CHALLENGES OF APPLICATION OF THE BALANCED SCORECARD IN STRATEGY IMPLEMENTATION AT THE KENYA ELECTRICITY GENERATING COMPANY

BY

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DECLARATION

This research project is my original work and has not been presented for the award of a degree in any University.

Signed. Edna Wangu Gitachu

Date 19/10/2012

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

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Date 31/10/2012

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DEDICATION

The first dedication is to God for He has done it all, then to my beloved husband Peter Ngari and our daughter Hope Wakio.

To my dear parents, Esther and Joshua Gitachu Mwaura, who invested and believed in me over the years.
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ABBREVIATIONS AND ACRONYMS

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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>BDS:</td>
<td>Business Development and Strategy</td>
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<tr>
<td>CEO:</td>
<td>Chief Executive Officer</td>
</tr>
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<td>EPP:</td>
<td>Emergency Power Producers</td>
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<td>ERC:</td>
<td>Energy Regulatory Commission</td>
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<td>G2G:</td>
<td>Good to Great</td>
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<td>GDC:</td>
<td>Geothermal Development Company</td>
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<td>HBS:</td>
<td>Harvard Business School</td>
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<td>IPPs:</td>
<td>Independent Power Producers</td>
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<td>KENGEN:</td>
<td>Kenya Electricity Generating Company</td>
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<tr>
<td>KETRACO:</td>
<td>Kenya Transmission Company</td>
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<tr>
<td>MOE:</td>
<td>Ministry of Energy</td>
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<td>MTI:</td>
<td>Major Transformation Initiatives</td>
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<td>MW:</td>
<td>Megawatts</td>
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<td>NSE:</td>
<td>Nairobi Securities Exchange</td>
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<td>REA:</td>
<td>Rural Electrification Authority</td>
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<tr>
<td>TANESCO:</td>
<td>Tanzania Electric Supply Company</td>
</tr>
<tr>
<td>TMO:</td>
<td>Transformation Monitoring Office</td>
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<tr>
<td>UETCL:</td>
<td>Uganda Electricity Transmission Company Limited</td>
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ABSTRACT
The action phase of the strategic management process is strategy implementation. This is one of the most critical phases of the strategic management process. However, many organizations fail not necessarily because they have the wrong strategy, but due to poor strategy implementation. Careful thought has to be given to the strategy implementation tool that an organization would like to use. The balanced scorecard is one of the tools of strategy implementation. The balanced scorecard integrates the short term operational concerns of an organization with the long term strategic direction. Alignment of the day to day activities of an organization to the organization’s vision and strategy is possible through the use of the balanced scorecard. It is a tremendously strong communication tool of the strategy and vision of an organization. It has three additional perspectives over and above the traditional financial perspective. The other perspectives, that is, learning and growth, internal business processes, and customer perspectives, are the drivers of future financial performance. Although the balanced scorecard has grown in popularity, its implementation posses some challenges. Some of these include; poor leadership, poorly designed scorecards, lack of training, lack of resources for its implementation, and lack of top management support, among others. This study sought to find out how Kenya Electricity Generating Company, (KenGen), has applied the balanced scorecard in strategy implementation and the challenges faced in its implementation. KenGen is the leading electricity generating company in Kenya. Collection of primary data was through an interview guide and observation; this was to help meet the intent of the research. The respondents were from the departments charged with the task of implementing the balanced scorecard in KenGen. Analysis of the
responses was through content analysis. The study established that KenGen uses the balanced scorecard as a strategy implementation tool. Further, the study identified a number of challenges faced in the application of the balanced scorecard in KenGen. Some include; lack of understanding of the scorecard, lack of visibility of the corporate and divisional scorecards, lack of support of the scorecard among many others. The findings of the study should be understood and evaluated in light of the limitations of the study. This study is especially useful to KenGen. The study has also highlighted institutional policy and practice recommendations to overcome the challenges of strategy implementation using the balanced scorecard. Also, provided, are suggestions for further studies.
CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The performance of an organization is reflective of its success, which is in turn highly dependent upon its strategies. To create competitive advantage, what an organization requires is not just formulating the right strategies, but also implementing the same. A brilliant strategy may put an organization on the competitive map, but only effective strategy execution keeps it there, (Gary, Karla and Powers, 2008). In reality, there is a remarkably weak relationship between strategy formulation and implementation (Karani, 2009). Speculand (2009) noted that while there are many tools and techniques for crafting strategy, there are remarkably few for implementing it. Consequently, effective formulation of strategy does not necessarily translate to successful implementation of the strategy.

Selecting the best management tool for strategy implementation is a unique organizational decision. The strategy implementation tool has to be customized depending on factors such as resources available, industry, size of the organization and management culture, among other factors, (Sinha, 2006). Organizations face the challenge of selecting strategy implementation tools that are common today, only to be replaced by other tools in the future. For organizations to survive in today’s competitive environment, they have to turn strategy implementation into a competitive advantage. One of the tools that organizations have adopted for strategy implementation is the balanced scorecard.
The demand for electricity in Kenya is steadily increasing. Currently, the demand has surpassed supply leading to the entry of more power producers in the electricity sub-sector. As Kenya implements the Vision 2030 flagship projects, the demand for electricity will even increase further. Under the Vision 2030, electricity is one of the enablers of economic growth in Kenya, (Ministry of Energy, 2011). Expectations are such that KenGen, the leading electricity generator in Kenya, will increase the supply of electricity to the Kenyan economy to meet both the existing and projected demand. The electricity supplied should be affordable to all and will stimulate future economic growth. To achieve this and also to defend its market share, KenGen has to implement its strategies effectively. The company should, therefore, pay close attention to its strategy implementation tool.

1.1.1 Strategy Implementation

Strategy implementation is the point in which organizations move from “planning their work” into “working their plan” as they shift focus from strategy formulation (Pearce and Robinson, 2000). The strategic management process moves into a critical phase of translating strategic thinking into organizational action, on reaching consensus on corporate and business strategies and objectives. This has proved to be the most challenging, yet most critical aspect of the strategic management process (Karani, 2009). Most organizations fail not necessarily because their strategies were wrong but because of poor strategy implementation (Gary, Karla and Powers, 2008).

In today’s fast-moving and fast-changing business world, the long range outlook of strategy is essential. Short-term objectives and action plans guide strategy
implementation by converting long-term objectives into short term actions and targets. Functional tactics transform the business strategy into activities that create competitive advantage. Many organizations recognize the strategies required for success in their businesses. However, a number of them struggle to transform the strategies into action plans to develop an effective strategy implementation. Pearce and Robinson (2000) noted that this is because many organizations often fail to motivate their people to work with enthusiasm, all together, towards the corporate aims. Lack of effective polices and inadequate reward systems also contribute to this.

Organizations use different strategy implementation tools to translate their strategic plans into organizational actions. The choice of the strategy implementation tools is not uniform across all organizations. However, it is ideal for all organizations to institutionalize and operationalize strategy. Careful consideration has to be given to the choice of strategy implementation tools. Some tools used in strategy implementation include; Mckinsey 7s framework, total quality management (TQM), and the balanced scorecard among many others.

1.1.2 The Balanced Scorecard

The balanced scorecard is a strategic performance management system that allows organizations to manage and evaluate the implementation of their strategy, (Mulu, 2010). It translates an organization’s strategic plan into the marching orders for the organization on a daily basis, (Kaplan and Norton, 2001). It aligns the vision and mission with customer requirements and daily work, (Rohm, 2008). It is possible to manage and evaluate business strategy through the use of the balanced scorecard. It also aids in
communicating progress to all employees and building organizational capacity through the establishment of operation competence improvements required, (Pearce and Robinson, 2000). It provides executives with a comprehensive framework that translates a company’s vision and strategy into a coherent set of performance measures, and helps planners determine what should be done and measured (Kaplan and Norton, 2007).

In the early 1990’s, David Norton and Robert Kaplan developed the balanced scorecard. This was after realization of the fact that, today’s world requires organizations’ to transform themselves for competitive advantage based on information and their ability to exploit intangible assets, rather than investing in tangible assets, (Kaplan and Norton, 2007). The balanced scorecard complemented traditional financial measures by introducing three additional perspectives which are: customers, internal business processes, and learning and growth. The three additional perspectives are the drivers of future financial performance. This enabled organizations’ to among others; track financial results, monitor progress in building organizational, competitive capabilities and obtain the intangible assets they would need for future growth, (Kaplan and Norton, 2001).

According to Kaplan and Norton (2007) the sole reliance on financial measures in a management system, was inadequate. This reliance could lead to behavior that promotes short term performance at the expense of long term competitive advantage. This is because financial measures are lag indicators that report on the outcome from past actions (Kaplan and Norton, 2001). The balanced scorecard retains financial measures but supplements the measures on the drivers, the lead indicators of future financial
performance. The other perspectives of the balanced scorecard integrate short-term and long-term objectives, desired outcomes and performance drivers of those outcomes and between objective measures and more subjective measures, (Rohm, 2008). Derivation of the balanced scorecard objectives and measures is from the organization’s vision and strategy.

