

**BALANCED SCORECARD APPLICATION
IN STRATEGIC MANAGEMENT
AT FLASHCOM LIMITED**

BY

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A MANAGEMENT RESEARCH PROJECT SUBMITTED IN
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE
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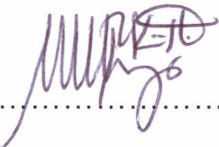
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DECLARATION

This research project is my original work and has not been submitted for a degree course in this or any other university.

Signed:


Date:
8/11/07

Robert K. Mugo

D61/P/7503/02

This research project has been submitted for examination with my approval as a university supervisor.

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DEDICATION

I dedicate this project to my dear wife, daughter and son.

ACKNOWLEDGMENT

I thank God Almighty for bringing me this far and enabling me to achieve so many good things in life.

I thank my dear wife, for her encouragement and support during my course and this research project. Thanks for your understanding of the long hours spent in the course of study and research.

I thank my daughter for being able to make me laugh and forget the stress of combining family, work and study.

I thank my son for timing his arrival perfectly thus allowing me to finish this project.

I thank my parents for giving me a good foundation on which to build myself.

I thank the Flashcom management team for their contribution to this project by sharing their insights and experiences.

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ABSTRACT

Organisations face many challenges in their quest for survival and growth hence the need for the adoption of a strategic management approach. There are many tools and techniques that have been developed to assist executives in strategic management. These include Total Quality Management (TQM), Kaizen, Six Sigma and Balance Scorecard (BSC). Of these tools and techniques, the balanced scorecard seems to be gaining popularity. The objective of the study was to establish how balanced scorecard has been applied at Flashcom which is a relatively new company in the telecommunications sector.

The research design was a case study as it required an in-depth understanding of the subject matter. Primary data was used in this study and it was collected through interviews with managers at Flashcom. The interviews were guided by an interview guide which consisted of open ended questions.

The study found that the main reasons for the implementation of balanced scorecard was alignment of the activities of the company and individuals with the vision and mission, enhancement of team work, improvement on performance management and creation of focus on results rather than activities. Balanced scorecard has had an overall positive impact on the performance of Flashcom. Flashcom primarily uses balanced scorecard as a strategy implementation and performance management tool.

The study also found that a number of challenges had been experienced. These include difficulties in objective setting, abrupt transition from the previous strategic management system to balanced scorecard, resistance to change, lack of linkage between training sessions for management and the rest of staff and non recognition of the role of 3rd parties in achieving some objectives.

One of the limitations of the study was it was an in-depth study of how balanced scorecard has been applied at Flashcom. Therefore the findings may not apply to other companies. Another limitation is that the case study methodology requires intense exposure to the phenomenon being studied which sometimes can bias the study.

Further study is required in certain areas as the balanced scorecard is a multifaceted tool with various applications in strategic management. These include, how balanced scorecard has been applied in other companies, performance analysis of organisations that have implemented balanced scorecard and balanced scorecard perspectives & measures that are relevant to various industries.

CHAPTER 1: INTRODUCTION

1.1 Background

1.1.1 Strategic Management

Every organisation is established with specific goals and objectives in mind. For business organisations three economic goals guide their strategic direction, whether or not they are explicitly stated in their mission statement. These are survival, growth and profitability. However, organisations operate in a dynamic environment and they need to adapt and respond appropriately, hence the need for strategic management (Pearce & Robinson, 2003).

Strategic management is concerned with the broad direction and long term aims of an organisation. It is also concerned with how the organisation achieves its objectives using its resources, structure, strengths and weaknesses to maximise on the opportunities and mitigate the threats in a dynamic environment. It can be broadly divided into two phases namely strategy formulation and strategy implementation (Byars, 1991; Boar, 1993; Johnson & Scholes, 2002; Pearce & Robinson, 2003).

Strategy implementation is the process through which strategies are turned into action and is referred to as the action phase of the strategic management process. There seems to be consensus amongst all scholars and practitioners of strategic management that even the best strategies are of no use unless they are properly implemented (Boar 1993; Bannerjee, 1999; Johnson & Scholes, 2002; Pearce & Robinson, 2003; Nohria, Joyce & Roberson, 2003).

Strategy implementation is normally preceded by strategy formulation, strategic analysis and strategic choice. Although each of these phases is important, each one alone cannot ensure the success of the organisation as the strategies resulting from this process have to be translated into carefully implemented action (Pearce & Robinson, 2003).

However it seems that organisations generally achieve less than satisfactory performance when it comes to strategy implementation (Gray, 1986; Aosa, 1992; Pfeffer & Sutton, 1999; Ittner & Larcker, 2003; Mankins & Steele, 2005; Muthuiya, 2004; Waruhiu, 2004; Ochanda, 2005; Ngumo, 2006). Given that these studies were carried out in various countries and in different contexts, it would imply that this is a phenomenon that is not specific to one country, industry or type of organisation.

Various challenges were cited for the unsatisfactory implementation of strategy. The most commonly occurring ones were poor planning during the strategy formulation phase, unforeseen obstacles during the implementation phase, lack of communication and coordination within the organisation, insufficient resource allocation and a general disconnect between strategy formulation and implementation (Aosa, 1992; Bannerjee, 1999; Kaplan & Norton, 2005).

A review of the existing literature suggests that successful strategy implementation is generally linked to how the organisation prepares and aligns itself for the execution of the strategy. The common themes relating to

this are organizational structure, rewarding performance, change management and effective monitoring of implementation (Byars, 1991; Bannerjee, 1999; Nohria, Joyce & Roberson, 2003; Pearce & Robinson, 2003).

There are many tools and techniques that have been developed to assist executives in the implementation of strategy. These include Total Quality Management (TQM), Kaizen, Six Sigma and Balance Scorecard. Nohria, Joyce & Roberson (2003) found that while such tools and techniques are helpful and even necessary in streamlining execution, there is no single, obvious choice that will bring a company success.

Of these tools and techniques, the balanced scorecard seems to gaining popularity. The balanced scorecard was developed in the early 1990's by Dr. Robert Kaplan and Dr. David Norton after they recognised some of the weaknesses and vagueness of previous management approaches. By the 1980's, many executives were convinced that traditional measures of financial performance didn't let them manage effectively and wanted to replace them with operational measures. Kaplan and Norton (1992) argued that executives should track both financial and operational metrics.

The balanced scorecard provides management with a framework with which they can translate their company's strategic objectives into a coherent set of performance measures. It is more than just a measurement system as it can be used as a management system that can drive improvements in such

critical areas as product, process, customer and market development (Kaplan and Norton, 1993).

Kaplan and Norton (2001) found that the motivation for many of the companies adopting the balanced scorecard was the alignment and focus on the organisation's strategy that it brought about. They further justify the need to for the balanced scorecard due to the changes that have taken place in the global economy. They argue that economy has changed from an industrial one where companies create value through tangible assets such as property, plant, equipment and inventory, to one which relies on intangible assets such as customer relationships, information technology innovative products and services and employee capabilities skills and motivation.

