APPLICATION OF BALANCED SCORE CARD IN CREATING COMPETITIVE ADVANTAGE AT KENYA COMMERCIAL BANK LIMITED

BY

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DECLARATION

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

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STEPHEN WANJAU KAGUNYI        DATE

This research project has been submitted for examination with my approval as the University Supervisor.

Signed ................................................ Date.................................

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DEDICATION

This study is dedicated to my loving family, for their support, encouragement and patience during the entire period of my study and continued prayers towards successful completion of this course.
ACKNOWLEDGEMENTS

Firstly, I thank Almighty God for his guidance and providence which enabled us to undertake this project that was involving in term of time and resources. I also wish to express our sincere appreciation to my wife for her understanding and support during the project. I would also like to express my sincere thanks to the supervisor Eliud Mududa for having agreed to supervise this research paper and his patience in reading the drafts and occasionally guiding me, without which the research would not have been a reality.
## ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>ATMs:</td>
<td>Automated Teller Machine</td>
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<td>BSC:</td>
<td>Balanced Scorecard</td>
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<tr>
<td>CBK:</td>
<td>Central Bank of Kenya</td>
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<td>KBA:</td>
<td>Kenya Bankers Association</td>
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<td>KCB:</td>
<td>Kenya Commercial Bank</td>
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<td>SMEs:</td>
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ABSTRACT

The main objective of this study was to determine the competitive advantage associated with the application of balance score card by Kenya Commercial Bank. The Kenya Commercial Bank adopted this tool to manage performance and implement strategy in the year 2005. The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals thus creating a competitive edge. The objective of this study was to determine the application of this tool to this end and if there are any challenges that have been faced in the process. To achieve this purpose, a qualitative research design was carried out. The interviewees were human resources director, the chief finance officer, the corporate banking director, the country head of treasury and the chief operating officer. The findings indicate that the balanced scorecard has been a useful tool for bringing the attainment of the mission of the Bank. This was 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 study concludes that Kenya Commercial Bank serve as a good example of effective application of Balanced Scorecard. The Balanced Scorecard adopted at Kenya Commercial Bank addresses strategic issues regarding beneficiary/ stakeholders, financial stewardship, building processes and organization capacity. This Balanced Scorecard seeks to point the organization towards improved performance and increased contribution to social values. The study recommends that the Kenya Commercial Bank continuously improves on the balanced scorecard technique in order to remain relevant not only to its own operations but also to the changing macro-environmental dynamics. Some of the inadequacies of the technique have been attributed to lack of sufficient training of staff involved, in order for them to derive from the vision of the bank measures that not only reflect what their day to day work entails, but also ensure that these are SMART. To this end, it is suggested that more training of staff is required. The study suggests that further research can be done to determine whether the separation of rewards (bonus payment) from performance management via the balanced scorecard can help achieve the process of performance management through strategy implementation.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The intangible assets have become the major sources for competitive advantage such as balance scorecard. The application of balance score card, calls for tools that describe knowledge-based assets and the value-creating strategies that these assets make possible (Blair, 2005). Without such tools, companies had difficulties in managing something they cannot describe or measure. Companies also have had problems attempting to implement knowledge-based strategies in organizations designed for industrial-age competition (Galbraith, & Lawler, 2003). Strategy-Focused organizations use the Balance Scorecard to place strategy at the center of their competitive edge. The Balanced Scorecard makes a unique contribution by describing strategy in a consistent and insightful way. The simple act of describing strategy via strategy maps and scorecards is an enormous breakthrough.

This study is in the body of knowledge under game theory and stakeholder theory. The theories postulate a formal language to describe conscious goal-oriented decision making process involving one or more players in thriving for competitive advantage. The solution concepts derived from game-theory may be thought of as normative or descriptive views of multi-person decision-making (Shubik 1972). Porter (2000) further argues that a company’s strength ultimately could be placed into two categories: cost advantage or differentiation. Application of those strengths in either a broad (industry wide) or narrow (market segment) scope results in three generic strategies: Cost leadership, differentiation and focus. Competitive advantage is an advantage over competitors gained by offering
consumers greater value, either by means of lower prices or by providing greater benefits and services that justifies a higher price (Porter, 1985).

Among the long row of benefits of applying balanced scorecard in the banking industry competitive advantage are reduced time-frames, improved decisions and better solutions, improved processes. Kenya Commercial Bank organizations have difficulty establishing mechanisms that translate strategic vision into concrete goals and actions. Then, every single business, public service, project, or simply any kind of prolonged group effort, will benefit from the power of the Balanced Scorecard. To best capture the strategic and competitive value of their information storehouses, top-level managers must abandon the belief that traditional business intelligence offers adequate enterprise analysis. Rather, it is vital for managers to expand their analysis perspective to include business performance management capabilities.

1.1.1 The Concept of Balanced Scorecard

Horngreen (2001) defines a balanced scorecard as a performance measurement system that strikes a balance between financial and operating measures, links performance to rewards and glues explicit recognition to the diversity of stakeholders’ interests. Simons (2002) looks at balanced scorecard as a performance measure which communicates the multiple linked objectives that companies must achieve to compete based on their tangible capabilities and innovations. The specific objectives and measures of organizations balanced scorecard are derived from the firm’s vision and strategy (Chow,
According to Kaplan and Norton (2001), many companies already have performance management systems that incorporate financial and non-financial measures.