1.1.3 Challenges of Application of the Balanced Scorecard as a Strategy Implementation Tool

Although the balanced scorecard has grown in popularity, its implementation has posed many challenges. According to Mulu (2010) some of the challenges include lack of inclusion and consultation in the development of the balanced scorecard and lack of evaluation of the balanced scorecard measures whenever the company experiences fundamental changes. Mulu also noted that, failure of the balanced scorecard measures to reflect customer and stakeholder expectation is another challenge in implementation of the balanced scorecard. Marr (2010) argues that some organizations do not allocate enough resources in terms of finances, people and information technology to ensure effective implementation of the balanced scorecard. This seriously undermines the implementation of the scorecard in some organizations.

According to Kaplan and Norton (2007) challenges of the balanced scorecard emanate from poor design of the scorecard and process failures. Design failures result from poor development of the balanced scorecards. Process failures stem from internal business structures that are not supportive of implementation of the balanced scorecard. Some of
the processes include; poor managerial style, lack of top management support, lack of adequate resources, among many others. Kiragu (2005) criticized the balanced scorecard for failing to include critical perspectives such as the employee perspective and the environmental perspective (Kiragu, 2005).

1.1.4 The Energy Sector in Kenya

According to the Ministry of Energy (MOE), (2011) the energy sector has three main subsectors namely; electricity, renewable energy and fossil fuels. MOE further notes that the electricity subsector in Kenya consists of the players shown in figure 1. MOE is at the apex of the institutional set up shown in figure 1. It is in charge of creating an enabling environment for efficient operation through formulating and articulating energy policies. Energy Regulatory Commission, (ERC), has the authority to establish, review and regulate retail tariffs, accept power purchase agreements and promote competition in the electricity subsector. Rural Electrification Authority (REA) has the key mandate of extending electricity supply to rural areas, managing the rural electrification fund, mobilizing resources for rural electrification and promoting the development and use of renewable energy.

According to MOE (2011), the electricity sub sector has four distinct functions as shown in figure 1 which are; steam development, generation, transmission and distribution. Geothermal Development Company (GDC) executes the steam development activity. GDC is a special purpose vehicle used for fast tracking the development of geothermal resources in Kenya. Kenya Transmission Company (KETRACO) carries out the
transmission function. KETRACO is responsible for the development of the national transmission grid network, and facilitating regional power trade through its transmission network. Kenya Power is responsible for the distribution of electricity in Kenya.

Currently, the function of generation of electricity into the Kenyan economy is executed by KenGen, Independent Power Producers (IPPs) and regional players and Emergency Power Producers (EPPs). Some of IPPs in the Kenyan market include Orpower4, Tsavo Power, Rabai Power, Westmont Power and Iberafrica. The IPPs are in direct competition with KenGen. According to Kenya Power (2011) the regional players include Uganda Electricity Transmission Company Limited (UETCL) and Tanzania Electric Supply Company (TANESCO). Further, Kenya Power notes that the regional players and the IPPs account for approximately 30% of the electric power consumed in Kenya. Emergency Power Producers (EPPs) have a short term supply of electricity contract. The Government of Kenya engaged Aggreko, which is currently the only EPP in Kenya, during the prolonged drought in 2006.

According to Ministry of Energy (MOE) (2011) the current electricity demand in the country is 1,191 megawatts (MW). This is against an effective supply of 1,429MW under normal hydrology. This gives a reserve margin of 238MW. However during low hydrology, the reserve margin diminishes necessitating procurement of expensive emergency power. According to Kenya Power (2011) Kenya Electricity Generating Company, (KenGen), is the leading electric power producer in Kenya and accounts for about 70% of the electricity supplied in Kenya.
1.1.5 Kenya Electricity Generating Company (KenGen)

KenGen is a limited liability company, registered under the Companies Act of Kenya. The company was incorporated in 1954 as Kenya Power Company Limited (KPC), but later re-launched as KenGen in 1998. This was after the implementation of the energy sector reforms. KenGen listed 30% of its shares at the Nairobi Securities Exchange,
(NSE) in 2006, with the government of Kenya owning the balance of 70% of the shares, (KenGen, 2009). KenGen’s core business is to develop, manage, operate power generation plants and supply electric power to the Kenyan market and the East African region.

Currently, KenGen generates electricity from thermal, hydro, geothermal and wind sources, (KenGen, 2009). KenGen heavily relies on hydro generation of electricity which accounts for 65% of the installed capacity. Thermal generation accounts for 22%, geothermal 13% and wind less than 1% of the installed capacity, (KenGen, 2011). During periods of prolonged drought, KenGen suffers considerably in terms of reduction of market share due to overreliance on hydro for generation of electricity. To mitigate this risk, KenGen introduced a geothermal expansion strategy in its 2008 strategic plan, (KenGen, 2009).

The reduction in market share has also been compounded by the fact that the IPPs alongside regional players like UETC and TANESCO are in direct competition with KenGen, (Kenya Power, 2011). The growth in demand for electricity has surpassed its supply, therefore, leading to the entry of both regional players and IPPs into the Kenyan market. According to MOE (2011) this increase in demand for electricity is as a result of positive economic growth since 2003. MOE also indicates that the economic growth rate has translated to an average annual electric power demand growth rate of 8%. This is further projected to grow at an average of 10% for the next twenty (20) years.
KenGen, therefore, has to implement its strategies effectively so as to maintain its market share. Noting that electricity is the agent for sustainable economic growth, the availability, accessibility, reliability and affordability of this commodity must be guaranteed both in the medium-term and the long-term, (KenGen, 2009). One of the key drivers for the realization of the Kenya Vision 2030, which targets a sustainable economic growth of 10%, is the availability of electric power (MOE, 2011). It was against this background that KenGen formulated the “Good to Great from Generation to Generation”, (G2G) strategy in 2008. The strategy signifies KenGen’s goal of moving from a “Good” to a “Great” company, through creating sustainable value from one “Generation” to the next “Generation” of Kenyans.

The G2G strategy is implemented using the balanced scorecard. The balanced scorecard was introduced in KenGen as a strategy implementation tool in 2002. This was after formulation of the ten year business plan that covered the years 2001 to 2011. After the introduction of the balanced scorecard in 2002, its implementation did not last. However, it was reintroduced in 2005, though it was not until 2008 that the scorecard was cascaded to the shop floor. Although the scorecard still existed between 2010 and 2011, the shop floor and middle level management did not make much reference to it. In 2012, the scorecard doubled up as a performance contract for the divisional directors with a desire to cascade it to the shop floor. Is it possible that the trend noted above is an indication that there could be challenges in the application of the balanced scorecard in KenGen? Given the nature of its operations and the key strategic position it is playing in the economy, KenGen has to tackle any problem emanating from its strategy implementation tools so as to ensure effective strategy implementation.
1.2 Research Problem

Market-driven entrepreneurial activities result into the crafting of strategy while operations drive strategy implementation. The ability to implement strategies effectively is essential for all organizations. However, in many organizations, strategy formulation overshadows strategy implementation. Organizations have to select a tool for implementation of its strategies. The factors affecting selection of a strategy implementation tool differ from one organization to the other. One of the tools used for strategy implementation is the balanced scorecard. Although the use of the balanced scorecard has gained popularity, its implementation poses some challenges. Some of the challenges include poor leadership, poor managerial style, poor design, process failures and lack of sufficient resources.

Electricity demand in the country is significantly rising faster than supply mainly due to the accelerated productive investment and increasing population. This has led to the entry of IPPs in the market to meet the unsatisfied demand. With this realization, KenGen adopted the balanced scorecard in 2002 as a strategy implementation tool. The main aim of the scorecard was to help in implementation of KenGen's strategic plan of; retaining its market share in the East African region and reducing reliance on hydro generation of electricity. The balanced scorecard was intended to align the day to day activities of the employees to KenGen's vision and strategy. After the initial introduction of the balanced scorecard in 2002, its implementation did not last. KenGen reintroduced the scorecard in 2005. It was cascaded down to the shop floor, on a pilot basis, in 2008. In 2010 and 2011, the middle and shop floor did not feel its effect. The intermittent use
of the balanced scorecard in KenGen could be a sign of challenges in implementation of the balanced scorecard. It is against this background that the study seeks to understand the challenges posed in the application of the balanced scorecard as a strategy implementation tool in KenGen.

Scholars have studied the role of the balanced scorecard, in strategy implementation, in different sectors. Mucheru (2008) carried out a survey on the application of the balanced scorecard in performance management among commercial banks in Kenya. Karimi (2010) carried out a case study of Safaricom, on the use of the balanced scorecard in strategy development and implementation while Ogendo (2010) carried out a study on the application of the balanced scorecard in strategy implementation by Unilever Tea Kenya Limited. The above studies did not focus on challenges of the balanced scorecard as a strategy implementation tool. However, Mulu (2010), focused on challenges of the balanced scorecard in strategy implementation, in Ernst & Young, Kenya.