1.1.2 Telecommunications Industry in Kenya

Up until the late 1990's, telecommunication services were the preserve of the government owned PTT then known as Kenya Posts & Telecommunications Corporation (KPTC). KPTC performed the role of operator as well as regulator. It was wholly owned by the government (Government of Kenya, 2006). Telecommunications was also highly regulated due to its security aspects. The cost of services was extremely high and availability of services was limited to specific areas within certain major towns. The process of getting a service was also very bureaucratic and one would wait for months before service implementation. Only powerful, wealthy or influential organizations were able to get these services.

Due to the wave of liberalisation sweeping across the world and pressure from various fronts, the government started the reform and liberalisation of the telecommunications sector in the late 1990's. This resulted in the Kenya Communications Act (1998). The Act split KPTC in 3 separate entities to handle telecommunications (Telkom Kenya), postal services (Postal Corporation) and regulation (Communications Commission). The Act also established a 5 year monopoly on certain key services in favour of Telkom Kenya in order for it to prepare for competition thereafter. In the late 90's new licenses for emerging technologies such as GSM and Internet services were issued. There was rapid uptake of services as the country had a huge pent up demand for such services. However, the traditional telephony services e.g. fixed line started to decline (Government of Kenya, 2007).

The telecommunications sector is one of the most active sectors of the economy and has become an integral part of everyday business and social life. Activity picked up in the fiscal year 2005/2006, with the mobile phone sub-sector achieving significant growth to become one of the fastest growing sub-sectors in the economy (Central Bank of Kenya, 2006).

The contribution of the transport and communications sector to GDP rose to 10.9% in 2005-2006 from 9.9% in the previous year. In particular, the postal and telecommunication sub-sectors accounted for 2.5% of the total GDP. With respect to subscriber connections, the mobile telecommunications sub-sector posted a 46% growth over the review period, with the total number of mobile subscribers rising from 4.6 million in the previous year to 6.4 million. Despite,

the significant growth in the industry, the market is largely underserved. In the same period total teledensity increased to 19.93 up from 14.63 in the previous period. This means that for every 100 people there are only 19 telephone lines. (Communications Commission of Kenya, 2006)

As pointed out previously, the industry is one of the fastest growing and contributes significantly to economic activity in the country. The telecommunications sector is characterised by a large mobile-phone segment, which has experienced sustained growth. The number of subscribers continues to surge; for the period 2000 to 2005 CAGR was a remarkable 105%. It is estimated that total subscriber numbers hit a new peak of 8m in December 2006, implying a penetration rate of 23%. The number of fixed lines remains comparatively small, falling from a peak of 320,000 in 2002 to 280,000 in 2006 (Government of Kenya, 2007).

Safaricom, which is the industry leader, has made corporate history as the most profitable company in East Africa for two consecutive years. This year they recorded a record pre-tax profit of Sh17.2 billion for the financial year ending March 31 2007. The profit surge was a 41 per cent increase over last year's pre-tax profit of Sh12.2 billion, which was also a record breaking result (Kangaru, 2007). These record profits were more than those of the next 5 most profitable companies in the country put together.

In contrast to this record breaking performance, Safaricom's closest rival Celtel recorded a Sh2 billion pretax profit for 2005 against Sh1.8 billion loss

recorded in 2004 (Mugambi, 2007). The incumbent operator Telkom Kenya's financial performance has been deteriorating over the last 4 years. Turnover declined by an annual rate of 10.5% over the period 2003 to 2006. EBITDA declined from a profit of \$52m in 2003 to a loss of \$ 1m in 2005. However, the un-audited FY2006 results show an improvement in EBITDA at \$7mn. (Government of Kenya, 2007).

Ngobia (2004) found that the two dominant players in the mobile industry have been engaged in fierce rivalry in their effort to out maneuver each other in the market so as to control market share. Despite an existence of a large untapped market potential these two companies have been involved in the concerted competitive rivalries that are geared towards subscriber acquisition and customer loyalty. Key among the basis of competition was seen to be cost of their products and services, advertising, customer care, network infrastructure, supply chain management policies, corporate social responsibility and human resources, among others.

Over the past 9 months there has been a serious price war amongst the industry players. Celtel started it off by launching a flat rate tariff to any network at KShs 12.00 per minute, which saw them acquire 1 million subscribers in less than a month as this rate was lower than what most people were paying for Safaricom to Safaricom calls. Safaricom responded by introducing a tariff offering calls at KShs 8.00 per minute for a certain time during the day. More recently, Telkom has joined the fray by launching a

mobile service based on CDMA technology, which is offering rates of KShs 7.00 per minute (Kinyanjui, 2007).

There are a number of key issues facing the industry in general. One of them is the high cost of taxation for telecommunication equipment and services. This increases the cost of operation, which eventually gets passed on to the consumer thus making retail charges high. Another is the lack of infrastructure in most areas outside of major urban centers. This forces operators to build their own such as access roads to base transmitting station sites. The lack of electricity in some areas is another problem forcing operators to incur the cost of installing, maintaining and running generators. Added to this is the high cost of international connectivity for voice and data services due to the lack of an optical undersea cable connecting Kenya to the rest of the world. Another key issue is the lack of personnel with high level technical skills and appropriate industry experience (Communications Commission of Kenya, 2006; Government of Kenya, 2006; Okutah, 2007; Ondari, 2007)

1.1.3 Flashcom Limited

Flashcom was established in 2004 and was one of the first new operators to be licensed. They partnered with a leading Global telecommunications equipment supplier and established a telecommunications network to serve Nairobi and thereafter other major towns and population centers in Kenya. Commercial services were launched in December 2005, making Flashcom the first private fixed wireless network operator. In November 2006, Flashcom

won the Best Local Loop Operator award at the 11th annual Computer Society of Kenya awards.

Flashcom uses the latest in third generation (3G) wireless technology called Code Division Multiple Access (CDMA), which is touted as the future of wireless communications and is the fastest growing wireless technology. The network infrastructure is built to world-class standards and by managing it themselves Flashcom are able to provide the quality of service and flexibility that customers require.

It provides a variety of telecommunications services. One of them is voice telephony. This service enables subscribers to make telephone calls to other Flashcom subscribers, the traditional land line network, mobile networks and even International destinations. Another is the data service. This service enables subscribers use data applications such as email, Internet access, file download and VPN. Flashcom also provides fax services. Subscribers are able to send or receive faxes using the G3 fax standard or using computer based fax functionality which enables one to send a fax directly from their computer. Another service is the text messaging service popularly known as Short Message System (SMS).

The company faces a number of challenges. One of them is that it is a new entrant in a highly competitive industry which is dominated by much larger companies. Due to the previously existing government policy, these companies were established much earlier were protected from competition for

a number of years. Thus they were able to roll out their network and acquire subscribers gradually and without much competitive pressure. Therefore the other players have had the advantage of a head start but Flashcom has to effectively compete with them in the market for business.

