis executive compensation.

It appears then, that the language of business performance measurement is taking hold. The notion of balance, perhaps most nearly encapsulated by Kaplan and Norton’s balanced scorecard, is widely accepted (Neely, 1999). The balanced scorecard, according to Kaplan and Norton (2004), would provide managers with the instrumentation they need to navigate to future competitive success. Kennerley (2000), citing Kaplan and Norton (1992), noted that the balanced scorecard approach allows managers to answer four fundamental questions: how do we look at our shareholders (financial perspective), what must we excel at (internal business perspective), how do our customers see us (customer perspective) and how can we continue to improve and create value (innovation and learning perspective).
1.1.3 The Kenyan banking industry

According to the Laws of Kenya, the Banking Act Chapter 488, a bank means a company which carries on, or proposes to carry on, banking business in Kenya and includes the Cooperative Bank of Kenya Limited but does not include the Central bank. The Kenya Monthly Economic Review (December 2007) reported that there are 46 financial institutions in Kenya. The Central bank of Kenya’s main task, as stipulated in the Central Bank of Kenya (Amendment Act), 1996 is maintaining price stability and fostering liquidity, solvency and proper functioning of a stable market-based financial system. Hence it is entrusted with the supervision of commercial banks in order to ensure efficient and sound financial system in the interest of depositors and the economy as a whole. This makes banking industry as a heavily regulated industry and one with extensive regulatory compliance requirements.

Koch and MacDonald (2006) noted that fundamentally there are five reasons for Bank regulation; To ensure the safety and soundness of banks and financial instruments, to provide an efficient and competitive financial system, to provide monetary stability by controlling the growth in the banking system’s liquidity and hence the nation’s money supply and influence the general levels of interest rates by buying and selling government securities, to maintain the integrity of the nation’s payments system and to protect customers from abuses by credit-granting institutions by stipulating that borrowers should have equal credit opportunities such that banks cannot discriminate on the basis of race, gender, age, geographic location.

During the last decade, the banking sector has gone through a number of changes. The reforms have been implemented in the context of a broader macroeconomic stabilization and structural agenda, providing an essential foundation to financial sector recovery. A major achievement of the reforms process has been the transformation of a primarily state owned and weak banking sector into a healthier market based system, owned by the private sector. This has been facilitated by restructuring of major banks, ongoing consolidation of the sector through mergers and acquisitions, strengthening of the regulatory regime, and improvements in transparency, corporate governance and credit culture (Khan 2006).
PricewaterCoopers noted that the key issues affecting the banking industry in Kenya include changes in the regulatory framework, where liberation exists but the market still continues to be restrictive, declining interest margins due to customer pressure, leading to mergers and reorganizations, increased demands for non-traditional services including the automation of a large number of services and a move towards emphasis on the customer rather than the product and introduction of non-traditional players, who now offer financial services products.

1.1.4 The Co-operative Bank of Kenya Limited

According to the Co-operative Bank of Kenya Fact book 2008, Co-operative Bank of Kenya is incorporated in Kenya under the Co-operative Societies Act, and is also licensed to do business of banking under the Banking Act. Co-operative Bank of Kenya was registered as a Co-operative society on the 19th June 1965. It did not, however, commence operations as it was not registered under the Banking Act. In this status, it could not fulfill the main objective for its establishment, which is to mobilize financial resources and provide banking services to the Co-operative movement. The Bank applied for a banking license to operate under the Banking Act, which was granted in 1968. The Bank opened for business on 10th January 1968 with a modest capital base of Kshs. 255,000 with the Government supplementing the capital with a Kshs. 214,000 interest-free loan repayable in ten years. In the same year, the Commissioner of Co-operative Development, with the support of Kenya National Federation of Co-operatives, was obligated to direct all Co-operative society funds invested with other banks be transferred to Co-operative Bank. The Commissioner further advised all Co-operatives to buy shares in the Bank. This tremendously increases the bank’s deposit and capital base, laying a firm foundation for the bank.

In 1994, the Bank converted to become a fully-fledged commercial bank offering the complete range of financial services, beyond the captive Co-operative sector, to include personal, corporate and institutional customers. Co-operative Bank of Kenya has, in the past, measured and evaluated its performance using financial measures. It is only recently
did the Bank incorporate the balanced scorecard as a performance management tool to overcome the limitations of using just financial performance measures.

1.2 Statement of the problem

It has been argued in the background that studies on balanced scorecard have not shown clearly how it fits in the overall performance management process. Masaba (2005) wrote a master's project aimed at identifying the performance measurement systems used by commercial banks operating in Kenya and the factors influencing the choice of particular system. Among other things, he found that banks are still using the traditional performance measurements systems, such as profitability, liquidity and ratio analysis in their day to day operations. Some banks have also complemented the traditional systems with techniques such as balanced scorecard. Mwangi (2006) undertook a research project to find out the purpose underlying measurement of performance, appropriate performance indicators for institutions and the critical factors in the design, implementation and use of performance measurement systems and performance measures. He noted that there was more emphasis on the use of performance measures and measurement mostly for control and accountability purposes, followed by strategic planning and fulfillment of legal requirements. Mogendi (2006) conducted a study to establish performance measurement systems employed by international humanitarian organizations and international non-governmental organizations for their programs in Somalia and findings showed that the majority of the Humanitarian organizations based in Somalia had a performance measurement system for their operation and programmes. Kiragu (2005) conducted a study to determine the extent to which balanced scorecard is in use in Kenya and establish the reasons for adopting the balanced scorecard. He found that the reasons for adopting balanced scorecard were to get an effective strategic planning system and the need for an improved control system or performance measure.

All the above studies did not address the challenges faced while integrating the balanced scorecard as a performance management tool in an organization. As a suggestion for further study, Kiragu (2005) noted the need for a study to identify the problems faced when implementing the balanced scorecard. Hence this study is intended to fill these gaps in
knowledge by looking at the challenges of integrating the balanced scorecard as a performance management tool.

1.3 **Objective of the study**

To establish challenges faced by the Co-operative Bank of Kenya in integrating balanced scorecard in its performance management system.

1.4 **Significance of the study**

The findings of this study will assist the Bank Management and Board of Directors to effectively and efficiently assess their performance, in terms of quantitative and qualitative measures, using the scorecard. The customers will also to be aware and appreciate the Bank’s efforts to improve its service delivery, hence increase their confidence in the Bank’s activities. Employees will have an understanding on performance measurement of the balanced scorecard, Shareholders will be put at ease knowing their funds are in good management of the Bank by examining the scorecard measure and other researchers who may use this study as their reference of their research work.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The literature review will start by defining performance measurement and performance management look at its aims and characteristics, then the different types of measures that organizations can use to evaluate its performance.