The Balanced Scorecard (BSC) is a valuable management system which is used for different companies to elucidate and translate their strategies into execution; nevertheless the BSC has not been planned for container terminals and ports users' satisfaction in a great extent. The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals thus creating a competitive edge. The basic idea is that learning is necessary to improve internal business processes; improving business processes is necessary to improve customer satisfaction; and improving customer satisfaction is necessary to improve financial results.

The objectives and the measures for the Balanced Scorecard are more than just a somewhat ad hoc collection of financial and non-financial performance measures; they are derived from a top-down process driven by the mission and strategy of the business unit that creates competitive advantage. The balanced scorecard should translate a business unit’s mission and strategy into tangible objectives and measures. The measures represent a balance between external measures for shareholders and customers, and internal measures of critical business processes, innovation, and learning and growth. The measures are balanced between outcome measures-the results from past efforts-and the
measures that drive future performance. In addition the scorecard is balanced between objective, easily quantified outcome measures and subjective, somewhat judgmental, performance drivers of outcome measures (Kaplan and Norton 2001).

1.1.2 The Concept of Competitive Advantage

Competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and services that justifies a higher price (Porter, 1985). Porter (1985) defines competitive advantage along the three dimensions of cost, differentiation and focus with competitors trying to set themselves apart from those perceived as “stuck in the middle” without competitive advantage. He suggests that being able to produce an event at a lower cost compared to the competitors is one-way to competitive advantage. Competitive advantage is the strategic advantage one business has over its rivals within its competitive industry. It strengthens and positions a business better within the business environment (Makena, 2012). According to Porter (1985), it is the creating of a position in the market industry that can be sustainable in the long run. According to Porter (1985), there are two basic types of competitive advantage; cost advantage, and differentiation advantage.

Competitive advantage exists when the firm is able to deliver the same benefits as competitors but at a lower cost (advantage), or deliver benefits that exceed those of competing products (differentiation advantage) (Makena, 2012). A competitive advantage therefore enables an organization to deliver superior value to its customers and deliver superior profits for itself. Hofer and Schendel (1978, p. 7) introduced the concept of
competitive advantage where they explained that it is obtained by companies through allocation of resources and development of a unique resource positioning distinct from other competitors.

Core competencies that differ from those found in competing firms would be considered distinctive competencies. Distinctive competencies that are identified and nurtured throughout the firm, allowing it to execute effectively so as to provide products or services to customers that are superior to competitor’s offering, become the basis for a lasting competitive advantage. Executives, enthusiastic about the notion that their job as strategists was to identify and leverage core competencies into distinctive ones that create sustainable competitive advantage, (Kaplan and Norton, 2001). It should be noted that the Competitive advantage of a container terminal in port is achieved by the integrated scheduling of various types of handling equipment at an automated container terminal. It can be seen that use of BSC as a helpful tool may cause efficient scheduling of the equipment reduces the time.

1.1.3 Banking Industry in Kenya

The Banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK). The banking sector was liberalized in 2005 and exchange controls lifted. The CBK, which falls under the Minister for Finance docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. As at December 2011 there were forty three
banking and non-bank institutions, fifteen micro finance institutions and one hundred and nine foreign exchange bureaus. The locally owned financial institutions comprise 3 banks with significant government shareholding and 28 privately owned commercial banks. The foreign owned financial institutions comprised 8 locally incorporated foreign banks and 4 branches of foreign incorporated banks. Of the 42 private banking institutions in the sector, 71% are locally owned and the remaining 29% are foreign owned (Central Bank of Kenya, 2012).

Players in this sector have experienced increased competition over the last few years resulting from increased innovations among the players and new entrants into the market. During the on-site inspections all risks are evaluated and necessary remedial actions are recommended for application of balance score card. The banks have come together under the Kenya Bankers Association (KBA), which serves as a lobby for the banking sector’s interests. In the banking industry the subsidiaries quest for survival implies the development of its own strategy within the limits imposed by the Multinationals.

1.1.4 Kenya Commercial Bank Limited

KCB is a public listed Company with its shares trading at the NSE (Nairobi stock exchange). It is owned by the government 26.2% and 73.8% by the public. Government shareholding has since increased to 23.6%. The history of Kenya Commercial Bank (KCB) dates back to 1896 when its predecessor, the National Bank of India opened an outlet in Mombasa. Eight years later in 1904, the bank extended its operations to Nairobi, which had become the headquarters of the expanding railway line to Uganda. The next
The Kenya commercial banks have turned organizational and operational strategies into a series of objectives and measurable indicators. At this time, bank manager have re-examine and modify the strategy, and BSC provides the opportunity and means of communication about business strategy on the specific meaning and the implementation. KCB SME products designed for promoting international trade range from letters of credit both for imports and exports, documentary collections both for import and exports, various types of bank guarantees, bills discounting, open account trading and Advance

1.2 Research Problem

Under fierce competition, how to gain competitive advantages is the main concern of firms. Carefully planned vision and mission can lay the groundwork for the future so strategies are considerably important to the long term development of enterprises. It's not easy to concretely carry out strategies of an enterprise in every sector or department. The
main purpose of a balanced scorecard is to put strategies of an enterprise into action in order to create competitive advantages for the enterprise. To be more specific, a balanced scorecard can precisely inform the owner that besides financial performance, strategies have to consider the effects caused by clients, internal processes of firms and the learning and development of employees (Su, 2000). These effects have long and fundamental decisive influences on the future development and competitiveness of the enterprise. Due to the reasons aforementioned, a balanced scorecard is not only a tool to control strategies and performance assessment, but also an efficient instrument to manage strategies.