Another key challenge is that the Code Division Multiple Access (CDMA) technology being used by Flashcom is new to this market and therefore most people are not familiar with it. This means that prior to selling to consumers, Flashcom has to educate them on the new technology and its benefits. In addition to this, the technology is not compatible with the existing Global System for Mobile Communication (GSM) technology thus subscribers have to invest in a new phone.

Lack of clear rules and regulations is another significant challenge. Given that Flashcom is one of the first operators to be established in the post liberalisation era, many of the rules and regulations governing their operations and how we relate to the existing players are either unclear, untested or non-existent. This leads to frequent disputes with other players which often have to be referred to the regulator for clarification. This costs time and resources in addition to slowing down growth.

1.2 Research Problem

As previously mentioned organisations have to adapt to an ever changing environment hence the need for the adoption of a strategic management approach. There are many tools and techniques that have been developed to assist executives in strategic management. These include Total Quality Management (TQM), Kaizen, Six Sigma and Balance Scorecard. Of these tools and techniques, the balanced scorecard seems to be gaining popularity.

Whereas the balanced scorecard is one of the tools that could be used to address some of the strategy implementation issues, its use in Kenya has not been comprehensively studied. Only two studies relating to the balanced scorecard have been conducted. These are Odadi (2002) and Kiragu (2005).

Odadi (2002) found that introducing a new management system centered on balanced scorecard must overcome the organisational inertia that tends to accompany any change program. He concluded that the balanced scorecard is a new concept in Kenya and there is still little knowledge about it available. However, he did not address the question of whether or not the balanced scorecard can be applied as a strategic management tool.

Based on the foregoing, there is a knowledge gap relating to the use of the balanced scorecard as a strategic management tool. Whereas the application of the balanced scorecard in businesses based in the USA is well documented, there is insufficient knowledge on how it can be applied in the Kenyan context.

Flashcom recently adopted the balanced scorecard methodology as part of its strategic management processes. How did Flashcom apply the balanced scorecard as a tool in strategic management?

1.3 Research Objective

The objective of this study was to establish how the balanced scorecard was applied at Flashcom Limited.

1.4 Importance of the Study

Other companies will find the study useful as it will help them to understand how balanced scorecard can be applied in their organisations. Managers who read this study will better understand how to link their organisations long term strategy with their operational and short term plans.

Board of Directors and investors will find this study useful as they will be able to determine how to measure strategy implementation and achievement of long term objectives.

Non-managerial staff will benefit from this study as they will be able to better understand how to relate the strategy of their organisations to their daily activities and thus be better able to contribute to the success of their organisations.

CHAPTER 2: LITERATURE REVIEW

2.1 Concept of Strategy

Boar (1993) defines strategy as the collective output of the strategic planning process. It is the context for all unifying and integrative decisions a firm makes, determining and revealing the organisations purpose in terms of long term objectives, action programs and resource allocation priorities. It selects the business the organisation is in or will be. It is also an attempt to achieve a long term sustainable competitive advantage in each of the firms businesses by responding properly to both the environmental opportunities and threats and the strengths and weaknesses of the organisation.

Strategy is all about winning. All successful strategies have the following basic ingredients. First, they have clear long term objectives. Second, they are based on the knowledge of their environments. Third, they are based on good and adequate self knowledge. In particular, they appreciate the strengths and weaknesses of the firm in terms of what activities it should or should not undertake. Competition provides the rationale for strategy. The essence of strategy is the interdependence of competition because actions of one player affect outcomes of the other participants. Each player's decisions must take account of the other players expected reactions. As such strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it (Bannerjee, 1999).

Johnson and Scholes (2002) state that strategy is likely to be concerned with the long term direction of an organisation. Further they say strategy can be seen as the matching of the resources and activities of an organisation to the environment in which it operates, also known as the strategic fit. They also say that strategy can also be seen as building on or stretching an organisation's resources and competencies to create opportunities or to capitalize on them. The strategy of an organisation is affected not only by environmental forces and resource availability, but also the values and expectations of those who have power in and around the organisation. Ultimately they give a fuller definition of strategy as the direction and scope of an organisation over the long term, which achieves advantage for the organisation through configuration of its resources within a changing environment and to fulfill stakeholder expectations.

Pearce and Robinson (2003) state that for managers, strategy means their large scale, future oriented plans for interacting with the competitive environment to achieve company objectives. They further state that a strategy is a company's game plan. Although that plan does not precisely detail all future deployments (of people finances and material) it does provide a framework for managerial decisions. A strategy reflects a company's awareness of how, when and where it should compete; against whom it should compete; and for what purposes it should compete.

Welch (2005) describes strategy as making clear cut choices about how to compete. He adds that an organisation cannot be everything to everybody, no matter the size of the business or the depth of its financial resources.

Operational efficiency is not strategy and whereas they are both essential in the superior performance of an organisation, they both work in different ways. Operational effectiveness means performing similar activities better than rivals perform them. Operational effectiveness includes but is not limited to efficiency. It refers to any number of practices that allow a company to better utilize its inputs by, for example, reducing defects in products or developing better products faster. In contrast, strategic positioning means performing different activities from rivals' or performing similar activities in different ways (Porter, 1996).

An organisation can succeed by competing on low prices, top quality, or great service. It doesn't matter whether the strategic direction comes from. The key to achieving excellence in strategy, whatever you do and however you approach it, is to be clear about what your strategy is and consistently communicate it to customers, employees, and shareholders. It begins with a simple, focused value proposition that is rooted in deep, certain knowledge about your company's target customers and a realistic appraisal of your own capacities (Nohria, Joyce and Roberson, 2003).

2.2 Strategic Management

Byars (1991) says strategic management involves making those decisions that define the organisations mission and objectives, determine the organisations most effective utilization of resources and seek to assure the effectiveness of the organisation within its environment. He says strategic management can be broken down into two phases namely strategy formulation and strategy implementation.

Boar (1993) uses the terms strategic planning and strategic management interchangeably. He defines strategic planning as the process by which corporate objectives for the future are identified in response to perceived opportunities and threats and by understanding company strengths and weaknesses, activities are selected and resources allocated to meet those objectives. He also says that it can be broken down into 3 parts. First is assessment, whereby analysis of the current and foreseeable business situation takes place. Second is strategy, whereby what is to be done is identified. Third is execution which is where the implementation and monitoring of the strategy take place.

Johnson and Scholes (2002) state that strategic management includes understanding strategic position of an organisation, strategic choices for the future and turning strategy into action. The strategic position is concerned with the impact on strategy of the external environment, internal resources and competencies and the expectations and influence of stakeholders. Strategic choices involve understanding the underlying bases for future strategy at both

the corporate and business unit levels and the options for developing strategy in terms of both the directions and methods of development. Strategy into action is concerned with ensuring that strategies are working in practice.