2.2 Performance measurement and Performance management

Amaratunga et al (2001) defined performance measurement as a process towards achieving pre-determined goals, including information on the efficiency with which resources are transformed into goods and services, the quality of those outputs and outcomes, and the effectiveness of organizational operations in terms of their specific contributions to organizational objectives. According to Tangen (2005), a successful performance measurement system is a set of performance measures that provides a company with useful information that helps to manage, control, plan and perform the activities undertaken in the company. Parker (2000) noted the following as the fundamentals of performance measurement; performance measures need to be aligned with the organization’s strategy, sub-unit measures must aggregate into organization-wide measures, there must be commitment to the measurement regime, measurement must have an effect on performance and measures must be reliable.

According to Armstrong and Murlis (2004), performance management is a process for establishing a shared understanding about what is to be achieved and how it is to be achieved; an approach to managing people that increases the probability of achieving success. Procurement Executives’ Association defined performance management as the use of performance measurement information to effect positive change in organizational culture, systems and processes, by helping to set agreed-upon performance goals, allocating and prioritizing resources, informing managers to either confirm or change current policy or program directions to meet those goals, and sharing results of performance in pursuing those goals. Armstrong (2006) also defined performance management as a systematic
process for improving organizational performance by developing the performance of individuals and teams. It is a means of getting better results by understanding and managing performance within an agreed framework of planned goals, standards and competency requirements. Amaratunga et al (2001) noted that performance management describes the use of performance measurement information to effect positive change in organizational cultures, systems and processes, by helping to set agreed performance goals, allocating and prioritizing resources, informing managers to either confirm or change current policy or directions to meet those goals and sharing results of performance in pursuing goals. Smith and Goddard (2002) noted that Performance management can be characterized as an integrated set of planning and review procedures which cascade down through the organization to provide a link between each individual and the overall strategy of the organization.

According to Smith and Goddard (2002) there are four broad categories of actions that constitute performance management: formulation of strategy with to determine what constitutes performance, development of performance measurement instruments, application of analytic techniques to interpret such measures and development of instruments designed to encourage appropriate organizational responses to performance information. Armstrong (2006) highlighted that performance management is a planned process of which the primary elements are agreement, measurement, feedback, positive reinforcement and dialogue; It is concerned with measuring outputs in the shape of delivering performance compared with expectations expressed as objectives in this respect; it focuses on targets, standards and performance measures or indicators, It is based on the agreement of role requirements, objectives and performance improvement and personal development plans, It provides the setting for ongoing dialogues about performance that involves the joint and continuing review of achievements against objectives requirements and plans and It is also concerned with inputs (the knowledge, skills and behaviors required to produce the expected results) and values.

Kennerley et al (2000) noted that performance measurements frameworks should reflect financial and non-financial measures, internal and external measures and efficiency and
effectiveness measures. They should also provide a succinct overview of the organization’s performance, be multi-dimensional, comprehensive and should be integrated both across the organization’s functions and through its hierarchy.

### 2.3 Aims of performance management

Armstrong (2006) noted that the overall aim of performance management is to establish a high performance culture on which individuals and teams take responsibilities for the continuous improvement of business processes and for their own skills and contributions within a framework provided by effective leadership. He also noted that performance management is about aligning individual objectives to organizational objectives and ensuring that individuals uphold corporate core values. It provides for expectations to be defined and agreed in terms of role responsibilities and accountabilities (expected to do), skills (expected to have) and behaviors (expected to be). The aim is to develop the capacity of people to meet and exceed expectations and to achieve their full potential to the benefit of themselves and the organization. Importantly, performance management is concerned with ensuring that the support and guidance people need to develop and improve is readily available.

The role of the performance measurement according to Atkinson et al (1997) is to monitor the implementation of an organization’s plans and determine when the plans are unsuccessful and how to improve them.

### 2.4 Types of performance measures

There are many different types of performance measures (Tangen, 2003). Sardana (2008) classified the various approaches and concepts of measuring business performance as follows:

#### 2.4.1 Financial and Cost accounting measures

Financial measures as the performance indicators are the traditional approach, which are based on the premise that the ultimate aim of an economic venture is to make profits and provide attractive returns to the investors (Sardana 2008). Kaplan and Atkinson (2001)
noted that an aggregate financial performance measure is a summary measure of the success of the organization’s strategies and operating tactics. Tangen (2003) gave the following as three of the most common financial measures; profit margins which measure how much a company earns relative to its sales and determines the company’s ability to withstand competition and adverse rising costs, falling prices or declining sales in the future; return on assets developed by DuPont in 1919 determines the company’s ability to utilize its assets; return on equity measures how well the company is doing for the investor.

Kaplan and Atkinson (2001) also gave the following as financial performance measures; First, Variance analysis, where it is a process of comparing a target level of revenues or costs with the realized level to compute a variance. It focuses exclusively on financial numbers that may suggest, but do not explicitly state, the cause of the variance. It triggers a search to determine the underlying cause of the variance. Secondly they gave transfer pricing, a tool that organizations use to coordinate the activities of organizational units. The objective of using this financial measure of performance is to drive the division units, acting in their self-interest and reacting to local signals (their own costs, prices and market opportunities), toward behavior that is best for the organization. Thirdly, some productivity measures will include a financial number in either the numerator or denominator that then becomes the financial control measure. Return on investment is a productivity ratio that assesses the organization’s use of capital. It measures the ability to generate return (the output) given level of investment (the input). Lastly, profit is the most widely used measure of performance for a business firm. It provides only an aggregate indication of the firm’s ability to achieve the goals that are crucial to its success.

2.4.1.1 Bank performance rating

Banks have been trying for several decades to apply conventional cost-accounting techniques to their business, that is, to figure the costs of individual operations and service with almost negligible results (Drucker 1995). Oolo (2007) observes that the bank performance rating (BPR) is borne out of the realization that ranking alone is not a good measure of the stability of a bank. This rating adopts 12 key stability indicators which essentially, are standard measures used internationally by rating agencies to grade banks.
Focus has been on four areas: First, Asset Quality: a bank's assets comprise mainly of its loans and advances to customers. When loans become non-performing, they hurt the bank's liquidity and impact negatively on its earnings. There are several assets quality assessment parameters. These include; non-performing loans provision to operating income and net non-performing loans to total loans. Secondly, Capital Adequacy: this ascertains whether a bank is adequately capitalized in relation to its liabilities. The parameters include core capital to total deposits, core capital to total risk weighted assets, and total capital to total risk weighted assets.