Balanced Scorecard is not only an indicator of competitive advantage at Kenya Commercial Bank, Kenya Commercial Bank focuses on scorecard to clarify and translate vision and strategy into specific strategic objectives which link the overall organizational strategy to the departmental and individual objectives. The performance of individuals, departments and the entire organization is then measured against the strategic objectives. In order to ensure strategic focus, all objectives and measures in the other scorecard perspectives should be linked to achieving one or more objectives in the financial perspective ultimately. The study seeks to investigate the extent to which. The use of the Balanced Scorecard breaks the traditional single-use financial indicators methods which measure performance. It adds the future drivers in the financial indicators, which is customer factors, internal business processes and employee learning and growth.

Scholars have studied the role of the balanced scorecard in different sectors. Karimi. (2010) carried out a case study of Safaricom, on the use of the balanced scorecard in
strategy development and implementation; Ogendo, (2010), carried out a study on the application of the balanced scorecard in strategy implementation by Unilever Tea Kenya Limited. With regard to studies on strategy implementation, Karani, (2009) examined strategy implementation and BSC at KenGen. Mucheru, (2008), carried out a survey on the application of the balanced scorecard in performance management among commercial banks in Kenya; these researches have focused on audit firms and there is a need to validate her findings in a different context. Balanced scorecard has gained a lot of popularity as a tool for competitive advantage; it has its own challenges which this study seeks to identify. Due to the contextual, sectorial and managerial differences among organizations, the application of the balanced scorecard and the challenges faced in the application of the same would not be assumed to be similar, unless empirical studies demonstrate so. How has Kenya Commercial Bank applied balance score card to gain competitive advantage?

1.3 Research Objective

The objective of this study was to determine the competitive advantage associated with the application of balance score card by Kenya Commercial Bank.

1.4 Value of the Study

The findings of this study are expected to assist the management of Kenya Commercial Bank to exercise organization control by diagnosing the training and development needs of the future. It might also provide information to assist in the human resource
management such as promotions, transfers and performance management that could help to strengthen the relationship and communication between management and subordinates.

Employees of Kenya Commercial Bank might benefit from the findings of this study as performance appraisal will be a very effective tool to improve performance and productivity and to the career development of employees. This is by helping individuals to do better and to raise self-esteem and motivation, resulting in job satisfaction.

Organizations might be able to understand the effects of balanced scorecard on their respective organizations and the industry as a whole and therefore will be prompted to seek ways through appropriate and proactive policies and procedures to enhance the adoption and implementation of the balanced scorecard methodology in their organizations and in the industry.

The application of balanced scorecard by nonprofit organization in Kenya is relatively new; the study could provide background information to research organizations and scholars who may want to carry out further research in this area. They might also benefit from the findings of this study as it contributes to the existing literature.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with the available literature that has been reviewed for the study. The literature is mainly on competitive advantage, balanced scorecard and balanced scorecard in creating competitive advantage. The chapter is hence structured into theories of application of balanced score card in creating competitive advantage and empirical review.

2.2 Theoretical Foundation of the Study

The study will use game theory and stakeholders theory to explain the application of balanced score card in creating competitive advantage. Game theory can be defined as part of a large body of theory providing a formal language to describe conscious, goal-oriented, decision making processes involving one or more players. The solution concepts derived from game-theory may be thought of as normative or descriptive views of multi-person decision-making (Shubik 1972). Organizations and communities conduct their business; they influence and change their external environments, while at the same time being influenced by external changes in local and global environments. This two-way influential change is known as active adaptive change. Organizations and communities are open systems; changing and influencing each other over time. The Balanced Scorecard is concerned with creating a strategy to drive future direction, building in cause and effect linkages while simultaneously taking into account both
financial and intangible resources that can determine success or failure (Galbraith & Lawler, 2003).

Porter (2000) further argues that a company’s strength ultimately could be placed into two categories: cost advantage or differentiation. Application of those strengths in either a broad (industry wide) or narrow (market segment) scope results in three generic strategies: Cost leadership, differentiation and focus. These three strategies are supposed to be applied on a business unit level. Andrews (2003) defines competitive strategy as the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities.

Stakeholder theory is a conceptual framework of business ethics and organizational management which addresses moral and ethical values in the management of an organization. The stakeholders’ scorecard identifies the major constituents of the organization – stakeholders, customers, and employees – plus often the suppliers and the community. A number of stakeholder theories have developed overtime to explain, or to identify what the nature of the firm-stakeholder interaction should be. Each offers insights into the motivations that potentially could influence management in their
A number of researchers recognize that both managerial and normative motivations contribute to decision-making and have suggested approaches to stakeholder theory that may assist in the analysis of the firm-stakeholder interaction. Trevino and Weaver (2009) have argued that stakeholder theory would be better characterized as a ‘Stakeholder Research Tradition rather than as one theory. While Jones and Wicks (2009) proposed the ‘Convergent Stakeholder Theory’ which was intended to offer an approach to the unification of the two branches of stakeholder theory in which the various stakeholder theories were to be seen as a ‘class of theories’. As with Freeman (2009) they recognized that neither of the convergent forms of stakeholder theory is complete without the other. Freeman (2009) had argued against the notion of convergent stakeholder theory, he argued that, ‘‘the stakeholder theory’ can be unpacked into a number of stakeholder theories, each of which has a ‘normative core,’ inextricably linked to the way that corporations should be governed and the way that managers should act. So, attempts to more fully define, or more carefully define a stakeholder theory are misguided. In a later paper Freeman (2009) reinforced this view, arguing that what we need is not more theory that converges but more narratives that are divergent that show us different but useful ways to understand organisations in stakeholder terms.
2.3 Competitive Advantage