The challenges faced in the application of the balanced scorecard would not be assumed to be similar across organizations, unless empirical studies prove so. This is due to the contextual, sectoral and managerial differences among the organizations. Mulu's (2010) research focused on Ernst & Young, which is an audit firm, and there is the need to assert her findings in a different context – in this case KenGen, since it is in a different industry. Therefore, the research question that this study seeks to answer is, “what are the challenges of application of the balanced scorecard as a strategy implementation tool in KenGen?”
1.3 Research Objective

The objective of the study is to determine the challenges of application of the balanced scorecard as a strategy implementation tool in KenGen.

1.4 Value of the Study

The study will help KenGen to understand the challenges of the balanced scorecard in strategy implementation. This will assist in effective implementation of the balanced scorecard in KenGen. The company will be able to address challenges emanating from implementation of the balanced scorecard and improve organizational performance.

Similarly, the study will add to knowledge which can be used by academicians, scholars and researchers. It will form a reference point in examining the challenges of the balanced scorecard in strategy implementation. The study will be useful to practitioners and policy makers in the field of strategic management.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter provides information from the review of literature on strategy implementation, strategy implementation tools, and the balanced scorecard. It also outlines information available on the challenges of application of the balanced scorecard as a strategy implementation tool. The literature review was from a general perspective, owing to the lack of literature focusing directly on strategy implementation using the balanced scorecard in the Kenyan electricity sub-sector.

2.2 Strategy Implementation

Strategy implementation describes the actual procedures that move strategic intent into actions that will produce results, (Pearce and Robinson, 2000). It is the action phase of the strategic management process. It is also the process of allocating the required resources to support the chosen strategies, (Thompson and Strickland, 2003). The process includes several management activities required to; translate the strategy into action, establish strategic controls that monitor progress and eventually get organizational goals. According to Harvard Business School (HBS) (2005) many executives like strategizing but may not pay much attention to strategy implementation. However, if a company does not give equal or greater attention to the harder and less glamorous work of implementation, a strategy is nothing but hot air.
After settling on the creative and analytical aspects of strategy formulation, managerial priority changes to converting the strategy into operationally effective actions, (HBS, 2005). Indeed a strategy is never complete after formulation until it gains commitment of the organization’s resources and becomes part of the organization’s activities, (Pearce and Robinson, 2000). Strategy should be put to action because the choice of even the soundest strategy will not affect organizational activities and implementation of its objectives, without effective execution, (Kaplan and Norton, 2008). Implementation of strategy is likely to be successful when there is consensus between intangible assets such as organizational structure, culture, resource allocation, staff competencies and capabilities, support systems, reward systems, policies and procedures and leadership style (Thompson and Strickland, 2003).

The goal of strategy implementation is to mobilize the entire organization behind the vision, strategies and objectives of the organization. This is strategy institutionalization, (Gary, Karla and Powers, 2008). Well designed strategies are not necessarily popular. Institutionalization of strategy is vital to avoid undermining of the strategy. Management should submit the strategy to the members of the organization in a way that appeals to them and draws their support. Once the members of the organization think the strategy as their own, they will ensure that activities carried out are in a manner that strongly matches requirements for first rate strategy implementation, (Musyoka, 2011). This will cause such a determined commitment at all organizational levels that a passionate crusade emerges to carry out strategy, (Karani, 2009). After acceptance of the strategy in the entire organization, the main role of strategy implementation shifts to building an effective organization, allocating sufficient resources to strategy’s essential activities,
establishing strategy supportive policies and procedures, instituting best practices and mechanisms for continuous improvement, (Pearce and Robinson, 2000). For effective implementation of strategy, organizations must select the most appropriate strategy implementation tool.

2.3 Strategy Implementation Tools

Although, effective implementation of strategy is a must for organizations, each implementation occurs in a different context, (Musyoka, 2011). Different factors such as business practices, competitive situation, organizational culture, reward systems, organizational history among other factors (Karani, 2009), affect strategy implementation. The approach to strategy implementation should be customized to fit an organization. Organizations must choose the strategy implementation tool that gives them competitive advantages. Some of the common strategy implementation tools include: Mckinsey 7s model, total quality management, commonly referred to as TQM and the balanced scorecard among many others.

Over thirty years ago, Tom Peters and Robert Waterman developed the McKinsey 7-S model, to help implement strategies, (Simister, 2011). According to Peters (2011) all that was necessary for successful strategy implementation was aligning strategy to structure and vice versa. This was not enough and McKinsey developed the 7-S model to show that a softer set of issues should also be considered when implementing strategy. The 7 S’s are: strategy, structure, systems, style, staff, skills and shared values. The underlying concept of the model is that all the seven variables must fit into one another for a strategy to be successfully implemented. (Karani, 2009).
Total Quality Management (TQM) is another strategy implementation tool, based on intense focus on customer satisfaction, (Pearce and Robinson, 2000). The definition of quality is from the customers' perspective. Pearce and Robinson argue that TQM focuses on accurate measurement of every critical variable in an organization's operations; on continuous improvement of products, services and processes; and on work relationships built on trust and teamwork. TQM capitalizes on the involvement of management, workforce, suppliers, and even customers, in order to meet or exceed customer expectations and to implement strategies effectively. Other tools of strategy implementation include management by objectives and performance related tools such as performance contracts, key performance indicators and the balanced scorecard approach.

2.4 The Balanced Scorecard

According to Pearce and Robinson (2000) the balanced scorecard is a set of measures directly linked to the company's strategy. It is a management system used to align business activities to the vision statement of an organization. More realistically, a balanced scorecard attempts to translate the company's vision and mission statements into action at every level of the organization. The collision between the pressure to establish long-range competitive capabilities and the historical financial model led to the creation of the balanced scorecard (Kaplan and Norton, 1996). The balanced scorecard retains traditional financial measures that tell the story of past events. Kaplan and Norton, further suggest that the balanced scorecard maintains the financial perspective since financial measure is useful in summarizing the easily quantifiable economic
consequences of actions already taken. Financial measures indicate whether a company’s strategy implementation is contributing to the bottom line improvement. Typical financial measures include profitability measures such as return on sales, return on capital employed and generation of cash flows.

Kaplan and Norton (2007) noted that exclusive reliance on financial measures is inadequate in this current era of intense competition. Organizations have to struggle to create and sustain a competitive edge to survive in the turbulent business environment. Competitive advantage emanates from investment in customers, suppliers, employees, processes, technology and innovation. In addition to the financial measures, Kaplan and Norton introduced three other perspectives, namely; customer, business processes and learning and growth. Under the customer perspective, managers understand the customer and market segments in which the organization will compete. This perspective typically includes measures of successful outcomes from a well formulated and implemented strategy which include customer satisfaction, customer retention, and new customer acquisition among others, (HBS, 2005).

Kaplan and Norton (2008) suggested that, under the internal business process perspective, executives identify the key internal processes, in which the organization must excel. These processes will enable the organization to deliver the value propositions that will attract and retain customers in targeted market segments. The processes will also lead to stakeholder satisfaction and will ultimately translate into excellent financial returns. The internal business process perspective gives room for
deviation from traditional business processes, which leads to innovative business processes. This perspective incorporates objectives and measures for both the immediate and long run innovation cycles.

According to Kaplan and Norton (2007) the fourth perspective of the balanced scorecard is learning and growth. It identifies the infrastructure that the organization must establish to build long-term growth and improvement. Kaplan and Norton observed that, organizations are unlikely to be able to meet their long-term targets for customers and internal processes using today's technologies and capabilities. This calls for ongoing development of capabilities to deliver value to customers and shareholders. People, systems and organizational procedures are the primary sources of learning and growth.

HBS (2005) noted that the financial, customer and internal business processes perspectives reveal gaps between existing capabilities of individuals, systems and procedures and the required capabilities to achieve breakthrough performance. Organizations have to invest in reskilling employees, enhancing technology and systems and aligning organizational procedures and routines, to close these gaps.

2.5 The Balanced Scorecard and Strategy Implementation

According to Kaplan and Norton (2001) most companies' operational and management control systems revolve around financial measures and targets. These have little relevance to the company's progress in achieving long-term strategic objectives. Thus, the importance most companies put on short-term financial measures leaves a gap between the development of a strategy and its implementation. Managers using the
balanced scorecard do not have to rely on short-term financial measures as the sole indicator of the company's performance. The scorecard lets them introduce four different management processes that, separately and in combination, contribute to linking long-term strategic objectives with short-term actions, (Kaplan and Norton, 2008).

Kaplan and Norton (2008) describe the four processes as; firstly, translating the vision and strategy. This helps build consensus around the organization’s vision and strategy. It also helps members of the organization to recognize the long – term drivers of success described in the vision and mission statements. The vision and strategy statements must be expressed as agreed upon by members of the organization. This will create a sense of ownership of the vision and mission and will facilitate translation of the same into action by the entire organization.