Thirdly, Earnings: A profitable bank is a bank with a good future but it is not just the sheer size of the profits that matters. The reason for averaging some of these ratios is to level the yearly swings. This is achieved by deriving the average over a two-year period. The following are used to assess earnings; return on average assets, average fund cost, return on average core capital, and efficiency ratio. Lastly, Liquidity: the objective of maintaining a certain liquidity ratio is to ensure that depositors are able to get their money as and when they require. For this assessment, the following are used: net loans to total deposits, quick assets to total liabilities, and quick assets to total deposits.

According to Oloo (2007) the overall ranking of banks in Kenya is based on 10 different criteria, (see appendix 1) which are summed up and the bank with the lowest total score is ranked first while the one with the highest score is ranked last. The ranking criterion is as follows: Total assets: is a measure that crunches the cumulative asset portfolio owned by banks. Here banks are ranked according to the volume of assets they own what adds to the bank's bottom line is the quality of assets it owns. Profit before tax: like all business entities, profitability is the objective of every bank. The higher the better. A high level of profitability is desirable, especially in relation to other peer banks, as it is best regarded as earnings generated in relation to the resources invested in the bank. It is the overall parameter upon which a bank's continued existence in business is justified. Return on Assets (ROA): this is a ratio of profits before tax to total assets. Shareholders are interested mainly in the return on their investment. On the other hand, taking a more managerial oriented view, the focus of interest becomes productivity of the firm's capital resources.
These views are well reflected in profitability ratios as represented by the return on total assets. A higher ratio is desirable.

Return on Capital Employed (ROCE): this ratio reflects the level of profitability on shareholders’ funds or capital invested in the business. Important to a bank’s capital position is a strong and steady earning with a low dividend payout, which allows earnings to be retained to boost the capital base and therefore avail more resources to the institution for the purpose of enhancing its profits. A higher ratio is desirable.

Cost of Fund: this measures the ability of the bank to acquire external funding cheaply to boost their investments. There are two main sources of funds for the bank; deposits from customers and borrowed funds, which the bank then uses to generate income. This ratio, therefore, is a measure of how cheaply, or expensively these funds have been acquired. It reflects the ease with which a bank is able to secure such funds. A lower rate is desirable.

Efficiency ratio: with narrowing net interest margins, non-interest income has become more important to banks in recent years. By taking the total operating expenses, which includes the bank’s overheads and weighing it against the total operating income, the resulting ratio is referred to as the cost-income ratio, also a measure of efficiency. A lower ratio is desirable.

Total Non-Performing Loans to Total Advances: Non-performing loans is the single most important threat that a bank can face. To assess its magnitude, it is weighed against the total portfolio of all loans and advances that the bank has extended. A high ratio of Non-performing loans to advances is a reflection of imprudent lending practices and poor credit management. It poses a threat to customer’s deposits. A low ratio is therefore desirable.

Non-Performing Loans Provision to Operating Income: this ratio measures a bank’s asset quality. Loans are assets for banks. But banks generally fail because of bad loans. When loans become non-performing, a bank is expected to make provisions for the eventuality that they may not be repaid. The provisions are specific to the individual loans. The ratio therefore measures how far the provisions are covered by the bank’s operating income. If the provisions suck up the entire operating income, the bank is in trouble. This ratio should be reviewed especially in relation to the bank’s current and future earning positions. However, higher provisions generally mean there are loan problems.

Core Capital/Total
deposit: this is a measure of the bank’s level of capital adequacy in relation to the amount of deposits held by the bank. This ratio measures the level of protection depositors have in the event of the bank winding-up. Depositors’ funds rank in priority before capital. So depositors only lose money to the extent that its deposit base is higher than its capital. The higher the ratio, the higher the level of protection available to depositors since the bank is able to absorb a greater level of unexpected losses before becoming insolvent and Quick assets/Total deposit Liabilities: this is one of the measures of a bank’s level of liquidity at any particular time. Liquidity in banking is difficult to measure because a bank’s liquidity position changes almost daily. However, we must strive to measure liquidity in the best way possible since it is the lack of liquidity, which may bring about the collapse of a bank if it becomes unable to pay its depositors. Therefore, a higher ratio is desirable.

2.4.1.2 Limitations of the financial measures

According to Kaplan and Norton (1996) financial measures are inadequate for guiding and evaluating organizations’ trajectories through competitive environments. They are lagging indicators that fail to capture much of the value that has been created or destroyed by managers’ actions in the most recent accounting period. The financial measures tell some, but not all, of the story about past actions and they fail to provide adequate guidance for the actions to be taken today and the day after to create future financial value.

According to Niven (2006) the following are some of the criticisms levied against over-abundant use of financial measures: firstly, not consistent with today’s business realities: Today’s organizational value creating activities are not captured in the tangible, fixed assets of the firm. Instead, value rests in the ideas of the people scattered throughout the firm, in customer and supplier relationships, in databases of key information, and cultures of innovation and quality. Traditional financial measures were designed to compare previous periods based on internal standards of performance. These metrics are of little assistance in providing early indications of customer, quality, or employee problems or opportunities. Secondly, driving by the rear view mirror: Financial measures provide an excellent review of past performance and events in the organization they represent a coherent articulation
and summary of activities of the firm in prior periods. However, this detailed financial view has no predictive power for the future.

Thirdly, tend to reinforced functional silos: financial statements are normally prepared by functional area which ultimately compiled as part of the overall organization picture. This approach is inconsistent with today’s organization in which much of the work is cross-functional in nature. Today teams comprised of many functional areas coming together to solve pressing problems and create value in never imagined ways. Traditional financial measurement systems have no way to calculate the true value or cost of these relationships. Fourthly, sacrifice long-term thinking: many change programs feature severe cost cutting measures that may have a very positive impact on the organization’s short-term financial statement. However, these cost reduction efforts often target the long-term value creating activities of the firm such as research and development, associate development, and customer relationship management. This focus on short-term gains at the expense of long term value creation may lead to sub-optimization of the organization’s resources. Lastly, financial measures are not relevant to many levels of the organization: financial reports by their very nature are abstractions. Abstraction in this context is defined as moving to another level leaving certain characteristics out. When financial statements are rolled up throughout the organization, information is compiled at a higher and higher level until it is almost unrecognizable and useless in the decision making of most managers and employees. Employees at all levels of the organization need performance data they can act on. This information must be imbued with relevance for their day-to-day activities.