A competitive advantage is when the firm is able to deliver the same benefits as competitors but at a lower cost (cost advantage), or deliver benefits that exceed those of competing products (differentiation advantage). Thus a competitive advantage enables a firm to create superior value for its customers and superior profits for itself. Cost advantages are known as positional advantages since they describe the firm’s position in the industry as a leader in either cost or differentiation (Porter, 1985). A firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation. Mc Lauren (2004) argues that resources are the sources of a firm’s capabilities, while capabilities are the source of a firm’s competitive advantage. Porter (1980) provides a framework that models an industry and how it is influenced by five forces. The strategic manager seeking to develop an edge over rival firms can use this model to better understand the industry context in which the firm operates. The framework uses concepts developed in micro-economics to derive five forces that determine the attractiveness of a market. They consist of those forces close to a firm that affect its ability to serve its customers and make a profit. A change in any force requires a firm to assess its marketplace.

It involves, bargaining power of suppliers, bargaining power of buyers, threat of substitute product and threat of new entrants. The above four forces combine with other variables to influence a fifth force, the level of competition in an industry. The intensity of rivalry among firms varies across industries. If rivalry among firms in an industry is low, the industry is considered to be disciplined. This discipline may result from the
industry’s history of competition, the role of leading firm, or informal compliance with a generally understood code of conduct (Porter, 1980)

It is important because it comprises of all the moves that a firm has and is taking to attract buyers, withstand competitive pressure and improve its market position (Thompson & Strickland, 2002). It concerns what a firm is doing in order to gain a sustainable competitive advantage. Porter (1980) asserts that there are three Approaches to competitive strategy. One is striving to be the overall low cost producer, therefore being a cost leader, another is seeking to differentiate one’s product offering from that of one’s competitors, which is a differentiation strategy while a third involves focus on a narrow portion of the market, which is focus or niche strategy.

A firm is said to have sustainable competitive advantage when its value-creating processes and position cannot be duplicated or imitated by other firms. Porter (2008), suggests three methods for creating a sustainable competitive advantage. These include; cost leadership which occurs when a firm delivers the same products its competitors are offering but at a lower cost. It is often driven by company efficiency, size, scale, scope and cumulative experience while the other is differentiation which occurs when a firm delivers more products for the same price in comparison to its competitors. Finally a focused approach requires the firm to concentrate on a narrow, exclusive competitive segment, hoping to achieve a wide competitive advantage.
2.4 Balanced Scorecard

The balanced scorecard is a complementary strategic model that considers financial and non-financial measures. Johnsen (2001) defines the balanced scorecard as a management model that translates the organizational mission and strategy into a collection of performance measures. It is a complement of the Management by Objectives but “with more emphasis on feedback on results by formal and integrated performance measurement”. Performance measures cannot be only based on financial measures but should consider others perspectives (Wilson et al., 2003).

Kaplan and Norton (2002) introduced the balanced scorecard in the early 1990s as a means to provide a more holistic diagnosis of a business’s performance. They argue lagging financial indicators are not sufficient enough to tell senior management whether work taking place on the ground accurately corresponds to the business’s corporate strategy: overemphasis on reducing costs in the short run to boost financial indicators underestimates the value of large investments in research and development to the detriment of the company’s long-term survival strategy. This model assumes that senior management uses the profit motive as the main driver of the business’s strategy. The Balanced Scorecard (Kaplan and Norton, 2002) is a performance measurement tool that uses a strategy map to connect an organization’s day-to-day processes to its organizational goals. Rather than capture how an organization currently operates, the Balanced Scorecard is concerned with creating a strategy to drive future direction, building in cause and effect linkages while simultaneously taking into account both financial and intangible resources that can determine success or failure.
The balanced scorecard overtakes this limitation because it links the strategy and organizational objectives with four perspectives of performance measurement: financial; customer; internal processes and learning and growth (innovation) (Kaplan and Norton 2002). Thus, this management tool retained financial objectives and add the importance of non-financial measures like customer satisfaction, quality, innovation, flexibility and employees skills.

The balanced scorecard framework explains corporate goals through cause-and-effect relationships, and is filtered through four perspectives: financial, customer, internal processes, and learning and growth (also called intangibles) Kaplan and Norton (2001). By connecting financial to non-financial objectives, external to internal processes, and current to future performance, corporate strategy will be mapped more cohesively, and employees at all levels of the organization work towards the same goal. Performance measures, with both lagging and leading indicators, is then linked to objectives identified in each of the four perspectives. These measures are intended not only to modify behavior, but also inform upper management if their stated objectives are ultimately in line with their corporate strategy. In order to ensure strategic focus, Kaplan and Norton recommend that eventually, all objectives and measures in the other scorecard perspectives should be linked to achieving one or more objectives in the financial perspective ultimately, a business’s strategy should be oriented towards its financial bottom line.
When it was first launched at the beginning of the 2000s, the Balanced Scorecard was promoted as a concept that addresses the performance measurement and management needs of the private organizations (Kaplan and Norton, 2001). Few years later, in 2001, the migration of the BSC concept to the nonprofit organizations was still in the incipient stages (Kaplan and Norton, 2001).