According to Kaplan and Norton (2008), the second process is communicating and linking. This process enables managers to communicate the strategy both up and down in the organization. This ensures that all levels of the organization understand the long-term organizational strategy. Members of the organization are then able to relate their personal objectives to the departmental and finally the organizational objectives. This paves way to the third process which according to Kaplan and Norton is business planning. The process enables organizations to integrate the business plans with financial plans. The goals set for the balanced scorecard measures are the basis for allocating resources and setting priorities. This ensures that the organization undertakes and coordinates only those initiatives that move them toward achievement of their long term strategic objectives.
Kaplan and Norton (2008) argue that the fourth process is feedback and learning. This process gives organizations the capacity for strategic learning. Existing feedback and review processes focus on whether the company, its departments, or its individual employees have met both their strategic and budgeted financial goals. With the balanced scorecard, at the center of its management systems, a company can monitor short-term results from the three additional perspectives namely; customers, internal business processes, and learning and growth and evaluate strategy in the light of recent performance. According to Kaplan and Norton, the scorecard thus enables organizations to learn from the past mistakes and adjust strategies to reflect the business realities.

### 2.6 Challenges of Application of the Balanced Scorecard as a Strategy Implementation Tool

Kaplan and Norton (2007) observed that the challenges facing the use of the balanced scorecard can originate from either design or process failures. Design failures occur when companies build poor balanced scorecards. For example, companies may use too few measures and fail to achieve a balance between the outcomes they are trying to achieve and the performance drivers of those outcomes. Others include far too many measures and never recognize the vital few. Lack of alignment of the business units to the overall organizational strategy regardless of the implementation tool used could pose a challenge to strategy implementation. Kaplan and Norton further noted that the most common causes of the balanced scorecard implementation challenges are poor organizational processes and not wanting scorecard designs. Some examples of poor organizational processes include; lack of senior management support, too few individuals involved in the development of the scorecard and keeping the scorecard at the top.
According to Mulu (2010) some of the challenges facing application of the balanced scorecard in strategy implementation include lack of inclusion and discussion in the development of the balanced scorecard, lack of evaluation of the balanced scorecard measures whenever the organization experiences fundamental changes and ensuring that the balanced scorecard measures reflect customer and stakeholder's expectations. Mulu also noted that another challenge is the lack of balanced scorecard understanding. Many organizations assume that once senior management has agreed on their balanced scorecard and their indicators, everyone will happily implement it. The need for training and communication about the balanced scorecard approach and its aims and objectives should not be underestimated.

According to Rohm (2008) one of the main problems with balanced scorecards arises when senior managers use the performance indicators identified to apply a command-and-control approach, in which they use the indicators to punish or reward people. This creates fear and resistance amongst the employees. Instead, managers should use their balanced scorecards to foster a learning culture, and support employees to improve future performance. According to Marr (2010) there are organizations which assume that a balanced scorecard can be developed and maintained with no additional resources. It is necessary to give people the time and financial support they need to make it work. Best practice would be to create an internal team that facilitates the implementation and maintains the system over time. This team's role typically includes revising and cascading the balanced scorecard, collecting the performance indicators, analyzing performance information, facilitating performance reviews and reporting performance.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides details of the research design and data collection technique used. It also describes the data analysis approach used in the study. This was against the background of the research objective of establishing the challenges faced in the application of the balanced scorecard as a strategy implementation tool in KenGen.

3.2 Research Design

The research design of the study was a case study of Kenya Electricity Generating Company (KenGen). A case study was the most appropriate since it had the benefit of providing an in-depth and thorough investigation of challenges of the balanced scorecard in strategy implementation. The case study focused on the depth of the matter rather than the breadth. It was also appropriate in providing qualitative evidence, which was of interest to this study.

Case studies excel at enhancing understanding of complex issues. They also offer experience or increase depth to what has been established through previous researches. Case studies emphasize detailed contextual analysis of a limited number of events and conditions and their relationships. Previous studies of a similar nature have successfully used this method. Examples include: Mulu (2010) Karani (2009) and Ogendo (2010) among many others.
3.3 Data Collection

The study used both primary and secondary data to meet its objectives. Collection of primary data was through the use of an interview guide, administered by way of personal interviews. The respondents were three executives charged with the responsibility of strategy implementation, development and cascading of the balanced scorecard. The executives were the Transformation and Monitoring manager, the Performance and Change manager and the Capital Planning and Execution manager. The interview guide consisted of open ended questions designed in line with the objective of the study. The interview guide was appropriate since it provided the interviewer with complete control over the interview and also gave an opportunity to probe further. Information from the performance boards also contributed to the primary data.

Collection of secondary data was from KenGen’s strategic plans, published annual financial statements, staff magazines and internal records. The corporate scorecard and divisional scorecards were also sources of secondary data. This provided information on aspects of the balanced scorecard that was not readily available from the respondents. Secondary data was essential in the formation of the study’s literature review.

3.4 Data Analysis

The interview guide was checked for completeness and consistency, before processing the data. The analysis of the data collected was according to the objective of the study. Content analysis was the data analysis technique. Nachmias & Nachmias (1996) define content analysis as a technique for making inferences by systematically and objectively
identifying specified characteristics of messages and using the same approach to understand trends. According to Mugenda and Mugenda (1999), content analysis involves observations and detailed descriptions of objects, items or things that comprise the study. Content analysis is useful in obtaining new ideas in even what is thought to be unknown.

The research analyzed data from the interview guide to determine the level of emphasis or omission and relationships. This led to the elementary theory development which focused on constructs and relationships among the constructs. It was possible to identify key themes through the choice of words by the respondents. After identifying the themes, categories and patterns the researcher evaluated and analyzed the data to determine the effectiveness of the information in answering the research question. Previous studies of a similar nature have successfully used this method. Examples include: Mulu (2010) Karani (2009) and Ogendo (2010) among many others. Secondary data analysis also gave an overview of the focus of the study.
CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction
This chapter presents data findings, their analysis and interpretation. Collection of data was by use of an interview guide. The total number of persons interviewed were three namely; the Transformation and Monitoring Manager, the Capital Planning and Execution manager and Performance and Change manager. Collection of secondary data was from KenGen’s strategic plans, business plans, published annual financial statements, staff magazines and internal records. The corporate scorecard and divisional scorecards were also sources of secondary data. This provided information on aspects of the balanced scorecard that was not readily available from the respondents.

Analysis of the findings of the study was in accordance with the objectives of the study which was to establish the challenges faced in the application of the balanced scorecard as a strategy implementation tool in KenGen. The findings are presented in three main sections namely; strategy at KenGen, application of the balanced scorecard as a strategy implementation tool in KenGen and the challenges faced in application of the balanced scorecard as a strategy implementation tool in KenGen.

4.2 Strategy at KenGen
The interviewees noted that the environment in which KenGen operates has changed significantly in the last few years. For instance, in May 2006, the Government of Kenya, which until then wholly owned KenGen, offloaded 30% of its shareholding through an
initial public offering at the Nairobi Securities Exchange (NSE). Another significant environmental change according to KenGen (2009) is that KenGen’s market share considerably reduced during periods of prolonged drought due to over reliance on hydro generation of electricity. The interviewees also noted that according to the MOE, (2011) report, since 2003, the Kenyan economic growth has been on an upward trend. This growth has translated to an average annual electric power demand growth rate of 8%. According to the interviewees, the demand of electricity has surpassed the supply due to the capital intensive nature of the electricity subsector.

It was against this background that the Company developed an ambitious transformation strategy branded “Good-to-Great Transformation” that intends to increase its capacity to ~3,000MW by the year 2018. Table 1 below shows the historical electricity demand over the last three years against effective capacity in Kenya:

**Table 1: Comparison of Historical Electricity Demand against Effective Capacity in Kenya**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Peak Demand (MW)</td>
<td>1,036</td>
<td>1,072</td>
<td>1,107</td>
<td>1,191</td>
</tr>
<tr>
<td>% Growth in Peak Demand</td>
<td>3 (%)</td>
<td>3 (%)</td>
<td>8 (%)</td>
<td></td>
</tr>
<tr>
<td>Effective Capacity (MW)</td>
<td>1,267</td>
<td>1,280</td>
<td>1,416</td>
<td>1,429</td>
</tr>
<tr>
<td>% Growth in Effective</td>
<td>1 (%)</td>
<td>11 (%)</td>
<td>1 (%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Ministry of Energy (2011)
From table 1, the demand of electricity is growing faster than the effective capacity available for supply to the national grid. In the years, 2008/09 and 2009/10 the demand grew at 3% while, in the year 2010/11, the demand grew by 8%. On the other hand, supply of electricity increased by 1% in the year 2008/09, 11% in 2009/10 and 1% in 2010/11. The effective capacity indicated in table 1 is applicable during normal hydrology. During low hydrology, the effective capacity diminishes considerably, necessitating procurement of expensive emergency power. KenGen (2009) noted that the peak demand is projected to grow to about 2,500MW by 2015 and 15,000MW by 2030. According to KenGen, to meet this demand, the projected installed capacity should increase gradually to 19,169 MW by 2030. The interviewees noted that, as the leading supplier of electric power, KenGen is determined to lead the necessary capacity expansion both in Kenya and the East African region. The 2008 strategic plan demonstrates this. The strategic plan is in three horizons as shown in figure 2.