Pearce and Robinson (2003) define strategic management as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives. They further define 9 critical tasks that it comprises which indicate that strategic management involves the planning, directing, organizing and controlling of a company's strategy- related decisions and actions.

Strategic management is therefore concerned with the broad direction and long term aims of an organisation and how it achieves its objectives using its resources, structure, strengths and weaknesses to maximise on the opportunities and mitigate the threats in a dynamic environment.

2.3 Strategy Implementation

Byars (1991) says strategy implementation is concerned with aligning the organisations structure, systems and processes with the chosen strategy. It involves making decisions with regard to three areas. First, matching the strategy and organizational structure as well as providing leadership pertinent to the strategy. Second, developing budgets, functional strategies and motivational systems for the successful achievement of organizational objectives. Third, monitoring the effectiveness of the strategy in achieving the organisations objectives.

Boar (1993) uses the term execution in reference to strategy implementation. He defines execution as the action of putting the strategic plan into motion. It is the translation of intent into reality. Strategies are made operational through implementation programs. Success of execution depends on the commitment and change management plans designed in the strategy phase to minimize barriers and obstacles.

According to Bannerjee (1999), a chosen strategy can only be considered effective if it is implemented. All such implementations however involve change and imply risk. Implementation of strategy should seek to maximise benefits and minimize risks. He adds that the major implementation themes concern organisation structures; policies and control systems related to the management of resources; and management of strategic change.

Understanding the strategic position of an organisation and considering the strategic choices open to it are of little value unless the strategies managers wish to follow can be turned into organizational action. Such action takes form in the day-day processes and relationships that exist in organisations. The development of a new strategy may also require significant strategic change for the organisation. Such change can only take place if it can be made to work and put into effect by members of the organisation (Johnson and Scholes, 2002)

Pearce and Robinson (2003) outline four steps for initiating strategy implementation. These are identifying short term objectives, initiating specific functional tactics, communicating policies that empower people in the organisation and design of effective rewards. Short term objectives translate long range plans into yearly targets. Functional tactics translate business strategy into daily activities people need to execute. Policies are empowerment tools that simplify decision making by empowering operating managers and their subordinates. Rewards for the desired action and results are a powerful way of getting things done in any organisation.

Bannerjee (1999) outlines a number of requirements for successful strategy implementation. One is strategy and structure need to be matched and supportive of each other. Another is information and communication systems have to be adequate for reporting back and evaluating the adaptive changes that are taking place. Implementing strategy involves change which in turn involves risk and this needs to be properly managed. Management systems such as compensation schemes, management development and communication systems need to be developed to meet the needs of proposed strategies

Strategy implementation is therefore the process through which strategies are turned into action. It involves organizational structure, policies, control systems, management of resources and management of strategic change.

Strategy implementation is not without challenges. Various studies both locally and overseas have shown major gaps between strategy and implementation.

Gray (1986) found that 87% of the companies reported feelings of disappointment and frustration with their strategic planning systems. 59% attributed their discontent mainly to difficulties encountered in the implementation of plans. 67% of their implementation problems were traced to the design of their systems and the way they manage them.

Pfeffer and Sutton (1999) describe a phenomenon they call the knowing-doing gap which is a situation of knowing too much and doing too little. They further state that most executives know what they should do when their companies get into trouble given that they can draw on their own experience and insight, their colleagues' ideas, and the reams of data produced by sophisticated information systems as well as tap into the myriad resources that exist outside the walls of their own companies. However, despite all this they do nothing.

Kaplan and Norton (2005) say that most companies have ambitious plans for growth but few ever realize them. They attribute the gap between ambition and performance to a disconnect between strategy formulation and strategy execution. Their research revealed that, on average, 95% of a company's employees are unaware of, or do not understand, its strategy.

Mankins and Steele (2005) found that despite the enormous time and energy that goes into strategy development at most companies, many have little to show for the effort. Their research suggested that companies on average deliver only 63% of the financial performance their strategies promise. They also found that the causes of this strategy-to-performance gap are not visible to top management thus they take the wrong action to try and correct the problem.

Aosa (1992) found that foreign, indigenous Kenyan and Indian Kenyan companies experienced high external problems in implementing strategic decisions. However, foreign and indigenous Kenya companies faced fewer internal problems than Indian Kenyan companies when implementing strategic decisions. Many of the problems experienced in developing strategies were external relating to government, external individuals and other external forces. These problems seemed to spill over into strategy implementation. Several companies indicated that unexpected actions on the part of the government and powerful individuals often frustrated strategy implementation efforts.

The following problems were reported at relatively higher levels of severity. Implementation took more time than was originally allocated. Uncontrollable factors in the external environment had adverse effect on implementation. Major obstacles surfaced during implementation that had not been identified before hand. Competing activities and crisis distracted attention from implementing the strategic decision. Key implementation tasks were not

defined in enough detail. Resources made available were not adequate. Coordination of implementation activities was not effective enough (Aosa, 1992).

Muthuiya (2004) found that AMREF Kenya uses various methods in implementing its strategies. The study established that whilst the methods they use support its strategies, inadequate resources, departure of supporters of strategic decisions during implementation, unsupportive organisation culture and uncontrollable factors in the environment were major obstacles to the successful strategy implementation in the organisation.

Waruhiu (2004) found that strategy formulation and implementation in research based organisations in Kenya is characterised by scarce local talent in collaborative management. He also shows that foreign collaborators dominate strategy formulation and implementation and that collaboration in International R&D advances foreign policy objectives.

Ochanda (2005) found that during the implementation of Kenya Industrial Estates LTD 5 year strategic plan for 1996-2001, strategic plan focus was on cost cutting. The organisation, however, continued performing dismally. The strategy implementation challenges experienced by the organisation were enhanced by the restrictive regulations and policies under which state corporations operate.

Ngumo (2006) found that Scripture Union faces a number of challenges in implementing strategy arising mainly out of the organisations concurrent pursuit of profit and non-profits objectives. The board formulates strategy but does not oversee its implementation on a day-day basis causing a serious disconnect between what is formulated and what is actually implemented. He further found that Scripture Union has no standards of performance against which actual results can be measured. The organisation culture embraced by Scripture Union directly works against strategy implementation. Scripture Union's reward system is also a major obstacle to successful strategy implementation.

The common theme in the challenges of strategy implementation are summarized by Bannerjee (1999) into the following areas. One is failure to predict the time and problems that implementation will entail. Two is other activities and commitments distract attention and possibly cause resources to be diverted. Three is the basis on which strategy was formulated has changed or was forecast poorly and insufficient flexibility had been built in.

Nohria, Joyce and Roberson (2003) examined more than 200 well-established management practices as they were employed over a ten-year period by 160 companies and found that companies that outperformed their industry peers excelled at four primary management practices namely strategy, execution, culture, and structure. In addition to this the top performers supplemented this with a mastery of any two out of four secondary management practices namely talent, innovation, leadership, and mergers & partnerships.