2.5 Balanced Scorecard as a tool for Competitive Advantage

These days, majority of Container terminals face so many difficulties in measuring performance appraisal and also environmental evaluation, because manager attempts to match organizational performance and strategic goals. In general, there are several ways to guide performance monitoring procedure such as the Balanced Scorecard. In this article some definitions, advantages and also introduction about the use of BSC methods, Competitive advantage, Business Performance Measure and techniques in ports Management would be analyzed in a great extent. The concept of the BSC is based on the assumption that the efficient use of investment capital is no longer the sole determinant for competitive advantages, but increasingly soft factors such as intellectual capital, knowledge creation or excellent customer orientation become more important. As a reaction Kaplan and Norton suggested a new performance measurement approach that focuses on corporate strategy in four perspectives (Kaplan and Norton, 2002, 2007, 2001).
The balanced scorecard is a complementary strategic model that considers financial and non-financial measures. According to Johnsen (2001), balanced scorecard as a management model, that translates the organizational mission and strategy into a collection of performance measures. It is a complement of the Management by Objectives but “with more emphasis on feedback on results by formal and integrated performance measurement”. Performance measures cannot be only based on financial measures but should consider others perspectives (Wilson et al., 2003).

The increasing level of competition and the changing business environment. What we need is a method of balancing the accuracy and integrity of financial measures with the drivers of future financial performance of the organization. BSC is currently the most popular performance management system framework worldwide. It provides a framework in which both financial and nonfinancial success measures are linked by the firm’s strategy. It looks at performance from four perspectives: financial, customer, internal process and learning and growth (Chan, 2004). BSC minimizes information overload by limiting the number of measures used, so it forces managers to focus on the most crucial measures.

This BSC aims to make the contribution and the transformation of soft factors and intangible assets into long-term financial success explicit and thus controllable. The BSC’s four perspectives can be characterized briefly as follows (Weber and Sch¨affer, 2000; Kaplan and Norton, 2007). In a BSC all aspects relevant for achieving a permanent competitive advantage should be included.
In the four perspectives of the BSC, therefore, the company’s activities critical for long-term business success is included and causes are linked to effects. In the formulation of a BSC the objectives and measures in all perspectives are deduced from the long-term strategic financial goals in a top-down process. This hierarchical structure of the BSC guarantees that all business activities are linked to the successful implementation of the business strategy. This characteristic of the BSC can also be used for the management of environmental and social aspects. Against the backdrop of the fundamental deficits of most current approaches for environmental and social management described above the ability of the BSC to integrate the three dimensions of sustainability offers the possibility to integrate the management of environmental and social aspects into mainstream business activities.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The Chapter presents the research methodology used in the study. It covers the research design, data collection, and research instruments and data analysis techniques.

3.2 Research Design

This refers to the methods and procedures to be followed in conducting the study. For this study, the research design was a case study due to the fact that the unit of analysis is one organization. A case study allowed an investigation to retain the holistic and meaningful characteristics of real life events. It involved a careful and complete observation of the social units.

The main focus of this study was qualitative research. According to Kothari, (2004), a case study 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 other interrelations. The design is deemed fit to portray clear pictures of application balance score card to gain competitive advantage in Kenya Commercial Bank. Data collected from such a study were more reliable and up to date.

3.3 Data Collection

The study used primary data and secondary data. An interview guide was used in collecting the primary data. This was used in order to gain a better understanding and
enabled a better and more insightful interpretation of the results from the study. The interview guide was devoted to the identification of the responses to the application of balanced score card in creating competitive advantage at Kenya Commercial Bank of Kenya.

The interviewees were human resources director, the chief finance officer, the corporate banking director, the country head of treasury and the chief operating officer. The interview guide was administered through personal interviews in order to get their opinions on the application of balanced score card in creating competitive advantage at Kenya Commercial Bank of Kenya.

3.4 Data Analysis

Before processing the responses, the completed interview guides were edited for completeness and consistency. Qualitative data analysis seeks to make general statements on how categories or themes of data are related. The data was qualitative in nature, due to this fact; content analysis was used to analyze the data. Mugenda and Mugenda (2003) define content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends.

The qualitative data was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Mugenda and Mugenda, 2003). The data was obtained from the various management
team members belonging to different departments and compared against each other in order to get more revelation on the issues under study. This research yielded qualitative data from the interview schedules and analyzed using content analysis because this study seeks to solicit data that is qualitative in nature. Analysis of data collected was compared with the theoretical approaches and documentations cited in the literature review.
CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter entails data analysis and interpretations of the study findings. The main objective of the study was to determine the competitive advantage associated with the application of balance score card by Kenya Commercial Bank. This chapter presents the analysis and findings of the research. The study targeted to interview the chief finance officer, the corporate banking director, the country head of treasury and the chief operating officer.

4.2 Rationale for the Application of the Balanced Scorecard at Kenya Commercial Bank

The interviewees were asked to state what informed the application of the balanced scorecard at the Bank. The need to align individual goals to the vision of the organization was the most repeated reason. The interviewees felt that this was a critical element to assist in performance management. 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 strategy of the organization. Therefore, even though the bank had formulated strategy in the previous periods, there had been a lack of alignment which caused the organizational members to pull in different directions, hence resulting in sub optimization of effort. Majority of the interviewees stated that the technique was necessary so as to provide an objective method of evaluating employee performance and also involve them in performance management, apart from differentiating performance in order to link it to
remuneration. This is due to the fact that performance as gauged by the balanced scorecard is used as an avenue to pay the annual bonus and is also a factor in the separation and promotion of staff.