The first two strategic horizons shown in figure 2 are of five years each. The first horizon covers the years between 2008 and 2012. The “burning platform” under the first horizon is to stabilize the power situation in Kenya by 2012. This is in an effort to move away from fire fighting to meet demand and create sustainable growth for Kenya, (KenGen, 2009). Under this horizon, the company hopes to increase its generation capacity from 945MW in 2007 to ~ 1,500MW in 2012/13. According to the interviewees, KenGen’s current installed generation capacity is 1,189 MW and there are ongoing projects with an additional capacity of 325MW.
The second horizon covers the years 2013-2018. Under this horizon, KenGen seeks to increase electricity generation to 3,000MW by the year 2018. The interviewees mentioned that this stabilization phase will require KenGen to focus on delivering optimal future projects on time and budget. It also calls for growing supply ahead of demand to reestablish a strong reserve margin. Under this horizon, KenGen seeks to increase geothermal capacity by 1,260MW. According to KenGen’s 2008 strategic plan, this will require KenGen and all other stakeholders, including the government, to place more attention and resources on geothermal power development. As demand for power
continues to grow in Kenya, geothermal power on its own will become less and less able to meet Kenya’s growing demand. To complement geothermal power generation, KenGen is considering other new technologies such as coal and compressed natural gas, (KenGen, 2009).

Under the third horizon which covers the years beyond 2018, KenGen will seek to explore growth opportunities beyond Kenya, (KenGen, 2009). The interviewees noted that delivering on Kenya’s power needs will win KenGen the right to explore regional development opportunities. For example, successfully delivering on key geothermal, wind and hydro capacity expansion projects could allow KenGen to emerge with strong project management skills and drive capacity expansion projects in these technologies outside Kenya. Further, the interviewees suggested that, driving for operational excellence within new and existing plants will grow KenGen’s capacity and capability to run other plants in Africa. This will create a strong African footprint.

"KenGen should work towards being the leader in technology and innovation in areas such as geothermal, where it has the potential to attract, develop and retain world-class expertise," said one of the interviewees. As KenGen delivers on Horizons 1 and 2, which are focused around creating sufficient supply for the Kenyan market, it should remain cognizant of growing regionalization in the sector. Examples of regional projects which are likely to be strategically significant for KenGen are large hydroelectric power capacity expansions in Ethiopia, regional interconnections with neighboring countries, etc, (KenGen, 2009). The company should maintain the right to play in the regional supply of power through effective regulatory and stakeholder management. The
ambitious growth strategy as shown in figure 2 stretches KenGen. To be successful key attention will be required across three key strategic pillars, shown below in figure 3.

**Figure 3: KenGen's "Good" to "Great" Transformation Strategy**

![Figure 3: KenGen's "Good" to "Great" Transformation Strategy](image)

Source: KenGen (2009)

From figure 3, KenGen will need to focus on three strategic pillars, supported by organizational effectiveness in order to deliver on its vision. The three strategic pillars are: capital planning, regulatory management and operational excellence. The strategic pillars are founded on an effective organization. Within each of the pillars and organizational foundation, 15 focus areas, were identified. They are underpinned by KenGen’s corporate goals. According to the interviewees, the focus areas will be the key to transforming KenGen from a “Good” to a “Great” organization, capable of successfully expanding the supply of power in Kenya over the three strategic horizons.
Under the capital planning and execution pillar, the focus areas are: effective delivery of current projects, (CP1), aggressive geothermal expansion, (CP2) and improvement of capital planning and execution processes, (CP3) as shown in figure 3. The interviewees noted that KenGen has made a conscious effort to reduce dependence on hydro generated electricity and increase geothermal generation of electricity to 1,260MW. This was occasioned by the fact that hydro generation has become unreliable due to the frequent droughts experienced across the country as a result of climate change. The Government is promoting the use of renewable energies that are clean, environmentally friendly and less susceptible to climate change disruptions, to mitigate this trend. Geothermal, being abundant in Kenya was identified as a suitable replacement for hydro for base load power supply, (MOE, 2011). Cognizant of this fact, KenGen has embedded geothermal expansion, (CP2), in its strategic plan as shown in figure 3, under the capital planning and execution pillar.

Regulatory management is the second strategic pillar. The interviewees noted that driving effective regulatory management will require action on the following priority areas: improving the efficiency of the current single buyer model, (RG1). This can be achieved through close collaboration with Kenya Power and the Energy Regulatory Commission, (ERC). Effectively steering the deregulation process, (RG2), is the second focus area under the pillar whose goal is to maximize the value for both KenGen and Kenya as a whole. The third focus area is to create a new regulatory management structure within KenGen, (RG3). This will ensure proactive management of KenGen’s main stakeholders such as Kenya Power and ERC.
The third pillar is operational excellence. To achieve this, KenGen will have to focus on optimization of current maintenance practices, (OP1). According to the interviewees, this can be achieved through observing both planned and annual maintenance schedules to avoid maintaining of plants when they breakdown. The second focus area under the pillar is the reduction of operational and overhead costs, (OP2). Currently, there are awards for employees that are able to save on operational and overhead costs. The final focus area under the strategic pillar is improving key processes that impact on operational effectiveness, (OP3). This can be achieved through promotion of innovation.

According to KenGen (2009), for effective delivery on the three strategic pillars, KenGen will need to place emphasis on improving organizational effectiveness. This will require emphasis on installing a new performance management system and instilling a performance culture, (OG1). It will also call for developing a transparent promotion and succession planning, (OG2). Improvement of the organizational structure and governance to support the G2G strategy (OG3) is also crucial. Linking the annual planning and budgeting cycle to strategy, (OG4) and promoting innovation and continuous improvement, (OG5) will drive KenGen from being a “Good” to a “Great” company. KenGen will also have to utilize information technology to improve the effectiveness of the company, (OG6).

According to the interviewees, Major Transformation Initiatives (MTIs) are identified to achieve the corporate goals in each focus area. The MTIs are translated into milestones as well as Key Performance Indicators, (KPIs). All key activities required to achieve
these MTIs have also been defined and an overall implementation master plan developed for the G2G transformation. In order to ensure implementation of the MTIs, which will be critical to drive and follow through the G2G transformation strategy, a Transformation Monitoring Office (TMO) was established, (KenGen, 2009). The TMO comprises of a transformation manager, transformation administrators and champions and additional expert resources such as a communication expert. This office is responsible for providing operational leadership; driving sustainability of the transformation effort; tracking progress and synthesising status, and developing and implementing a robust communications strategy.

4.3 The Balanced Scorecard as a Strategy Implementation Tool in KenGen

The interviewees noted that the balanced scorecard was introduced in KenGen as a strategy implementation tool in 2002. According to the interviewees, the main aims of its introduction were to: increase focus on strategy and strategic results; improve organizational performance by measuring what matters; align organizational strategy with the work people do on a day to day basis; focus on the drivers of future performance; improve communication of the organization’s vision and strategy and prioritize projects and or initiatives. Further, the interviewees mentioned that the scorecard was introduced after the development of the 2001 strategic plan of increasing KenGen’s generating capacity to 1,250 MW by the year 2011. In 2003, KenGen abandoned the use of the balanced scorecard. However, it was reintroduced in 2005 and doubled up as a performance evaluation tool for divisional directors, departmental managers and chiefs in charge of different sections. In 2008, KenGen formulated the
G2G strategy as shown in figure 3, in 2008. The interviewees noted that, with the new strategic plan, the balanced scorecard was cascaded to the shop floor of KenGen on a pilot basis.

During this period, the balanced scorecard was co-ordinated by TMO. The interviewees mentioned that, in 2008, the responsibility of cascading the balanced scorecard from the divisional level to the shop floor, shifted to the Performance and Change Management function. The interviewer noted that currently, the Business Development and Strategy (BDS) division together with TMO are in charge of developing the corporate balanced scorecard. BDS and TMO ensure that the corporate scorecard is cascaded to all the divisions in KenGen. The Performance and Change Management office ensures the balanced scorecard is cascaded to all other levels.

The interviewer observed that KenGen's balanced scorecard approach has the four general perspectives as developed by Kaplan and Norton. The perspectives are financial, customer, internal business process and learning and growth. According to the interviewees, the financial perspective describes the desired productivity and growth outcomes of KenGen. The customer perspective looks at the customer value proposition which expected from KenGen’s internal and external customers. The business process looks at the outstanding performance in internal processes that will lead to improved financial performance and stakeholder satisfaction. The learning and growth perspective describes the capabilities required from intangible assets for KenGen to remain competitive.
The interviewer noted that KenGen uses strategy maps to assist in describing and visualizing its strategy and vision. Figure 4 illustrates KenGen’s strategy map.