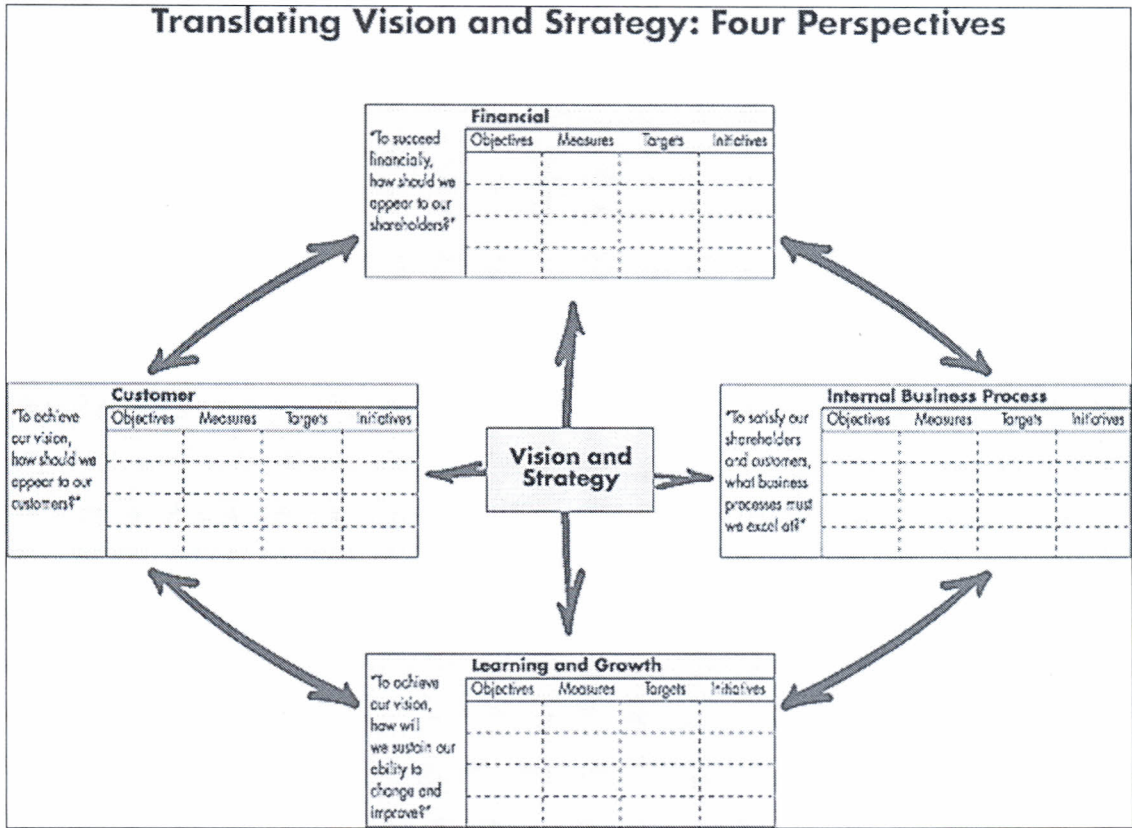
2.4 *Balanced Scorecard*

The balanced scorecard was developed in the early 1990's by Dr. Robert Kaplan and Dr. David Norton after they recognised some of the weaknesses and vagueness of previous management approaches. Kaplan and Norton (1992) realized that by the 1980's, many executives were convinced that traditional measures of financial performance didn't let them manage effectively and wanted to replace them with operational measures. They argued that executives should track both financial and operational metrics.

Ittner and Larcker (2003) discovered that most companies have made little attempt to identify areas of non-financial performance that might advance their chosen strategy. Nor have they demonstrated a cause-and-effect link between improvements in those non-financial areas and in cash flow, profit, or stock price.

Kaplan and Norton (1992) suggested four sets of parameters. First, how do customers see our company? Second, what must you company excel at? Third, can your company continue to improve and create value? Fourth, how has your company done by its shareholders? They further say that the balanced scorecard lets executives see whether they have improved in one area at the expense of another, which will protect companies from posting suboptimal performance.

Figure 1: The Balanced Scorecard Provides a Framework to Translate a Strategy into Operational Terms



Source: Robert S. Kaplan & David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," *Harvard Business Review* (January – February 1996): p. 76

Kaplan and Norton (1992) working with 12 companies at the leading edge of performance measurement, devised a balanced scorecard – a set of measures that gives top managers a fast but comprehensive view of the business. The balanced scorecard includes financial measures that tell the results of actions already taken. And it complements the financial measures with operational measures on customer satisfaction, internal processes and the organisations innovation and improvement activities – operational measures that are the drivers of future financial performance.

While giving senior managers information from four different perspectives, the balanced scorecard minimizes information overload by limiting the number of measures used. Companies rarely suffer from too few measures. More commonly, they keep adding new measures whenever an employee or a consultant makes a worthwhile suggestion. The balanced scorecard forces managers to focus on the handful of measures that are most critical (Kaplan and Norton, 1992).

Kaplan and Norton (1993) say that the balanced scorecard provides executives with a comprehensive framework that translates a company's strategic objectives into a coherent set of performance measures. Much more than a measurement exercise, the balanced scorecard is a management system that can motivate breakthrough improvements in such critical areas as product, process, customer and market development.

They further add that the balanced scorecard measures differ from those traditionally used by companies given they are grounded in the organisations strategic objectives and competitive demands as opposed to being bottom-up and derived from ad-hoc processes. By requiring managers to select a limited number of critical indicators within each set of the four perspectives, the scorecard helps focus this strategic vision. In addition, while traditional financial measures report on what happened last period without indicating how managers can improve performance in the next, the scorecard functions as the cornerstone of a company's current and future success.

Kaplan and Norton (1996) state that the balanced scorecard complements financial measures of past performance with measures of the drivers of future performance. The objectives and measures of the scorecard are derived from an organisations vision and strategy. The objectives and measures view organizational performance from four perspectives: financial, customer, internal business process and learning & growth.

The balanced scorecard captures the critical value creation activities created by skilled, motivated organizational participants. While retaining via the financial perspective, an interest in short-term performance, the balanced scorecard clearly reveals the value drivers for superior long term financial and competitive performance (Kaplan and Norton, 1996b)

2.4.1 Financial Perspective

The BSC retains the financial perspective since financial measures are valuable in summarizing the readily measurable economic consequences of actions already taken. Financial performance measures indicate whether a company's strategy, implementation and execution are contributing to bottom line improvement. Financial objectives typically relate to profitability measured for example by operating income, return on capital employed or more recently, economic value added. Alternative financial objectives can be rapid sales growth or generation of cash flows (Kaplan and Norton, 1996b).