However much the limitations of financial measures, according to Kaplan and Norton (1996), they continue to play an essential role in reminding executives that improved quality, response times, productivity and new products are means to an end, not the end itself. Financial measures determine whether improvements in customer satisfaction, quality, on-time delivery, and innovation are leading to improved financial performance and wealth creation for shareholders. Hence the scorecard obtains the benefits from keeping financial measurements as ultimate outcomes, without the myopia and distortions that come from an exclusive focus on improving short-term financial measures.
2.4.2 Approaches to Integrated Performance measurement

These approaches propose methodologies of aggregating various outputs and inputs, and finally determine relationships between the various components (Sardana 2008). They include the Performance Objectives- Productivity System which is a multi-criteria measurement methodology that lays stress on performance as accomplishment of performance objectives, the TOPP System which views performance measurement along the following three dimensions; effectiveness (satisfaction of customer needs), efficiency (economic and optimal use of enterprise resources) and ability to change (strategic awareness to handle changes) and the Advanced Manufacturing Business Implementation Tool for Europe (AMBITE) System, which can be used by senior managements to assess the impact of the strategic decisions (Sardana 2008).

2.4.3 Balanced Measures

A number of approaches have been developed in the recent past around "balanced philosophy" (Sardana 2008). These measures incorporate both the financial and non-financial performance measures. These include:

2.4.3.1 The Performance Prism

Neely et al. (2001) noted that the performance prism is a second generation measurement framework designed to assist performance measurement selection- the vital process of picking the right measures. It is a comprehensive measurement framework that addresses the key business issues to which a wide variety of organizations, profit and not-for-profit, will be able to relate. They also noted that performance prism consists of five interrelated facets; stakeholder satisfaction - who are the stakeholders and what do they want and need? Strategies – what are the strategies we require to ensure the wants and needs of our stakeholders are satisfied? Processes – what are the processes we have to put in place in order to allow our strategies to be delivered? Capabilities – they are the combination of people, practices, technology and infrastructure that together enable execution of the organization’s business processes (both now and in the future). The key question becomes: what are the capabilities we require to operate our processes? Stakeholder Contribution – it
recognizes the fact that not only do organizations have to deliver value to their stakeholders, but also that organizations enter into a relationship with their stakeholders which should involve the stakeholders contributing to the organization.

2.4.3.2 The performance pyramid/SMART system
Kennerley et al (2000) noted that the SMART (Strategic Measurement and Reporting Techniques) pyramid developed by Wang Laboratories (Lynch and Cross, 1991) also supports the need to include internally and externally focused measures of performance. It adds the notion of cascading measures down the organization so that measures at department and work centre level reflect the corporate vision as well as internal and external business unit objectives.

Tangen (2004) noted that the purpose of the performance pyramid is to link an organization’s strategy with its operations by translating objectives from the top down (based on customer priorities) and measures from the bottom up. Kennerley et al (2000) noted the strengths of this framework are that it ties together the hierarchical view of business performance measurement.

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

Koch and MacDonald (2006) noted that a bank’s balanced scorecard presents financial information comparing what a bank owns with what it owes and the ownership interest of stockholders. A balanced scorecard is a performance measurement system that strikes a balance between financial and operating measures, links performance to rewards and gives explicit recognition to the diversity of stakeholder interests, (Horngren, et al 1996).

Amaratunga, et al (2001) noted that the balanced scorecard is a management framework that measures the economic and operating performance of an organization. Horngren, et al
(1996) noted that good performance measures; related to the goals of the organization, balance long term and short-term concerns, reflect the management of key activities, be affected by actions of employees, be readily understood by employees, be used in evaluating and rewarding employees, be reasonably objective and easily measured and be used consistently and regularly.

According to Kaplan and Norton (1996), the balanced scorecard translates an organization’s mission and strategy into a comprehensive set of performance measures that provide a framework for a strategic measurement and management system. It retains an emphasis on achieving financial objectives but also includes the performance drivers of these financial objectives. An organization’s strategy, as noted by Kaplan and Norton (2004), describes how it intends to create value for its shareholders, customers and citizens. Kaplan and Norton (1996) noted that the balanced scorecard provides managers with the instrumentation they need to navigate to future competitive success. The scorecard provides a framework, a language, to communicate mission and strategy; it uses measurement to inform employees about the drivers of current and future success. By articulating the outcomes the organization desires and the drivers of those outcomes, senior managers hope to channel the energies, the abilities, and the specific knowledge of people throughout the organization toward achieving the long-term goals. The measures on a balanced scorecard should be used in a different way to articulate the strategy of the business, to communicate the strategy of the business, and to help. The scorecard measures organizational performance across four balanced perspectives: financial, customers, internal business processes, and learning and growth. Amaratunga et al (2001) noted that in viewing an organization in four perspectives, the balanced scorecard is intended to link short-term operational control to the long-term vision and strategy of the business.

Financial perspective is where financial performance measures indicate whether the organization’s strategy implementation and execution are contribution to bottom-line improvement. It shows the results of the strategic choices made in the other perspectives (Amaratunga et al, 2001). According to Kaplan and Norton (1996) the financial objectives serve as a focus for the objectives and measures in all the other scorecard perspectives. The
Balanced scorecard retains the financial perspective since financial measures are valuable in summarizing the readily measurable economic consequences of actions already taken. Financial objectives can differ considerably at each stage of a business’s life cycle. These stages include: Growth (Early stage), Sustain and Harvest (Mature phase). At growth stage, the overall financial objective will be the percentage growth rates in revenues, and sales growth rates in targeted markets, customer groups and regions. Most business units in the sustain stage will use a financial objective related to profitability, for example, operating income and gross margin, return on investment, return on capital employed and economic value added. Some business units will have reached a mature phase of their life cycle, where the company wants to harvest the investments made at growth and sustain stages. The main goal here is to maximize cash flow back to the corporation. The overall financial objectives for harvest stage businesses would be operating cash flow (before depreciation) and reductions in working capital requirement.

For each of the three strategies of growth, sustain and harvest, there are three financial themes that drive the business strategies; first, Revenue growth and mix (expanding product and service offerings, reaching new customers and markets, changing the product and service mix toward higher-value-added offerings and repricing products and services). Second, Cost reduction and productivity improvement (lowering the direct costs of products and services, reduce indirect costs and share common resources with other business units). Third, Asset utilization/investment strategy (reducing the working capital level required to support a given volume and mix of business, greater utilization of their fixed asset base by directing new business to resources currently not used to capacity, using scare resources more efficiently and disposing of assets that provide inadequate returns on their market value).