**Figure 4: KenGen’s Strategy Map**

**Vision:**
To be the market leader in the provision of reliable, safe, quality and competitively priced electric energy in the Eastern Africa region

**Financial Perspective**
- **Growth Strategy**
  - Increased revenue through accelerated capacity growth
- **Productivity Strategy**
  - New sources of non-electricity revenue
  - Optimize Cost
  - Maximize Use of Existing Assets

**Customer Perspective**
- **Delight the Consumer**
  - Reliable, safe and Quality Supply
  - High availability of supply of **99%**
  - Easy and fast interaction
- **“Win-Win Relationship”**
  - A win-win PPA
  - Help develop a suitable power model for Kenya

**Internal Perspective**
- **“Drive Dramatic Growth”**
  - Secure adequate funding on favorable terms
  - Exploit alternative and renewable energy sources and drive for CDM approvals
  - Manage end to end capacity investment to ensure capacity meets demand
  - Improve and Maintain friendly Environmentally and safety Practices
  - Excel in managing the project Lifecycle to time, quality and budget - Stage gate process
- **“Drive Operational Excellence”**
  - Actively develop, negotiate effectively and manage a win-win PPA
  - Jointly influence favorable regulatory environment and compliance
  - Influence usage to drive better utilization of energy
  - Contribute to Kenya and society while supporting environment
  - Increase customer base beyond KPLC
  - Set up and efficiently operate customer communications desk

**Learning & Growth Perspective**
- **Climate for Action**
  - Human capital readiness & effective governance
- **Competencies**
  - A Motivated and Prepared Workforce
- **Technology**
  - Optimal management of water and steam reservoirs and thermal fuel

**Source:** KenGen (2010)
The strategy map provides a visual framework for the strategy. It also illustrates value creation among the four balanced scorecard perspectives. The interviewer noted from KenGen's business plan that the order of KenGen's four perspectives from the lowest to the highest is learning and growth, internal business processes, customer perspective and financial perspective. The interviewer noted that from, figure 4, the arrows of effect are from lower perspectives to higher perspectives that is, from learning and growth perspective, internal business processes, customer perspective and ultimately the financial perspective. This implies that learning and growth perspective has a direct impact on internal process perspective, which in turn affects the customer satisfaction.

Ultimately, the financial perspective is affected by the customer perspective. It was also noted that strategic results emerge from the learning and growth perspective which is the lowest, to the financial perspective which is the highest. On the other hand, the arrows of strategic inference, (not shown on the map), are from the higher perspectives to the lower perspectives. In terms of planning, KenGen, therefore, looks at the highest perspective, to determine its target, then determines what action should be done at each of the lower perspectives, inorder to achieve its goal. The interviewer sought to understand the interrelationships between the balanced scorecard perspectives. According to KenGen's business plan, the interrelationships flow from the highest perspective to the lowest perspective and also in the reverse order. Figure 5 illustrates the interrelationships.
The interviewer noted that, from figure 5, the arrows flowing from learning and growth perspective to the financial perspective represents the strategic results which flow from the lowest to the highest perspective. Achievement of the objectives under the learning and growth perspective will lead to improved internal business processes. For example, improved organisational culture leads to increase in innovation of the internal business processes. Improvement of the internal business processes leads to improved customer satisfaction. This is due to the alignment of the internal business processes to suit the needs of KenGen’s internal and external customers. Improved customer satisfaction leads to growth in financial performance of the company. The interviewer also noted that, as shown in figure 5, strategic inference flows from the highest perspective, (financial perspective), to the lowest perspective, (learning and growth).
4.3.1 Corporate and Divisional Scorecards

According to the interviewees, KenGen’s corporate scorecard is the cornerstone of cascading objectives to teams and personal levels throughout KenGen. “Cascading the scorecard ensures that all employees in the Company understand how they contribute to the achievement of the corporate strategy,” said the interviewees. The balanced scorecard facilitates the alignment of employees’ goals to the corporate goals. The interviewer observed that KenGen’s corporate balanced scorecard measures achievement of corporate objectives in four broad perspectives which are: financial, customer, internal business processes and learning and growth.

According to the interviewees and KenGen (2011), the corporate balanced scorecard is developed from the vision of KenGen which is anchored on three strategic pillars with a foundation of organizational effectiveness, as shown in figure 3. From the focus areas, corporate goals are developed from within each of the strategic pillars. Key performance indicators are then determined from the corporate goals. Figure 6 illustrates how KenGen’s vision is translated to the balanced scorecard.

Figure 6: Translation of KenGen’s Vision to the Corporate Scorecard

Source: KenGen (2011)
From figure 6, KenGen’s vision is translated to the three strategic pillars which are capital planning and execution, regulatory management and operational excellence. The foundation of the pillars is organizational effectiveness. To further translate the strategic pillars and foundation to organizational action, focus areas underpinning the corporate goals are identified. From the corporate goals, Key Performance Indicators (KPIs) are then identified. The corporate goals and KPIs are then transferred to the corporate scorecard. Performance measures, target dates and weights for each of the corporate goals are clearly defined. Appendix V is a specimen of KenGen’s corporate balanced scorecard.

The corporate scorecard is then ready to be cascaded to the divisional directors’. The interviewer noted that, after cascading of the corporate scorecard to the divisional level, the corporate goals are translated into divisional objectives/goals. The interviewees mentioned that at the divisional scorecard level, major transformation initiatives (MTIs) to support delivery of the divisional scorecard goals are identified. The MTIs describe the activities that need to be carried out to achieve each of the divisional goals. The interviewer observed that the Managing Director/CEO and each of the divisional directors’ signs off their respective divisional scorecard and a schedule of the MTIs. The divisional scorecards also serve as the performance contracts for each of the directors. The directors then cascade the scorecards to the managers. The managers use the divisional scorecards to determine their departmental goals.
Currently, cascading of the scorecards is up to the managers' level. However, plans are underway to cascade the scorecard to the shop floor. At this level, individual performance targets are derived from the MTIs and activities emanating from the divisional scorecards. The key performance measures for the staff at the shop floor are communicated through performance targets and weekly performance board meetings. The interviewer observed that every sectional team leader has a performance board and ensures that his/her team meets on a weekly basis, to assess the performance progress. Each board contains information on key performance indicators, allocation of critical tasks to each member of the team and the target date of completion. Information on the allocation of critical tasks and the target completion date is then transferred to a task tracking spreadsheet which is monitored by the TMO. The interviewees mentioned that, at the shop floor, performance evaluation is based on timely completion of critical tasks assigned to each of the staff.

4.4 Challenges of Application of the Balanced Scorecard as a Strategy Implementation Tool in KenGen

The balanced scorecard has been a tremendously useful tool in KenGen. The scorecard is used as a strategy implementation tool in KenGen. However, there have been various challenges that KenGen has faced in application of the balanced scorecard. This section will discuss the challenges of application of the balanced scorecard as a strategy implementation tool in KenGen. The challenges were identified during interviews with the respondents.
According to one interviewee, the fact that the corporate and divisional scorecards are not visible to levels below managers, poses a challenge in its application as a strategy implementation tool. The interviewee mentioned that the divisional directors and departmental managers understand the strategy and are involved in the development of the corporate and divisional scorecards. However, the interviewee noted that, for instance, not many middle, lower level and shop floor staff are aware of the divisional scorecard. Although their targets may be set for them by their bosses from the divisional scorecard, they might not be aware of the divisional or corporate scorecards. This would pose a challenge in the sense that employees, who have not seen the divisional or corporate scorecard, may not know how their actions or omissions affect the achievement of strategy in KenGen. This may undermine the achievement of corporate and divisional objectives in KenGen. Further the staff at the lower levels may not own the divisional goals which might pose a challenge in achievement of the goals.

Another challenge mentioned by the interviewees is the lack of understanding of the balanced scorecard and its application. The interviewees noted that the balanced scorecard is a complex strategy implementation tool. For instance, some employees are not particularly clear on what fits into each perspective of the corporate and divisional balanced scorecards. In such a case, what measured under each perspective might not necessarily be what is required to be measured. One interviewee noted that, from its vision, KenGen has an objective of providing competitively priced electric energy in the Eastern Africa region. It can, therefore, be deduced that KenGen would like to ensure that the prices charged to the final consumers for use of electricity are affordable.
However, under the customer perspective of the corporate and divisional scorecards, the end customer is not mentioned. This is because KenGen is not involved in the distribution of electricity directly to consumers. Lack of clarity on what fits into each perspective would lead to either inclusion of irrelevant measures or exclusion of measures that are crucial in delivery of the strategy. This may lead to the company not attaining its intended objectives, since efforts may not be targeted at activities resulting into effective delivery of KenGen’s vision and strategy. KenGen has tried to address this challenge through the balanced scorecard trainings targeted at the divisional directors, managers, chiefs and sectional heads.

Another challenge according to the interviewees is the lack of an effective reward policy framework. Although performance targets and evaluation of the same are based on the divisional and corporate scorecards, KenGen employees are not motivated to achieve the goals due to lack of reward and recognition. The interviewees mentioned that currently there is no clear reward policy based on individual performance. For instance, following the 2009 performance appraisals, all employees received the same reward regardless of their performance. This did not help to distinguish between goal achieving staff and mediocre staff. Further there is a delay in conclusion of performance appraisals and subsequent rewards. The 2009 rewards were paid to the employees in 2011. The practice has eroded the sense of responsibility and significantly reduced staff morale.