2.4.2 Customer Perspective

In the customer perspective, managers identify the customer and market segments in which the business unit will compete and the measures of the business unit's performance in these targeted segments. This perspective typically includes several core or generic measures of successful outcomes from a well formulated and implemented strategy. The core outcome measures include customer satisfaction, customer retention, new customer acquisition, customer profitability and market and account share in targeted segments. The segment specific drivers of core customer outcomes represent those factors that are critical for customers to switch or remain loyal to their suppliers. The customer perspective enables business unit managers to articulate the customer and market based strategy that will deliver superior future financial returns (Kaplan and Norton, 1996b).

2.4.3 Internal Business Process Perspective

In the internal business process perspective, executives identify the critical internal processes in which the organisation must excel. These processes enable the business unit to:

- i. deliver the value propositions that will attract and retain customers
- ii. satisfy shareholder expectations of excellent financial returns

The internal business process measures focus on the internal processes that will have the greatest impact on customer satisfaction and achieving an organisation's financial objectives. It reveals two fundamental differences between the traditional and the BSC approaches to performance

measurement. Traditional approaches attempt to monitor and improve existing business processes. They may go beyond financial measures of performance by incorporating quality and time based metrics. But they still focus on improvement of existing processes. The scorecard approach however, will usually identify entirely new processes at which an organisation must excel to meet customer and financial objectives (Kaplan and Norton, 1996b).

2.4.4 Learning & Growth Perspective

The Learning and Growth perspective identifies the infrastructure that the organisation must build to create long term growth and improvement. Organisational learning and growth come from three principal sources: people, systems and organizational procedures. The financial, customer and internal business process objectives of the BSC typically will reveal large gaps between the existing capabilities of people, systems and procedures and what will be required to achieve breakthrough performance. To close these gaps, businesses will have to invest in reskilling employees, enhancing information technology and systems and aligning organizational procedures and routines. These objectives are articulated in the learning and growth perspective of the BSC (Kaplan and Norton, 1996b)

2.5 Link between Strategy Implementation & Balanced Scorecard

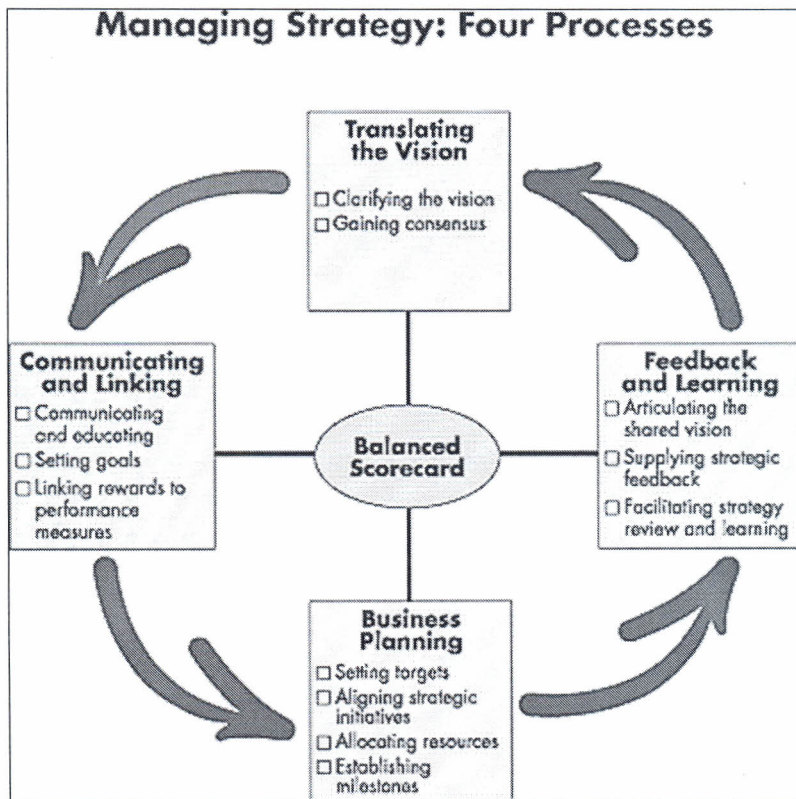
Kaplan and Norton (1996a) state that as companies around the world transform themselves for competition that is based on information, their ability to exploit intangible assets has become far more decisive than their ability to invest in and manage physical assets. Companies have move beyond the early vision for the scorecard to discover its value as the cornerstone of a new strategic management system. Used this way, the scorecard addresses a serious deficiency in traditional management systems: their inability to link a company's long-term strategy with its short-term actions.

Kaplan and Norton (1996) state that most companies' operational and management control systems are built around financial measures and targets, which bear little relation to the company's progress in achieving long-term strategic objectives. Thus the emphasis most companies place 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 indicators of the company's performance. The scorecard lets them introduce four new management processes that, separately and in combination, contribute to linking long-term strategic objectives with short-term actions.

They explain that 'translating the vision' helps managers build a consensus around the organization's vision and strategy. 'Communicating and linking' lets managers communicate their strategy up and down the organization and link it to departmental and individual objectives. 'Business planning enables

companies to integrate their business and financial plans. 'Feedback and learning' gives companies the capacity for what they call strategic learning.

Figure 2: The Balanced Scorecard as a Strategic Framework for Action



Source: Robert S. Kaplan & David P. Norton, "Using the Balanced Scorecard as a Strategic Management System," *Harvard Business Review* (January – February 1996): p. 77

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Research Design

The design of this research was a case study. This design was chosen because the objectives of the study required an in-depth understanding of how balanced scorecard had been applied. Other methods of research such as a survey would not have been appropriate as they tend to generalize the phenomenon being studied and therefore do not provide the required in-depth investigation required in this instance. Mugenda & Mugenda (1999) propose the use of a case study when an in-depth investigation of an individual, group, institution or phenomenon is required.

3.2 Data Collection

Primary data was used in this study and it was collected through interviews with managers at Flashcom. The functional managers were interviewed at length given that they were all deeply involved in the implementation of the balanced scorecard at the corporate and departmental levels.

The interviews were guided by an interview guide which consisted of open ended questions so as allow a greater depth of response (Mugenda & Mugenda, 1999). The interview guide used is attached as Appendix 2.

3.3 Data Analysis

The nature of data collected was qualitative. It therefore was analysed using content analysis. This is a systematic, detailed qualitative description of the objectives of the study. It involves observation and detailed description of objects, items or things that comprise the study (Mugenda & Mugenda, 1999).