4.2.1 Company Strategies Implementation

Results from the interviewees affirmed that the balanced scorecard had been used to implement strategy. This derives from the fact that each year, the senior management forum of the bank formulates the CEO’s balanced score card (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. The CEO then cascades his scorecard to his 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. Majority of the interviewees agreed that the objectives, targets and measures in the balanced scorecard correspond with those handed down to them by their immediate supervisor. 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, staff interviewed concur that the balanced scorecard assists them in discharging their day to day duties. This is to the extent that it helps them focus on the critical activities that add value.
4.3 Balanced Scorecard in Strategy Implementation

To attain a competitive edge, and to retain customers; KCB have been implementing strategies to achieve the ever changing needs of their customers. Being inventive leads to customers' satisfaction which in turn strengthens the financial position of the bank. Strategy implementation encompasses organization of the firm's resources and motivation of the staff to achieve desired goals. The environmental situations facing many firms have changed rapidly.

Today's global competitive environment is multifaceted, dynamic, and largely unpredictable. To deal with this unprecedented level of transformation, a lot of thinking has gone into the issue of how strategies are best articulated. Strategic management is about managing the future, and operational strategy formulation is crucial, as it directs the attention and actions of an organization, even if in some cases authentic implemented strategy can be very different from what was initially intended, planned or assumed. The valuation of strategy formulation processes becomes vital for practitioners and researchers alike in order to conduct and evaluate diverse formulation processes.

4.4 Balanced Scorecard Appraisal

Interviewees agreed that balanced scorecard appraisal are conducted to accommodate both short- and long-term performance metrics. It provides a concise report that tracks chosen metrics and measures and compares them to target values. This approach allows managers to assess past performance, identify areas for improvement, and position the company for future growth. Including a broader perspective than financials allows
managers and executives a more balanced view of organizational performance—hence its name.

In a sense, the balanced scorecard is a broad diagnostic tool. It complements the common financial metrics with operational measures on customer satisfaction, internal processes, and the company’s innovation and improvement activities. After the metrics and goals related to internal processes and customer perspectives identified, it is possible to understand that there is a gap between current organizational infrastructures and optimized level in order to achieve the goals. Metrics based on customer and internal processes are important to identify very important parameters for organization competitive success. However, universal close competition makes companies consider a continuous improvement in their products and processes and capable enough to identify new products. The company capability in innovation, improvement, and learning directly affects the company value. In other words, companies just by their capabilities in providing new products, creating value for their customers and continuous improvement of operational efficiency can enter new markets and increase their profit and income.

Metrics of financial perspective identify that whether the strategy and its execution plays a role in company profitability improvement or not. Financial goals are usually being defined in relation with profitability, growth and shareholders’ value. Companies should define their financial perspective goals in a framework of sustainability, success, and economic boom. Boom is measuring by cash flow, success by seasonal sell growth,
sections operational income, and economic boom by market share and ROI improvements.

4.5 BSC as the performance management tool creating competitive advantage

Performance measurement system has changed a lot in comparison to the past. The measurement results are real just when the comparisons apply between similar items. In traditional performance measurement approach, the most important goals of evaluation is performance measurement while modern approach has focused on evaluated growth and development capacity. Modern evaluation system results in satisfaction improvement, efficiency improvement, and finally improvement in effectiveness of organizational activities. Balanced Scorecard provides quick and comprehensive examinations for top managers. Nowadays, just the organizations can be considered as a leader of their industry which can use the resources better and quicker than their adversaries and by using new methods increase their competitive advantages. In this way, BSC as a new tool in management hands can provide a better competitive situation by better assessment of organizational performance.

Performance measurement system has changed a lot in comparison to the past. The measurement results are real just when the comparisons apply between similar items. In traditional performance measurement approach, the most important goals of evaluation is performance measurement while modern approach has focused on evaluated growth and development capacity. Potential solution was to introduce “balanced” sets of measures.
“Market standings, innovation, productivity, physical and financial resources, profitability, manager performance and development, worker performance and attitude, and public responsibility” are appropriate performance and attitude, and public responsibility” are appropriate performance criteria.

4.6 Organization Balanced Scorecard Objectives

To ensure long-term flexibility and survival, an organization needs to prepare for the future. The balanced scorecard managing system “maps an organization's strategic objectives into performance metrics in four perspectives: financial, internal processes, customers and learning and growth. It offers an approach to deciding where a given business is heading, what it’s needed to get there, and what’s needed to measure and control to achieve the needed goals.

Each BSC perspective has its own objectives. The customer perspective covers customer satisfaction, market share goals, and the attributes of products and services. The internal process perspective outlines the processes necessary to deliver on customer objectives as well as internal operational goals. The financial perspective allows managers to track shareholder value as well as financial success and the financial objectives of the organization. The intangible drivers of future success, such as human capital, organizational capital and informational capital belong under the learning and growth perspective. After determining the organization's objectives, focus is important, so make sure to pick only one to three KPIs for each objective that are the best indicators of achievement for that particular goal.
**4.7 Benefits of Application of Balanced Scorecard**

Several benefits have resulted from the application of the balanced scorecard at the Bank. First, there has been the alignment of corporate and individual goals according to 60% of the staff interviewed. This has caused a clear link between individual goals and responsibilities and the corporate strategy. Secondly, 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 individual and their line 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 assists in breaking down the overall corporate vision into daily measurable targets for employees to implement. This enables 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 the most profitable indigenous bank. It has also enabled the company to become more customer focused.
4.8 BSC as a Measurement of Creating Competitive Advantage

Interviewees responded that, due to rapidly changing environments that characterize most industries today, organizations face intense competitive pressure to do things better, faster and cheaper. Nowadays, the importance of intangible assets is higher than traditional physical assets and performance measurement tools need to capture this new reality.