Amaratunga et al (2001) noted that the customer perspective captures the ability of the organization to provide quality goods and services, the effectiveness of their delivery, and overall customer service and satisfaction. Kaplan and Norton (1996) noted that in the customer perspective of the balanced scorecard, companies identify the customer and market segments in which they have chosen to compete. These segments represent the
sources that will deliver the revenue component of the company's financial objectives. The customer perspective enables companies to align their core customer outcome measures to targeted customers and market segments. It also enables them to identify and measure, explicitly, the value propositions they will deliver to targeted customers and market segments.

If business units are to achieve long-run superior financial performance, they must create and deliver products and services that are valued by customers. The customer perspective of the scorecard translates as organization's mission and strategy into specific objectives about targeted customers and market segments that can be communicated throughout the organization. We have two sets of measures for customer perspective. The first set represents generic measures that virtually all companies want to use (Core measurement group). The core measurement group includes measures of Market share, Customer acquisition, Customer retention, Customer satisfaction and Customer profitability. The second set of measures represents the performance drivers-differentiators-of the customer outcomes. The performance-driver measures capture the value propositions that the company will attempt to deliver to its targeted customer and market segments. For maximum impact, these measures should be customized to the targeted customer groups from whom the business unit expects its greatest growth and profitability to be derived.

Amaratunga et al (2001) noted that the business processes perspective is primarily an analysis of the organization’s internal processes. Internal business processes are the mechanisms through which performance expectations are achieved. This perspective focuses on the internal business results that lead to financial success and satisfied customers’ expectations. According to Kaplan and Norton (1996) for internal-business-process perspective, managers identify the processes that are most critical for achieving customer and shareholder objectives. In the balanced scorecard, the objectives and measures for the internal-business-process perspective are derived from explicit strategies to meet shareholder and targeted customer expectations. A generic value-chain model provides a template that companies can customize in preparing their internal-business-process perspective. This model encompasses three principal business processes:
Innovation: here the business unit researches the emerging or latent needs of customers, and then creates the products or services that will meet these needs. Operations: this is where existing products and services are produced and delivered to customers. This process has historically been the focus of most organizations' performance measurement systems and Post-sale service which refers to service to the customer after the original sale or delivery of a product or service. Some companies have explicit strategies to offer superior post-sale service, for example, through offering training programs for customers' employees to help them use the equipment or system more effectively and efficiently.

Amaratunga et al. (2001) noted that the innovation and learning perspective looks at such issues, which includes the ability of employees, the quality of information systems, and the effects of organizational alignment in supporting accomplishment of organizational goals. According to Kaplan and Norton (1996), the objectives in the learning and growth perspective provide the infrastructure to enable ambitious objectives in the other three perspectives to be achieved. Objectives in the learning and growth perspective are the drivers for achieving excellent outcomes in the first three scorecard perspectives. Three principal categories for the learning and growth perspective: Employee capabilities; information systems capabilities and motivation, empowerment and alignment. The three core employee measurements are employee satisfaction, employee retention and employee productivity.

According to Pearce and Robinson (2007), a properly constructed scorecard is balanced between short-term and long-term measures, financial and non-financial measures, and internal and external performance perspectives. Achieving one perspective's targets should lead to desired improvements in the next perspective and so on, until the company's performance increases overall. The multiple measures on a properly constructed balanced scorecard should consist of a linked series of objectives and measures that are both consistent and mutually reinforcing (Kaplan and Norton, 1996).

According to Kaplan and Norton (2004), if an organization's intangible assets represent more than 75 percent of its value, then its strategy formulation and execution need to explicitly address the mobilization and alignment of intangible assets. For maximum
impact, the measurement system should focus on the entity’s strategy—how it expects to create future, sustainable value. In designing balanced scorecards an organization must measure the critical few parameters that represent its strategy for long-term value creation. Without a comprehensive description of strategy, executives cannot easily communicate the strategy among themselves or to their employees. Without a shared understanding of the strategy, executives cannot create alignment around it. And without alignment, executives cannot implement their new strategies for the changed environment of global competition, deregulation, customer sovereignty, advanced technology and competitive advantage derived from intangible assets, principally human and information capital. Most companies don’t succeed in implementing their strategies. Organizations, that made the balanced scorecard their cornerstone of their management systems, implemented new strategies effectively and rapidly. They used balanced scorecard to describe their strategies and then linked their management systems to the balanced scorecard and hence to their strategies. They demonstrated a fundamental principle underlying the balanced scorecard, “if you can measure it, you can manage it” (See figure 1).
**FIGURE 1: A Different Management System for Strategic Implementation**

- The strategy is the reference point for the entire management process
- The shared vision is the foundation for strategic learning

**Communicating and Linking**

- Goal alignment exists from top to bottom.
- Education and open communication about strategy are basis for employee Empowerment
- Compensation is linked to strategy

**Balanced scorecard**

- Stretch targets are established and accepted
- Strategic initiatives are clearly identified
- Investments are determined by the strategy
- Annual budgets are linked to long-range plans

**Strategic feedback and Learning**

- Feedback system used to test the hypotheses on which strategy is based
- Team problem solving
- Strategy development is a continuous process

According to Kaplan and Norton (2008) breakdowns in a company’s management system, not managers’ lack of ability or effort, are what cause a company’s underperformance. By management system, they are referring to the integrated set of processes and tools that a company uses to develop its strategy, translate it into operational actions, and monitor and improve the effectiveness of both. The failure to balance the tensions between strategy and operations is pervasive: By creating a closed-loop management system, companies can avoid such shortfalls. The loop comprises five stages, beginning with strategy development, which involves applying tools, processes and concepts such as mission, vision and value statements; SWOT analysis; shareholder value management; Competitive positioning; and core competencies to formulate a strategy statement. That statement is then translated into specific objectives and initiatives, using other tools and processes, including strategy maps and balanced scorecards. Strategy implementation in turn, links strategy to operations with a third set of tools and processes, including quality and process management, re-engineering, process dashboards, rolling forecasts, activity-based costing, resource capacity planning and dynamic budgeting. As implementation progresses, managers continually review internal operational data and external data on competitors and the business environment. The linkages should incorporate both cause-and-effect relationships, and mixtures of outcome measures and performance drivers.