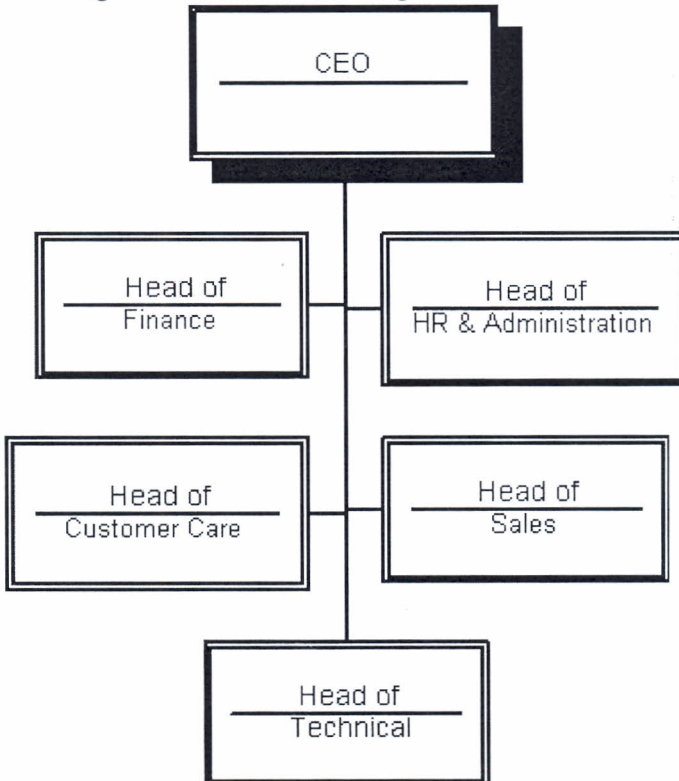
Previous studies where qualitative data was collected have successfully used content analysis to analyse the qualitative data. These include Aosa (1992), Mpungu (2005), Muriuki (2005), Gicobi (2006), Ngumo (2006), Odero (2006) and Ogollah (2006).

CHAPTER 4: DATA ANALYSIS AND FINDINGS

4.1 Strategic Management processes at Flashcom

Flashcom is a relatively new company and has been in operation since 2005. This is reflected in the study findings as most of those interviewed had not worked for the company for more than 2 years, which is as long as the company has been in operations. Despite having been at Flashcom for a brief period time, the departmental heads had at least 5 years of experience. The study also revealed that most of the departmental heads had not had formal training in strategic management other than one whose educational background included a business related course.

Figure 3: Flashcom Management Structure



Flashcom primarily uses balanced scorecard as a strategy implementation and performance management tool. The strategy implementation aspects include communicating the vision and mission of the organisation to all staff and linking the team and individual objectives to the Flashcom's strategic objectives. Prior to the implementation of the balanced scorecard, many employees did not know what the vision, mission and objectives of the organisation were. In addition to this they thought strategy concepts were very complex and hence did not relate to them.

The performance management aspects include the cascading of company objectives to the various departments and teams and thereafter to the individual objectives. This is formalized through performance agreements which are based on the balanced scorecard. The departmental or team heads are evaluated on their department or team scorecards, whereas the individual members are evaluated based on their individual scorecards. Previously there was a Key Performance Areas (KPA) system which many of those interviewed felt was too long and did not have sufficient focus.

Department heads had to a large extent not been involved in the initial formulation of Flashcom's strategy and that this was handled by the board of directors. However, they were still responsible for the implementation of the resulting strategy. In contrast, the entire company was deeply involved in the formulation and implementation of the balanced scorecard. This included refining of the company strategy based on the post launch and market

experience as well as developing suitable objectives, measures and targets that would help Flashcom reaches its strategic objectives.

4.2 Why Balanced Scorecard was implemented

The main reason for the implementation of balanced scorecard was to ensure that all the activities of the company and individuals were aligned with the vision and mission. Prior to the implementation of the balanced scorecard, many employees did not know what the vision and mission of the company were. As such, there was no link between their individual activities and the achievement of the company's strategic objectives therefore causing a variance between expected and achieved results.

Another key reason was to enhance team work by getting the entire organisation to work towards a common goal. Individuals need to understand how their role relates to their team's role and how that relates to the company goals. There were a number of cases whereby the achievement of a certain result was dependant on interdepartmental cooperation. Whereas each team worked well within the team, tasks that required different departments to work together were not smooth. In some cases the departments or teams did not have a view as to what was required of them by the others.

Another reason cited was the need to improve on performance management through better objective setting and measurement. Some of those interviewed said that the previous performance management system had objectives that were neither realistic nor measurable. This in turn negatively impacted on the

achievement of the targets. With balanced scorecard there is a great emphasis on objective setting, measures of the degree of achievement of the objectives and specific targets associated with them.

The need to focus on outcomes or results rather than activities was another reason for the implementation of balanced scorecard. The previous system of strategy implementation and performance management focused more on activities than on results. This meant that whereas individuals were very busy with activities, the expected results were no forthcoming. There was therefore a need for a system that would create more focus on the desired results and leave the individual or team to exercise their creativity in achieving them.

4.3 Implementation Process

Flashcom used a systematic approach when applying the balance scorecard system. The first step was to identify an external consultant to facilitate the process. The head of HR & Administration was the key driver of this process. They approached several training and consultancy firms with balanced scorecard knowledge and experience, evaluated them based on their track record and customer references and finally awarded the contract to the organisation that topped the evaluation criteria.

The selected consultancy firm was then met with the CEO and head of HR & Administration at Flashcom who presented the challenges being faced at Flashcom and the deliverables from the implementation of balanced scorecard. The consultants then made presentations on the balanced

scorecard system and the approach they intended to use to help us implement it. After the approach and key themes were generally agreed upon, the consultants were asked to make a presentation to the entire management team for additional input and refinement. This input was then incorporated into the training and implementation schedule.

The next step was training which was carried out in two phases and away from the office to ensure maximum focus. The first phase involved the management team whilst the second involved all other staff. The management team was taken through balanced scorecard concepts in depth. Their training culminated in the translation of the company strategic objectives into a corporate scorecard as well as departmental scorecards. The training of the rest of the staff involved introduction of balanced scorecard concepts and a review of the corporate and team scorecards that had been developed in the previous session by the management team.

Thereafter each head of department was tasked with cascading the departmental scorecard to the team and individual scorecards. The departmental heads signed performance agreements with the CEO based on the departmental scorecards and the team members signed theirs with their departmental heads. During the entire month following the training, the focus of the weekly management and departmental meetings was the implementation of balanced scorecard including the implementation of measurement systems and a review of the challenges faced.

A team, headed by the head of HR & Administration and with representation from each department was then given the task of managing the implementation including carrying out progress reviews as well as additional training and assistance where necessary. The responsibility of carrying out quarterly performance reviews based on the individual scorecards was then entrusted to each departmental head.

4.4 Implementation Challenges

A number of challenges had been experienced during the application of balanced scorecard at Flashcom. The most commonly mentioned one was that of objective setting. Whereas the objectives themselves were easy to develop given that they were cascaded from the overall company objectives, the measures of their achievement were much more difficult. This made agreement on measures of performance between the managers and their direct reports more difficult.

Another challenge identified was that the transition from the previous strategic management system to balanced scorecard was abrupt and this led to some confusion. Also, some of the objectives used in the previous system were rolled over into the scorecards thus creating the impression in some cases that things may not have changed much.