Balanced Scorecard (BSC) is an innovative approach that considers the financial and non-financial perspectives in determining the performance level of organization, and not only represents a measurement tool, but it is also a multi-dimensional system of performance management. Although, it’s worldwide dissemination, BSC has demonstrated inadequacy in certain circumstances, namely, in dynamic environments. The authors advocate a combination of various tools and approaches to set up and align the firm’s strategy instead of being statically hostage of an evaluation framework.

4.9 Challenges of using the BSC to gain Competitive Advantage

Several challenges were faced when the balanced scorecard was introduced. To start with, there was resistance to change, 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.
Secondly, as was 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.

Thirdly, there was consensus among those interviewed that it has been difficult to measure the qualitative 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.

4.6 Discussion

The section discussion the findings of application of balanced score card in creating competitive advantage at Kenya Commercial Bank in relation to theory and other studies done. The discussion of the study is divided into the following two sections.

4.6.1 Theoretical Implications of the Study

The study theory was Systems theory refers simply to the concept that organizations are strongly influenced by their environment (Galbraith & Lawler, 2003). Systems Theory is a modern systems-based changed management theory designed to create healthy,
innovative and resilient organizations and communities in today’s fast changing and unpredictable environments. It is supported by findings show lanced Scorecard is a performance measurement tool that uses a strategy map to connect an organization’s day-to-day processes to its organizational goals. Rather than capture how an organization currently operates, the Balanced Scorecard is concerned with creating a strategy to drive future direction, building in cause and effect linkages while simultaneously taking into account both financial and intangible resources that can determine success or failure. This is evident at Kenya Commercial Bank. The study explored the use of Balanced Scorecard as a strategy implementation tool at Kenya Commercial Bank.

Open systems theories come in many flavors. For example, contingency theorists argue that organizations are organized in ways that best fit the environment in which they are embedded (Shubik 1972). Institutional theorists see organizations as a means by which the societal values and beliefs are embedded in organizational structure and expressed in organizational change (McLaughlin & Talbert, 2001). The study found out that The Kenya Commercial Bank Strategic Plan 2011-2015 presents the strategic directions that guide the society in order to realize its vision of being the leading humanitarian organization in Kenya delivering excellent quality service of preventing and alleviating human suffering to the most vulnerable in the country. The Balanced Scorecard has facilitated implementation of strategies at Kenya Commercial Bank.
4.6.2 Discussion of findings in relation to Other Studies

According to Creelman (2008) half of BSC implementation fails because they fail to live up to the users’ expectations. Even though potential benefits offered from an implementation of BSC are numerous, it has been suggested that many of the BSC projects either fail or does not materialize. The study established that Kenya Commercial Bank faces challenges such as lack of funds, inefficiency in governance, and lack of cooperation in the implementation of strategic plan, limited capacity, and unfamiliarity with organizational strategic approaches. Kenya Commercial Bank faces difficulty in finding sufficient, appropriate and continuous funding for their work.

According to Olson et al. (2005), Strategy implementation involves organization of the firm's resources and motivation of the staff to achieve objectives the study indicated that strategy implementation at Kenya Commercial Bank has been successful since the adoption of Balanced Scorecard in 2011, it has enabled the organization to develop the potential of carrying out strategy successfully, disburse abundant resources to strategy-essential activities, create strategy-encouraging policies, employ best policies and programs for constant improvement, link reward structure to accomplishment of results and make use of strategic leadership.

The study established that ineffective communication within Kenya Commercial Bank affect strategy implementation. The balanced scorecard is an integrated management system consisting of three components: strategic management system, communication tool, and measurement system (Niven, 2003)
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary, conclusion and recommendations from the study findings. The main objective of the study was to determine the competitive advantage associated with the application of balance score card by Kenya Commercial Bank.

5.2 Summary of the Study Findings

The objective of the study was to determine the application of the balanced scorecard in strategy implementation by the Kenya Commercial Bank and the challenges involved. Towards this end, the concepts of strategy implementation and the balanced scorecard were identified and their application within the bank sought. Interviewees comprised of senior managers, middle level managers and non-management staff, drawn from Human Resources, Operations, Treasury and Finance and Strategy divisions. In total, 9 interviewees were interviewed.

The study established that the Kenya Commercial Bank has applied the balanced scorecard in strategy implementation and performance management. The tool was adopted as means to align performance to strategy and inculcate a performance driven culture and align the individual goals to the overall organizational goals, as stated by the interviewees. Majority of the interviewees indicated that the methodology was introduced in order to segregate employee performance and therefore link remuneration to performance.
Also, it was done in a bid to involve employees in performance management since it was viewed as an objective means of performance appraisal. Some of the employees interviewed stated that the balanced scorecard had been a useful tool for the realization of the organization’s strategy, whereas most of the respondents 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.

5.3 Conclusion

From the results of the study, it can be concluded that Kenya Commercial Bank has successfully applied the balanced scorecard technique to effectively implement strategy. 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 corporation to the largest indigenous bank in Kenya, with subsidiaries in other African countries.
The study concludes that Kenya Commercial Bank serve as a good example of effective application of Balanced Scorecard. The Balanced Scorecard adopted at Kenya Commercial Bank addresses strategic issues regarding beneficiary/stakeholders, financial stewardship, building processes and organization capacity. This Balanced Scorecard seeks to point the organization towards improved performance and increased contribution to social values.