The result has been a decline of employees performing highly, since they too have learnt that there are no consequences for low achievers. As a result, this has had a negative
effect on the overall corporate performance of KenGen. An interviewee noted that, at the shop floor, employees' reward policy is not primarily based on performance but rather on collective bargaining agreements, (CBAs) signed by the union officials. The CBA is a legally binding contract, and whether or not the employees achieve their targets, they are entitled to increments as outlined in the CBA’s. This inhibits the culture of performance among the shop floor employees.

One interviewee identified under communication of strategy and the balanced scorecard to the shop floor as a challenge in implementation of the balanced scorecard in KenGen. The interviewee noted that while the top executives are involved in strategy formulation and thus clearly understand it, the shop floor staff may not have the same level of understanding since they are not involved in strategy formulation. The interviewee appreciated the efforts that made to communicate the strategy in different organizational forums, but noted that this may not be sufficient communication for the shop floor. This is because the strategy and the balanced scorecard should be communicated in a language that the shop floor appreciates. According to the interviewee, the shop floor should be able to understand how their daily activities impact on achievement of the corporate scorecard. With this understanding, the shop floor will not only help in achieving corporate goals, but they will also suggest innovation in their daily activities.

The interviewees noted that the orthodox ‘don’t care public sector culture’ amongst some employees has also been a challenge of application of the balanced scorecard in KenGen. Until 2006, KenGen was 100% owned by the Government of Kenya. As was typical in
many public offices then, there was no performance culture. KenGen was not an exception to this. After the Government of Kenya sold off 30% of its shareholding to the public through the initial public offer, KenGen made resolute efforts to change the nonperformance culture. According to the interviewees, the G2G strategy has also contributed significantly towards the change of organizational culture. However, some employees have not been able to shake off the previous culture. As a result, they have not managed to achieve their goals. Lack of synergy between strategy and culture obstructs the smooth implementation of strategy by creating resistance to change.

The interviewees noted that another challenge has been how to cascade the balanced scorecard to the shop floor of KenGen. Whereas there are intentions to cascade the balanced scorecard to the shop floor, it is not clear how this would be done. For instance, one question that begs is whether the weightings of the balanced scorecard at the corporate level should also be cascaded as they are to the shop floor for all the roles. In some cases, this may not be possible since some roles are routine while others require a lot of mental judgment. In this case, it would be unfair to give the same weightings to both routine and non routine roles. Secondly, should all the perspectives of the balanced scorecard be included in the shop floor scorecards? The interviewees mentioned that, as the corporate scorecard is cascaded downwards, some of the perspectives may become irrelevant to some employees.

An interviewee indicated that another challenge faced in the use of the balanced scorecard in strategy implementation is subjectivity in evaluating some of the
perspectives. Whereas the financial perspective is quantitative in nature, the other perspectives such as learning and growth and internal business processes are qualitative in nature and thus vulnerable to subjectivity. According to the employee, this creates a challenge in linking the financial perspective with the other perspectives of the scorecard. Other challenges mentioned by the interviewees include; lack of inclusion of the middle level and shop floor staff in the development of the departmental scorecards objectives derived from the divisional scorecards. Lack of support of the balanced scorecard by some of the departmental managers has also affected implementation of the scorecard in KenGen.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

In conclusion, this chapter summarizes the findings of the research which were focused on the main objective of the study which was to establish the challenges faced in the application of the balanced scorecard as a strategy implementation tool in KenGen. The chapter also highlights the limitations of the study, and suggestions for further research and recommendations for institutional policy and practice.

5.1 Summary

The findings of the research are that KenGen uses the balanced scorecard as a strategy implementation tool. Although the balanced scorecard has been a valuable tool in strategy implementation, KenGen has encountered certain challenges. This summary section will discuss the findings on application of the balanced scorecard in KenGen and also examine the challenges faced in the application of the balanced scorecard in strategy implementation.

5.1.1 Application of the Balanced Scorecard in KenGen

KenGen first introduced the balanced scorecard as a strategy implementation tool in 2002. This was after development of the ten year strategic plan for the years 2001 to 2011. However, the use of the balanced scorecard was abandoned after a short while. The scorecard was reintroduced in 2005 and was cascaded up to the head of sections’ level. In 2008, it was cascaded up to the shop floor on a pilot basis. In 2012, the divisional scorecards have doubled up as performance contracts.
Currently, the Business Development and Strategy (BDS) division has the responsibility of developing the corporate goals from KenGen’s vision and strategy. For inclusion, a committee with representatives from each division is constituted to develop corporate goals. When there is consensus on the corporate goals, MTIs are developed by the TMO. The corporate scorecard is then developed and cascaded to the divisional levels. The performance and change office takes over and ensures that the scorecard is cascaded to the all the other levels.

5.1.2 Challenges in the Application of the Balanced Scorecard

The balanced scorecard has proved to be a tremendously useful strategy implementation tool in KenGen. However, there are a number of challenges resulting from its implementation. Lack of visibility of the corporate and divisional scorecards is one such challenge. For all employees to acknowledge that their targets have an effect on achievement of divisional and ultimately corporate scorecard, it is necessary for them to have access to the corporate and divisional scorecards. This will give them a sense of pride in the accomplishment of tasks that have a direct impact on divisional and corporate objectives.

Lack of understanding of the balanced scorecard is another challenge affecting its implementation. Employees have to understand the balanced scorecard as a strategy implementation tool, and all its perspectives, before it can be fully implemented. For instance, lack of clarity on perspectives where some performance measures rest would affect the implementation of the balanced scorecard. This may lead to the inclusion of
performance measures that are not linked to a certain perspective, or exclusion of valuable performance measures which are specific to a perspective. This has a direct implication on the delivery of KenGen's vision and strategy.

Lack of an effective reward policy is a challenge affecting the implementation of the balanced scorecard. Employees are not motivated to deliver on their targets if the reward policy does not recognize their efforts. This poses a serious challenge in the implementation of the balanced scorecard. Under communication of the company's strategy and balanced scorecard to the shop floor, is another challenge in implementation of the balanced scorecard in KenGen. The balanced scorecard has to be communicated to the shop floor in a language that they understand. This will help them understand how they contribute towards achievement of the corporate goals.

The traditional 'don't care public sector culture' amongst some employees has also been a challenge of implementation of the balanced scorecard in KenGen. This calls for change management to ensure that the culture of KenGen is congruent to its strategy, which is performance based. Another challenge is how the scorecard should be cascaded to the shop floor of the organization. The question on whether or not all perspectives of the corporate scorecard are applicable to all levels of employees needs to be addressed. This will facilitate smooth cascading of the balanced scorecard to the shop floor of KenGen. Subjectivity of measurement of some aspects of the balanced scorecard is another challenge in implementation of the scorecard in KenGen. Other challenges associated with the application of the balanced scorecard include; lack of inclusion of the
middle level and shop floor staff in the development of the departmental scorecards objectives derived from the divisional scorecards. Lack of support of the balanced scorecard by some of the departmental managers has also affected implementation of the scorecard in KenGen.

5.2 Conclusion

Implementation of strategy is one of the most challenging phases of the strategic management process. Organizations have to select strategy implementation tools that will ensure effective delivery of its strategy and vision. The balanced scorecard approach is one such tool of strategy implementation. It assists in integrating short term operational concerns of organizations with the long term strategic direction. It also assists organizations to; increase focus on strategy and results, improve organizational performance by measuring what matters, align organizational strategy with the work people do on a day-to-day basis, focus on the drivers of future performance, improve communication of the organization’s vision and strategy and prioritize projects and or initiatives.

Just like any other strategy implementation tool, the balanced scorecard approach has its own challenges. Organizations implementing the balanced scorecard should be cognizant of such challenges and design ways of overcoming them. According to this research study, some of the challenges identified in implementation of the balanced scorecard in KenGen are similar to challenges identified by other researchers. Mulu (2010) noted that lack of an effective reward policy, subjectivity in evaluation of qualitative perspectives of
the scorecard and lack of understanding of the scorecard as some of the challenges in implementation of the balanced scorecard in Ernst & Young. These challenges were also identified in KenGen. From this, it may be concluded that some of the challenges faced in the implementation of the balanced scorecard as a strategy implementation tool, may be applicable to different organizations regardless of their contextual differences.

Other challenges noted in the current research study that were not highlighted in Mulu’s research study include; poor organizational culture, lack of support of the scorecard, how to cascade the scorecard to the shop floor, lack of visibility of the corporate and divisional scorecards, and under communication of strategy and the balanced scorecard at the shop floor. This could imply that over and above the common challenges identified in the application of the balanced scorecard, organizations have challenges that could be unique to them. Organizations should, therefore, establish both the unique and common challenges in the application of the balanced scorecard and identify ways of overcoming the challenges.