Hence the research study will look at the challenges faced while integrating the balanced scorecard measurement towards the overall performance management of an organization through analyzing one of the banks in Kenya that has implemented it. The study will involve finding out the challenges that the Bank faced in implementing the scorecard.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

This was a case study since the unit of analysis is one organization that is, Co-operative Bank of Kenya Ltd. According to Yin (1989) a case study allows an investigation to retain the holistic and meaningful characteristics of real life events. Kothari (2004) noted that a case study involves a careful and complete observation of a social unit. It is a method of study in depth rather than breadth and places more emphasis on the full analysis of a limited number of events or conditions and their interrelations. According Cooper and Schindler (1998) case study allows evidence to be verified and avoids missing data. A single, well-designed case study can provide a major challenge to a theory and provide a source of new hypotheses and constructs simultaneously.

3.2 Data collection

The study involved collecting primary data through the use of questionnaires which contain both open-ended and closed questions. The questionnaire contained two parts, section A and B (see appendix 2). The questionnaire was administered through drop and pick method and for those who are far from the Head office was sent through postal services. The data was to be collected from 140 key informants, namely Human Resource Manager and other heads of departments. This is because they are involved in strategic decision making, frequently use balanced scorecard to measure and manage performance of the employees and therefore able to give relevant responses. Secondary data was used to provide any additional useful information. It was obtained from in house magazines, in house training materials, periodic performance reviews and guidelines and any other relevant materials.
3.3 **Data analysis**

Content analysis was used. According to Cooper and Schindler (1998) content analysis measures the semantic content or the *what* aspect of a message. Its breadth makes it a flexible and wide ranging tool that may be used as a methodology or as a problem-specific technique. The emerging patterns were further analyzed using descriptive statistics such as percentages.
CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter discusses the study findings as to the challenges faced by the Co-operative Bank of Kenya in integrating balanced scorecard in the performance management process. From a total of 140 questionnaires sent out to respondents, fifty eight of them were received. This represented a response rate of forty one (41%) percent.

4.2 Characteristics of respondents

The characteristics of respondents include the years of experience, the level of management at which the respondents lie. Out of the respondents received, thirty nine (39%) percent said to have worked in the Bank between one and nine years, fifty (50%) percent have worked between ten and twenty four years and eleven (11%) percentage between twenty five and thirty years (see Figure 1).

Figure 1: Years of work
Thirty nine (39\%) percent of the respondents received were involved in the development and implementation of the balanced scorecard in the Bank while sixty one (61\%) percent were not involved (see Figure 2).

**Figure 2: Percentage of respondents involved in the development and implementation of balanced scorecard**

Fifty six (56\%) percent of the respondents noted that the balanced scorecard was cascaded from the external consultants to the Human resource department to the top management then to middle management, lower management and finally to employees. Eleven percent (11\%) noted that the balanced scorecard was cascaded from the external consultants to Human resource department to middle management, lower management and finally to employees. Seventeen percent (17\%) noted that the Bank cascaded the balanced scorecard from the external consultants to top management then middle management then finally to employees. Six percent (6\%) noted that the Bank cascaded the balanced scorecard from external consultants to Human resource department and finally to employees. The three percent (3\%) noted the following as the approaches used by the Bank to cascade the balanced scorecard:

HRD→ Top management→ employees and Top management→ HRD→ employees.

Seven percent (7\%) left the question blank (see Figure 3).
The Figure below (see Figure 4) summarizes the attitude and perception of employees regarding the introduction of balanced scorecard in the Bank. Thirty nine percent (39%) of the respondents said that the attitude and perception of employees was negative, thirty three percent (33%) said it was indifferent while twenty eight (28%) percent said it was positive.
4.3 Challenges faced in integrating the balanced scorecard

The following were the responses regarding the challenges that the bank faces in integrating the balanced scorecard in the performance management process:

Fifty six percent (56%) of the respondents agree that ensuring that each business unit has its own strategic measures in balanced scorecard that matter most to them presents a challenge to the Bank, thirty three percent (33%) strongly agreed while eleven percent (11%) disagreed (see Figure 5).

Figure 5: The challenge of ensuring that each business unit has its own strategic measures in balanced scorecard presents a challenge to the Bank
Figure 6 shows that the percentage response on whether ensuring that the balanced scorecard measures are the same across the entire bank posed a challenge to the Bank. Forty percent (40%) of the respondents strongly agree, thirty three percent (33%) agree, fourteen percent (14%) strongly disagree and ten percent (10%) disagree.

Sixty one percent (61%) of the respondents disagreed on the balanced scorecard being complex and cumbersome because it has too many measures, eleven percent (11%) strongly disagreed while twenty eight percent (28%) agreed (see Figure 7).
Sixty one percent (61%) of the respondents agreed that ensuring the balanced scorecard measures are reviewed whenever the organization experiences fundamental changes presents a challenge to the bank. Seventeen percent (17%) strongly agree while twenty two percent (22%) disagree (see Figure 8).

Figure 8: Percentage response on the extent that ensuring the balanced scorecard measures are reviewed whenever the organization experiences fundamental changes presents a challenge to the Bank

![Frequency response](image)

Twenty two percent (22%) of the respondents disagreed that empowering employees to participate effectively in the development and implementation of the balanced scorecard presents a challenge to the bank. Forty four percent (44%) agreed while thirty three percent (33%) strongly agreed (see Figure 9).

Figure 9: Challenge of empowering employees to participate effectively in the development and implementation of balanced scorecard

![Degree of Agreement/Disagreement](image)
Fifty five percent (55%) of the respondents agreed that directly linking the balanced scorecard performance indicators to the expected outcomes present a challenge to the Bank. Twenty eight percent (28%) strongly agreed while seventeen percent (17%) disagreed (see Figure 10).

Figure 10: Percentage response on the extent that directly linking the balanced scorecard performance indicators to the expected outcomes presents a challenge to the Bank

Sixty one percent (61%) of the respondents agreed that using balanced scorecard to translate goals to lower levels of the unit presents a challenge to the Bank, twenty four percent (24%) disagreed, fourteen percent (14%) agreed while two percent (2%) of the respondents left the question blank (see Figure 11).

Figure 11: Challenge faced in using the balanced scorecard to translate goals to lower levels of the unit
Sixty seven percent (67%) of the respondents agreed that using balanced scorecard to encourage the use of metrics in assessment and planning efforts present a challenge to the Bank, twenty three percent (23%) strongly agree while ten percent (10%) disagree (see Figure 12).