The Balanced Scorecard is a performance measurement tool that uses a strategy map to connect an organization’s day-to-day processes to its organizational goals. Rather than capture how an organization currently operates, the Balanced Scorecard is concerned with creating a strategy to drive future direction, building in cause and effect linkages while simultaneously taking into account both financial and intangible resources that can determine success or failure. The balanced scorecard framework explains corporate goals through cause-and-effect relationships, and is filtered through four perspectives: financial, customer, internal processes, and learning and growth (Kaplan and Norton, 2006).

Strategy implementation is 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 straightforward as one would assume (Aaltonen and Ikavalko, 2001).
5.4 Recommendations for Policy and Practice

The study recommends that the Kenya Commercial Bank continuously improves on the balanced scorecard technique in order to remain relevant not only to its own operations but also to the changing macro-environmental dynamics. Some of the inadequacies of the technique have been attributed to lack of sufficient training of staff involved, in order for them to derive from the vision of the bank measures that not only reflect what their day to day work entails, but also ensure that these are SMART. To this end, it is suggested that more training of staff is required.

The study recommends that when an organization applies Balanced Scorecard, it need to take a very close look at the organization structure and evaluate if it supports the strategies. This will help individuals to do better and raise their self-esteem and motivation, resulting in job satisfaction. Other not for profit organizations will be able to understand the effects of balanced scorecard on their respective organizations and the industry as a whole and therefore will be prompted to seek appropriate ways and proactive policies and procedures to enhance the adoption and implementation of the balanced scorecard methodology in their organizations and in the industry.

5.5 Limitation of the Study

Since the study specifically narrowed down to the Kenya Commercial Bank, it cannot be generalized to the banking industry. Therefore, inference cannot be made from it by other players in the industry.
The researcher encountered un-cooperative interviewees who do not understand the significance of the research and the researcher explained to them the importance of this study and the way assist their working lives in the organization. The study will be carried out for a short time.

Information relating to balance score card and strategy implementation is always treated with sensitivity. This may cause difficulties in convincing the interviewees of the importance of giving sincere answers to the asked questions evidenced through reluctance of accepting invitation to participate in the study to counter the challenge, the research had to inform the interviewees in advance the purpose for the research study being carried out, that it was meant for academic purpose only and not for other investigations.

5.6 Suggestion for Further Research

The study recommends that further research can be done to determine whether the separation of rewards (bonus payment) from performance management via the balanced scorecard can help make the process of performance management through strategy implementation more objective.

The study recommends carrying out the same study in other parts of the country to find out whether the same results will be obtained. A study should be carried on other non-governmental organizations and governmental institutions using the balance score and operating in other parts of the country.
REFERENCES


APPENDICES

APPENDIX 1: INTERVIEW GUIDE

1. What is your department?

2. How does your company go about implementing the chosen strategies?

3. How often are the policies on implementation updated?

4. To what extent does your department deal with balanced scorecard in strategy implementation?

5. How often are balanced scorecard appraisal reviews conducted in your organization?

6. What is the extent of application of balance score card by Kenya Commercial Bank?

7. How would you generally rate balances scorecard as a performance management system in your organization?

8. What motivates you most at your work place in line with the balanced score card measures?

9. How do you feel about your job with balanced scorecard as the performance management tool creating competitive advantage?

10. Are the entire four balanced scorecard measures discussed during the appraisal reviews by your organization?

11. How is balanced scorecard set to achieve your organization objective in creating competitive advantage?

12. To what extent does application of balance score card provide Kenya Commercial Bank with competitive advantage?
13. Compared to the traditional performance management system used before, is the balanced scorecard a better measurement creating competitive advantage?

14. What are the challenges of using the balance score card as strategic management tool creating competitive advantage?

15. How does your organization address these challenges?

16. Would you recommend the balanced scorecard performance management system to another organization? _________________
APPENDIX II: LIST OF COMMERCIAL BANKS IN KENYA AS AT JUNE 2014

1. ABC Bank (Kenya)
2. Bank of Africa
3. Bank of Baroda
4. Bank of India
5. Barclays Bank
6. Brighton Kalekye Bank
7. CFC Stanbic Bank
8. Chase Bank (Kenya)
9. Citibank
10. Commercial Bank of Africa
11. Consolidated Bank of Kenya
12. Cooperative Bank of Kenya
13. Credit Bank
15. Diamond Trust Bank
16. Dubai Bank Kenya
17. Ecobank
18. Equatorial Commercial Bank
19. Equity Bank
20. Family Bank
21. Fidelity Commercial Bank Limited
22. Fina Bank
23. First Community Bank
24. Giro Commercial Bank
25. Guardian Bank
26. Gulf African Bank
27. Habib Bank
28. Habib Bank AG Zurich
29. I&M Bank
30. Imperial Bank Kenya
31. Jamii Bora Bank
32. Kenya Commercial Bank
33. K-Rep Bank
34. Middle East Bank Kenya
35. National Bank of Kenya
36. NIC Bank
37. Oriental Commercial Bank
38. Paramount Universal Bank
39. Prime Bank (Kenya)
40. Standard Chartered Kenya
41. Trans National Bank Kenya
42. United Bank for Africa
43. Victoria Commercial Bank

Source: Central Bank of Kenya (2014)