5.3 Recommendations

Adoption of the balanced scorecard has assisted KenGen to realize enormous strides in the implementation of the G2G strategy. For KenGen to continue implementing the G2G strategy more effectively, it is recommended that the corporate and divisional scorecards are visible to all employees. This will assist employees to know how their actions or inactions contribute to the corporate and divisional goals. It will also make it easier to cascade the scorecard to the lower levels of the organization. The results of the annual
The performance of KenGen evaluated by use of the corporate scorecard should also be made available to all employees. This will also help motivate employees to contribute towards achievement of the corporate goals. It will also help in communication of KenGen's vision and strategy to the shop floor.

KenGen should also ensure that its reward policy is linked to actual strategic performance and communicated to all staff. This will motivate employees to work towards achievement of their individual, and ultimately the corporate goals since they are sure what is in it for them. Further, to enhance understanding of the balanced scorecard, it is recommended that employees are continuously trained. This will also ease the burden of cascading the balanced scorecard since employees will already have an understanding of what is expected of them.

KenGen should consider customization of the balanced scorecard to meet its own requirements. This will enhance clarity and understanding of each of the perspectives of the scorecard. Kaplan and Norton (2001) noted that the four general perspectives of the balanced scorecard simply provide a framework rather than a constraining straight jacket. KenGen can, therefore, omit or include additional perspectives to meet its own requirements. However, the company should be cautious not to include too many perspectives and measures that may result into distortion.
5.4 Limitations of the Study

This study involves only one organization, and this cannot be used for generalization purposes. Every organization is unique in its own respect. Even in the same industry, organizations are uniquely different from others. The findings of the organizations can, therefore, not be deemed to be uniform across all organizations. Another limitation is that the case study methodology requires intense response to the phenomenon being studied which sometimes can bias the study findings.

There was a constraint on availability of informants due to their involvement in other engagements. Some potential informants being top executives were not available during the period that the research was carried out. Nonetheless, the informant rate was high enough that this limitation had insignificant impact on the overall findings of the study.

5.5 Area for Further Research

The balanced scorecard is a tremendously useful tool. In strategic management it is used to achieve various objectives. One objective of the balanced scorecard is strategy implementation. The findings of this study indicate that the balanced scorecard is a very powerful strategy implementation tool. This study may be a useful reference to future research work focusing on challenges of application of the balanced scorecard in strategy implementation.

Other researches could be conducted in the Kenyan energy sector, to determine the extent of application of the balanced scorecard and the challenges associated with its application. Their findings would significantly contribute to literature on the challenges
of application of the balanced scorecard as a strategy implementation tool in the energy sector. More research needs to be done on customization of the balanced scorecard perspectives to suit organizations. Research could also be carried out to determine the relationship between use of the balanced scorecard and improved financial performance of companies in Kenya.

5.6 Implication on Policy, Theory and Practice

From the study, it is obvious that KenGen has adopted the balanced scorecard approach as its strategy implementation tool. This has contributed enormously towards achievement of some of KenGen’s strategic objectives such as growth in the supply of electric energy. The results of this study should be used to address the challenges associated with implementation of the balanced scorecard as a strategy implementation tool. This will assist KenGen in the realization of its corporate goals and achievement of the vision 2030 electric energy generation targets.

Similarly, the study will be useful to organizations that have adopted the balanced scorecard as a strategy implementation tool. The organizations can learn the lessons from this study and proactively address any existing and potential challenges before they adversely impact the organizations. This calls for periodic evaluation of the implementation of the scorecard in these organizations.
REFERENCES


APPENDICES

Appendix I: Interview Guide

SECTION A: General Information

1. Name: (Optional) _______________________________________________________
2. Position: ___________________________________________________________
3. Division: ___________________________________________________________
4. Duration worked for KenGen ___________________________________________

SECTION B: Strategy at KenGen

1. What is the overall KenGen Business Strategy?
2. How are strategic objectives communicated within your respective division?

SECTION C: Application of the balanced scorecard at KenGen

1. In your opinion, is there any relationship between KenGen's corporate balanced scorecard and your divisional strategic objectives?
   (a) Yes
   (b) No
   Please explain..................................................................................................
2. How is the balanced scorecard used in the implementation of strategy in your division?
3. How is the balanced scorecard cascaded downwards in your division?
4. a) How often are the results of the performance indicators of the divisional scorecard reviewed?
   b) How is this communicated to the employees in your division?
5. a) How often is the divisional scorecard revised?
b) Are all employees in the division informed?

6. What role does the divisional balanced scorecard play in execution of duties by employees in your division?

7. a) What is the general attitude of employees in middle and junior levels, in your division, towards the divisional balanced scorecard?

b) Do they have sufficient information on their contribution towards strategy implementation?

8. What are the benefits of applying the balanced scorecard at KenGen?

SECTION D: Challenges of application of the balanced scorecard

1. In your opinion, would you say that the balanced scorecard is a valuable management tool?

   (a) Yes
   (b) No

   Please explain......................................................

2. What precedes the other, divisional budget or balanced scorecard objectives?

3. Are performance reviews tied to the balanced scorecard measures?

4. Are the balanced scorecards used to promote learning and continuous improvement?

5. What are the challenges of the balanced scorecard in your division?

6. What recommendations would you give for improvement of the balanced scorecard at KenGen?
TO WHOM IT MAY CONCERN

The bearer of this letter,... is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

IMMACULAT OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE
Edna Gitachu
P O Box 60658 -00200
NAIROBI

15 May 2012

The Chief Human Resource Administration Officer
KenGen
P O Box 47936 – 00100
NAIROBI

Dear Sir,

REQUEST FOR USE OF KENGEN INFORMATION

I wish to undertake a research study on the challenges of the balanced scorecard in strategy implementation in KenGen. This is in partial fulfillment of the requirements of the degree of Master of Business Administration from the School of Business at University of Nairobi. Attached is an introduction letter from the University of Nairobi.

This letter is to request your permission to obtain and use information from KenGen through interviews with the key staff involved in development and implementation of the balanced scorecard in Capital Planning and Execution, Transformation and Monitoring Office and Performance and Change. Your responses are important, as they will enable me to conclude my study appropriately, and come up with positive recommendations and highlight areas of improvement, and also create a basis for further research.

Please note that all information obtained will be regarded as highly confidential and will only be used for academic purposes. A copy of the final research report will be availed to you on request. Your cooperation will be highly appreciated.

Yours faithfully,

Edna Gitachu.
Appendix IV: Letter of Authorization to Collect Data

Our Ref: STAFF/KENGEN/JKK/jn

Date: 15th May, 2012

Edna Gitachu

Dear Madam,

MASTER OF BUSINESS ADMINISTRATION RESEARCH PROJECT – UNIVERSITY OF NAIROBI

This is to confirm that management has duly authorized you to collect research data from KenGen staff for pursuance of your Master's Research Project. You are hereby advised to treat the information given as strictly confidential and to use it only for academic purposes.

Through this note, KenGen staff have been requested to give you maximum support as you collect the data.

You will also be expected to avail a copy of your Research Project to the management.

Yours faithfully

For: KENYA ELECTRICITY GENERATING CO. LTD.

JOEL KEMEI
For: HUMAN RESOURCES MANAGER
### Appendix V: Specimen Balanced Scorecard

**KENGEN GOOD TO GREAT (G2G) TRANSFORMATION STRATEGY [2008 - 2018]**

<table>
<thead>
<tr>
<th>BSC Perspective</th>
<th>Corporate Goals for 2012-2018</th>
<th>Goal</th>
<th>Unit of Measure</th>
<th>Weight</th>
<th>Target</th>
</tr>
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<tbody>
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<td><strong>Financial</strong></td>
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<td></td>
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</tr>
<tr>
<td>1. Optimize Cost</td>
<td></td>
<td></td>
<td>% Margin</td>
<td>15</td>
<td>25</td>
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<tr>
<td>2. Power Purchase</td>
<td></td>
<td></td>
<td>Yield in Ksh/kW</td>
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<tr>
<td>Agreements</td>
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<td></td>
<td></td>
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<tr>
<td>(i) Hydro</td>
<td></td>
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<td></td>
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<tr>
<td>(ii) Geothermal</td>
<td></td>
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<tr>
<td>(iii) Geothermal Wellhead</td>
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<td>(iv) Thermal Diesel</td>
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<td>(v) Gas Turbines</td>
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<tr>
<td>(vi) Wind</td>
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<tr>
<td>(vii) Off-Grid Thermal</td>
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<tr>
<td><strong>Customer</strong></td>
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<td>3. Plant Availability</td>
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<td>%</td>
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<tr>
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<td>%</td>
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<td>85</td>
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<tr>
<td>(v) Gas Turbine</td>
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<td>%</td>
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<td>(vi) Wind</td>
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<td>(vii) Off-Grid Thermal</td>
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<td>%</td>
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<td>85</td>
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<tr>
<td><strong>Internal</strong></td>
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<td>4. Innovation &amp; Continuous Improvement</td>
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<td>No. per Year</td>
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<td>5. Increase Generation Capacity</td>
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<td><strong>Learning &amp; Growth</strong></td>
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<td>% Ready</td>
<td></td>
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<td>6. Human Capital Readiness Profile</td>
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