There was also resistance to change. Prior to the training on balanced scorecard, most people thought it was a complex system and they were averse to it. Some people were opposed to it simply because it was a new

system and they did not understand it. It was also found that due to the corporate and team scorecard being developed by the management team, there was more sense of ownership for them than with the rest of staff.

The separate training sessions for management and the rest of staff was also identified as a challenge. This was because no member of the management team attended the training sessions for the staff therefore causing a disconnect between the two. Some interviewees said that the issues raised in the staff training would have been best addressed during the training itself rather afterwards.

Another implementation issue identified was that the scorecard targets did not take into account that some objectives relied on third parties for their achievement. Whereas the third parties would agree to the deliverables and targets, they would rarely meet them thus making the individual or team score lower due to no fault of their own.

4.5 Outcome of Balanced Scorecard application

The application of balanced scorecard has had an overall positive impact on the performance of the organisation to the extent that the entire management team was unanimous that they would recommend the adoption of balanced scorecard to other organisations. The study identified a number of reasons for this. The most important was the increased focus on specific objectives and deliverables that it had introduced at all levels of the organisation.

Balanced scorecard had introduced greater teamwork as each individual and team had visibility into the others' deliverables and how their objectives were interrelated. The staff members are better able to channel their requests to other teams further enhancing teamwork and reducing conflict. This greatly helped in improving the working relationship between teams.

Individual accountability and collective responsibility had increased across the board since objectives, measures and targets were much clearer. Each member of the team understands that if they do their part it contributes to others being able to do theirs and that way the company objectives are achieved.

The balanced scorecard also simplified strategy concepts to all members of staff, thus enabling them to know and relate to the vision and mission of the organisation. Previously, strategy and strategic management concepts were viewed as the preserve of the top management and the board of directors. However, since the objectives cascade all the way from the company strategy to the day to day activities of the individual, then everyone was better able to feel a part of the strategy and understand their specific contribution to it.

CHAPTER 5: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The objective of the study was to establish how balanced scorecard had been applied at Flashcom. The study revealed that Flashcom primarily uses balanced scorecard as a strategy implementation and performance management tool as part of its strategic management initiatives.

The main reasons for the implementation of balanced scorecard was alignment of the activities of the company and individuals with the vision and mission, enhancement of team work, improvement on performance management and creation of focus on results rather than activities. Flashcom used a systematic approach and sought the help of management consultants in training and implementation. This included pre-implementation planning meetings, training and setting up of an in house implementation team.

A number of challenges had been experienced. These include difficulties in objective setting, abrupt transition from the previous strategic management system to balanced scorecard, resistance to change, lack of linkage between training sessions for management and the rest of staff and non recognition of the role of third parties in achieving some objectives.

The balanced scorecard has had an overall positive impact on the performance of Flashcom including greater teamwork, improving the working relationship between teams, increased individual accountability, increased collective responsibility and simplification of strategy concepts for the entire organisation.

5.2 Conclusion

Every organisation is established with specific objectives in mind. However, organisations operate in every changing environment giving rise to various challenges. In order for them to achieve their objectives, it is important for them to formulate suitable strategies. Even the most brilliant strategies are of no use if not implemented. However, strategy implementation is quite challenging and many organisations encounter difficulties whilst implementing their strategies. A number of tools have been developed to assist in various aspects of strategic management. One of them is the balanced scorecard.

The balanced scorecard was developed in the early 1990's by Dr. Robert Kaplan and Dr. David Norton. It includes financial measures that tell the results of actions already taken and it complements them with operational measures. It provides a comprehensive framework that translates a company's strategic objectives into a coherent set of performance measures. It views the business from four main perspectives namely financial, customer, internal business process and learning & growth.

Some of the processes involved in balanced scorecard application include building consensus around the organization's vision and strategy; communicating the strategy throughout the organization and linking it to departmental and individual objectives; integrating the strategy into the organisations plans and developing a feedback and learning system.

Flashcom is a new entrant in the lucrative but highly competitive telecommunications sector. It is competing with firms which are more established and have vast resources. As such it has adopted a strategic management approach in order to be able to effectively compete in the market. In addition to this Flashcom needed to ensure that company and individual activities are aligned to the vision, mission and strategic objectives. This led to the adoption of the balanced scorecard.

5.3 Limitations of the study

The study was an in-depth study of how balanced scorecard has been applied at Flashcom and therefore the findings cannot be generalized. As such the study's findings may not apply to other companies whether in the same industry or not. Another limitation is that the case study methodology requires intense exposure to the phenomenon being studied which sometimes can bias the study findings.

5.4 Recommendations for further study

The balanced scorecard is a multifaceted tool with various applications in strategic management. Other areas that require further study include, how balanced scorecard has been applied in other companies, performance analysis of organisations that have implemented balanced scorecard and balanced scorecard perspectives and generic measures that are relevant to various industries.

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APPENDICES

Appendix 1: Letter of Introduction

The Respondent,
Flashcom LTD,
P.O. Box 9423, 00100,
Nairobi.

Dear Sir/Madam,

RE: REQUEST FOR YOUR PARTICIPATION IN MY RESEARCH WORK

I am pursuing a Master of Business Administration (MBA) degree program at the University of Nairobi. I am currently undertaking a research project titled "Balanced Scorecard Application in Strategic Management at Flashcom Limited"

Your input will help document important aspects of the balanced scorecard in a real life scenario. The information you provide will be treated in confidence and is purely for academic purposes.

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Robert K. Mugo.
Researcher

Prof. E. Aosa,
Supervisor.

Appendix 2: Interview Guide

1. What is your name?

2. What is your current job title?

3. How many years have you worked at Flashcom?

4. How many years work experience do you have?

5. Have you ever been involved in Strategy formulation? If yes state what role you played.

6. Have you ever had formal training in Strategic Management? If yes describe the type of training.

7. Were you involved in the formulation of Flashcom's Strategy? If yes state what role you played.

8. Are you involved in the implementation of Flashcom's Strategy? If yes state what role you play.

9. Had you encountered Balanced Scorecard prior to its implementation at Flashcom? If yes, please describe the encounter.

10. What were the reasons for implementing BSC at Flashcom?

11. Describe the process used to implement the BSC at Flashcom in your own words?

12. What challenges, if any, were encountered during the implementation of BSC at Flashcom?

13. What actions do you think should have been taken to avoid the challenges, if any, that were encountered during the implementation of BSC at Flashcom?

14. How has the BSC impacted your understanding of Flashcom's overall Strategy?

✈ 15. How has the BSC impacted your individual role in the achievement of the organisations objectives?

16. How has the BSC impacted your understanding of your colleagues role in the achievement of the organisations objectives?

17. Describe how the BSC has influenced your individual performance of your job.

18. Describe how the BSC has influenced your team's performance of their jobs.

19. Would you recommend the adoption of BSC by other organisations? Please explain your answer.

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