**Figure 12: Challenge faced in using the balanced scorecard to encourage the use of metrics in assessment and planning efforts**

![Chart showing percentage of respondents' agreement]

Sixty seven percent (67%) of the respondents agreed that using balanced scorecard to influence the annual business planning and budgeting process presents a challenge to the Bank, seventeen percent (17%) disagree while nine percent (9%) strongly agree (see Figure 13).

**Figure 13: Challenge faced in using the balanced scorecard to influence the annual business planning and budgeting process**

![Chart showing percentage of respondents' agreement]
Forty four percent (44%) of the respondents agreed that using balanced scorecard to establish a link between non-financial and financial measures present a challenge to the Bank, twenty eight percent (28%) disagree, twenty two percent (22%) strongly agree while six percent (6%) left the question blank (see Figure 14).

Figure 14: Extent of challenge presented by use of the balanced scorecard to establish a link between non-financial and financial measures

Fifty six percent (56%) of the respondents agreed that aligning individual financial targets to departmental financial goals through balanced scorecard present a challenge to the Bank, twenty two percent (22%) strongly agree, six percent (6%) strongly disagreed while seventeen percent (17%) disagreed (see Figure 15).

Figure 15: Challenge of aligning individual financial targets to the departmental financial goals through balanced scorecard
Sixty two percent (62%) of the respondents agree that ensuring the balanced scorecard measures reflect customer and stakeholder’s expectations present a challenge to the Bank. Thirty five percent (35%) disagree while three percent (3%) strongly disagree (see Figure 16).

Figure 16: The challenge of ensuring balanced scorecard measures reflect customer and stakeholder’s expectations

Fifty percent (50%) of the respondents agree that using balanced scorecard measures to highlight the training needs of employees present a challenge to the Bank. Forty four percent (44%) disagreed while six percent (6%) strongly agreed (see Figure 17).

Figure 17: Percentage response on the extent of challenge faced in using balanced scorecard measures to highlight training needs of employees
Fifty two percent (52%) of the respondents agreed that linking balanced scorecard measures to the reward system present a challenge. Eighteen percent (18%) strongly agreed, twenty percent (20%) disagreed while ten percent (10%) left the question blank (see Figure 18).

Figure 18: Extent of challenge faced in linking balanced scorecard measures to reward system

![Figure 18](image)

Forty nine percent (49%) of the respondents agreed that using balanced scorecard to see the correlation among the four perspectives of performance presents a challenge to the Bank. Thirty five percent (35%) disagreed while seventeen percent (17%) strongly agreed (see Figure 19).

Figure 19: Challenge experienced in using balanced scorecard to correlate the four perspectives of performance

![Figure 19](image)
Fifty six percent (56%) of the respondents disagreed while forty four percent (44%) agreed that using balanced scorecard to monitor performance and take appropriate action present a challenge to the Bank (see Figure 20).

**Figure 20: Challenge of using balanced scorecard to monitor performance and take appropriate action**

Sixty one percent (61%) of the respondents agreed that using balanced scorecard to identify the needs and improvements to the Bank’s systems in order to improve the performance of the other perspectives present a challenge to the Bank. Twenty two percent (22%) disagreed while seventeen percent (17%) strongly agreed (see Figure 21).

**Figure 21: Challenge of using balanced scorecard to identify the needs and improvements to Bank’s systems in order to improve the performance of the other perspectives**
The following were the responses given in regard to other challenges the Bank faces in integrating the balanced scorecard in the performance management process:

**Table 1: Other challenges faced by the Bank**

<table>
<thead>
<tr>
<th>No.</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ensuring that there is equity in the reward system such that outstanding performers are appropriately rewarded</td>
</tr>
<tr>
<td>2</td>
<td>Ensuring that objectives or targets set for each and every department or branch are SMART and challenging so that no one department or branch has an unfair advantage</td>
</tr>
<tr>
<td>3</td>
<td>Inculcating the culture of ownership of the system to the entire staff as some still feel the previous system was better than balanced scorecard (change management)</td>
</tr>
<tr>
<td>4</td>
<td>Balanced scorecard being subjected to the bell’s curve that HRD has put in place for appraisers to use hence being unfair to the appraises (employees)</td>
</tr>
<tr>
<td>5</td>
<td>Balanced scorecard not capturing all performance because they cannot be measured hence providing a grey area which can be interpreted anyhow.</td>
</tr>
<tr>
<td>6</td>
<td>To properly measure the behavioral part of the balanced scorecard</td>
</tr>
</tbody>
</table>
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of study findings, conclusion and recommendations arising as well as limitations of the study and suggestions for further study.

5.2 Summary

The objective of the study was to identify the challenges faced by the Co-operative Bank of Kenya Limited in integrating the balanced scorecard in the performance management system. From the study findings, integrating the balanced scorecard in the performance management process has its own challenges. The balanced scorecard helps management to focus the organizations on strategies for long-term success. Hence, it is equally important that management should take sufficient time to integrate the balanced scorecard to its performance management process.

Some of the challenges as noted from the findings include choosing the right strategic measures that each business unit can use in the balanced scorecard. The challenge here is measuring the wrong things especially those that are easy to measure like the financial ones without identifying those that need to be measured and are absolutely vital to the business unit. The second challenge is that of ensuring that the balanced scorecard measures are reviewed whenever the organization experiences fundamental changes. Banks operate in a turbulent environment and therefore their balanced scorecard should be dynamic and continually reviewed, assessed and updated to reflect new competitive, market and technological conditions otherwise this may lead to it being outdated and not help the organization achieve its objectives in order to survive in the business environment.

If an organization does not empower its employees to participate effectively in the development and implementation of the balanced scorecard, employees would not own
the balanced scorecard instead they will resist its successful implementation into the performance management process. Also if employees are not involved in determining the measures in the balanced scorecard, they are likely to respond to measures in a very different way than was intended by management, leading to poorer results. Another challenge is directly linking the balanced scorecard performance indicators to the expected outcomes. Here employees at all levels would not know what and how their contributions lead to the achievement of the overall strategy. This will cause them not to focus on the local activities that have the most direct effect on the strategic measures and objectives.

Another challenge is the use of the balanced scorecard to assist in decision making process. Balanced scorecard should encourage the use of metrics in assessment and planning efforts and also influence the annual business planning and budgeting process. If the balanced scorecard is not able to assist, the organization may not be able to define the resources needed to accomplish the strategic goals. The balanced scorecard should also highlight the training needs of employees. If it does then employees would have it difficult to establish areas of work that need improve and areas that need to continue in the same in order to achieve the overall objectives of the organization.

5.3 Conclusion and recommendations

To overcome the challenges faced while integrating the balanced scorecard in the performance management process, the following can be done: Effective and open communication with employees on the purpose and use of balanced scorecard. Communicating with them in the right way might help them not feel threatened but actually see it as a way of understanding what is working, what is not and what they need to do differently in the future.

Secondly each business unit should determine measures for its own scorecard. These measures should describe what each unit must do to accomplish its objectives. This helps individuals link their contributions to the organization’s overall objective. Thirdly organizations should develop a reasonable timeline for development and
implementation and then commit the appropriate level of resources to meet the implementation schedule.

Fourthly cascading the scorecard throughout the organization provides an excellent method of reinforcing strategies. By cascading the scorecard a consistent language is developed throughout the organization and everyone understands and acts on the same strategies. It also increases employees’ intrinsic motivation, a method that leads to innovation and problem solving, create a line of sight from the employee back to the company’s long-term strategies and also ensures goal alignment from top to bottom.

5.4 Limitations of the study
This study involves only one organization and this cannot be used for generalization purposes. One organization is uniquely different from others in the industry and findings from one organization might differ in other organization hence cannot generalize the findings.

The study was undertaken within a short period of time and there was limited time to seek opinions from every employee in the bank. The data was only collected from representative group.

5.5 Suggestions for further study
This study may be useful for reference to future research works on challenges of integrating the balanced scorecard in the performance management process. Other researches could be conducted in other financial institutions as the findings would greatly contribute to performance management literature. In future, perhaps, there will be a need to conduct a research study on the challenges faced in integrating the balanced scorecard in the performance management process in depth and across the industry. A study could also be conducted to find out what can be used to overcome the challenges faced while integrating the balanced scorecard in the performance management process.
References


APPENDICES
## Appendix I: Overall Bank Performance Ranking

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Total score</th>
<th>Quick assets/ Total deposits</th>
<th>Core-capital/ Total deposits</th>
<th>Loan loss provisions/ Total advances</th>
<th>Efficiency ratio</th>
<th>Return on Capital Employed</th>
<th>Return on Assets</th>
<th>Profit before Tax</th>
<th>Total assets</th>
<th>Banks</th>
</tr>
</thead>
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<td>1</td>
<td>153,017</td>
<td>13,342</td>
<td>21.7</td>
<td>41.6</td>
<td>3.9</td>
<td>10.8</td>
<td>11.6</td>
<td>3.4</td>
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<td>39.5</td>
<td>4.3</td>
<td>10.6</td>
<td>11.3</td>
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<td>10.8</td>
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<td>41.8</td>
<td>3.7</td>
<td>11.1</td>
<td>11.6</td>
<td>3.5</td>
<td>10.8</td>
<td>Bank of America</td>
</tr>
<tr>
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<td>152,257</td>
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<td>21.4</td>
<td>40.8</td>
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<td>10.7</td>
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(Source: Owing 2007 "The Banking survey 2007")

![Image](https://via.placeholder.com/150)
Appendix 2: Questionnaire

QUESTIONNAIRE

SECTION A

1. How long have you worked in Co-operative Bank? (Specify in years)

2. Which branch or department do you currently work in?

3. What is your position (formal title) in the bank?

4. Were you involved in the development and implementation of balanced scorecard?
   (Select only one)
   - Yes
   - No

5. Which of the following approaches was used by the bank to implement balanced scorecard
   (Select only one)
   - External Consultants → HRD → Top Management → Middle management → Lower management → Employees
   - External Consultants → HRD → Middle management → Employees
   - External Consultants → Top management → Middle management → Employees
   - External Consultants → HRD → Employees
   - Others (Specify)

6. The attitude and perception of employees regarding the introduction of balanced scorecard was
   (Select only one)
   - Negative
   - Indifferent
   - Positive
QUESTIONNAIRE

SECTION B

To what extent do you agree that each of the following presents a challenge to the Bank?

(SD-Strongly disagree D- Disagree A- Agree and SA-Strongly agree).

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<th>SD</th>
<th>D</th>
<th>A</th>
<th>SA</th>
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<td>Ensuring that each business unit has its own strategic measures in balanced scorecard that matter most to them</td>
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<td>Ensuring that balanced scorecard measures are the same across the entire bank</td>
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<td>Our balanced scorecard is complex and cumbersome because it has too many measures</td>
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<td>Ensuring that we review the balanced scorecard measures whenever the organization experiences fundamental changes e.g. review of overall strategy</td>
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<td>Empowering employees to participate effectively in the development and implementation of balanced scorecard</td>
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<td>Directly linking our balanced scorecard performance indicators to the expected outcomes (such that employees understand the metrics used)</td>
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<td>Using balanced scorecard to translate goals to lower levels of the unit</td>
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<td>Using balanced scorecard to encourage the use of metrics in assessment and planning efforts</td>
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<td>Using balanced scorecard to influence the annual business planning and budgeting process in the bank</td>
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<td>Using balanced scorecard to establish a link between non-financial measures to financial measures</td>
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<td>Aligning individual financial targets to the departmental financial goals through balanced scorecard</td>
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<td>Ensuring that balanced scorecard measures reflect our customer and stakeholder’s expectations</td>
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<td>Using balanced scorecard measures to highlight the training needs of employees</td>
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<td>Linking balanced scorecard measures to the reward system</td>
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<td>Using balanced scorecard to see the correlation among the four perspectives of performance (that is Financial, Customer, Internal business process and Learning &amp; growth perspectives)</td>
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<td>Using balanced scorecard to monitor performance and take appropriate action</td>
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<td>Using balanced scorecard to identify the needs and improvements of the organization’s systems in order to help improve the performance of the other perspectives</td>
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What other challenges do you think the Bank faces?
Appendix 3: Letter of Introduction

«First_Name» «Middle_Name» «Last_Name»,
«Department/Branch»

Dear «Title (Sir/Madam)»,

RE: REQUEST FOR YOUR PARTICIPATION IN MY RESEARCH WORK

I am a student in the School of Business, University of Nairobi pursuing a Master of Business Administration Degree Program. Currently I am undertaking a Management Research project titled "Challenges faced by the Co-operative Bank of Kenya in integrating balanced scorecard in the performance management process" in order to fulfill the degree requirements.

I highly appreciate if you would spare some time to kindly complete the attached questionnaire for me. Please be assured that the information you will provide is strictly for academic purposes only.

Thank you.

Yours faithfully,

Elizabeth Macharia
Library