

**THE PROCESS AND EXPERIENCE OF IMPLEMENTING THE
BALANCED SCORECARD TECHNIQUE:
A CASE STUDY OF STANBIC BANK LTD, NAIROBI**

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DECLARATION

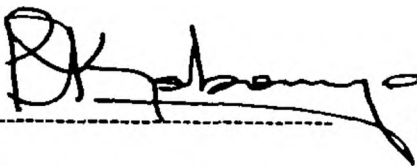
This Management Project is my original work and has not been presented for a degree in any other University.

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DEDICATION

This study is dedicated to my parents; Mama Elizabeth and the late father Abner Odadi Jeje, to my uncle Hon. Justice R. O. Kwach, my late brother John W. Odadi, and my wife Jullie.

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ABSTRACT

This study aims at establishing how the Balanced Scorecard as a Performance Measurement tool was implemented at Stanbic Bank, Kenya. The Balanced Scorecard is a new Management technique for measuring business performance by applying the financial as well as non-financial performance measures. It is an improvement over the traditional performance measurement technique, which only recognised the financial measures. However, in Kenya the concept is still new and most organizations still don't even know about it, while most of those who have heard about it still do not have adequate information on how it can be implemented and its effects.

The study reported here was conducted in the months of August and September 2002 using a case study of Stanbic Bank Kenya. The objectives of the study were to find out:-

- How the Balanced Scorecard technique was communicated to the employees of Stanbic Bank, Kenya.
- The process (key activities) and strategies used by the Bank to implement the Balanced Scorecard System and
- The experiences and the perception of the employees on the implementation of the Balanced Scorecard System.

The data was collected through two sets of questionnaires (one completed by the leader of the implementation team and the other completed by the unionisable staff representative). A structured interview schedule was also used. The data was then analyzed through content analysis, comparing the data from the three data collection instruments. A summary and conclusion was then drawn after discussing the research findings.

From the study, it was established that Stanbic Bank had systematically undertaken specific steps in implementing the system. Effective communication of the concept to the employees was a key activity in the pre-implementation stage. It was also established that at the initial stages of implementing the system, most of the Bank's employees were skeptical about the system. The Bank has in this respect put in place certain strategies in order to positively change the attitude, increase awareness and facilitate acceptance of the system among the employees. Such strategies include: training and coaching, creating commitment at the top, linking the new systems with effective compensation or reward program, and breaking down of organizational barriers.

In his conclusion, the researcher outlines recommendations for effective implementation of the system. The researcher also recognizes the limitations of the study and suggests areas of further research.

THE PROCESS OF IMPLEMENTING THE BALANCED SCORECARD TECHNIQUE: A CASE STUDY OF STANBIC BANK LTD, NAIROBI.

CHAPTER 1: INTRODUCTION

1.0 Background

General

A Bank is an institution that deals largely in money. It receives deposits from investors. It also creates money by offering long-term loans and advances to customers, which get repaid at future pre-agreed dates. The repayments include interest and principal amount. There are many types of banks. In Kenya, there are 65 registered financial institutions (source CBK February 2001 report) which include 4 building societies, 2 mortgage finance companies, 10 finance houses and 49 commercial banks.

These institutions broadly collect deposits from savers and pay interest to the depositors. They also grant loans to borrowers, who seem likely to make good use of such funds. Interest and fees earned from borrowers is revenue to the banks for paying interest to depositors and other costs of operations.

With the introduction of SWIFT (Society for Worldwide Inter – bank Financial Telecommunications), money is transferred globally between banks and between countries. The banks equally assist in the facilitation of international trade and other related financial services.

Among the key sources of money for banks are funds from depositors, savers, provident and pension funds. Commercial banks lend the money deposited by savers to borrowers. Not all the money deposited is lent out. Some is left to cater for liquidity requirements and also set aside to cover some statutory requirement by the Central Bank like the Deposit Protection Fund maintained by the CBK.

Banks are therefore an important sector in an economy because they serve all other sectors.

In Kenya, the bulk of lending portfolio is to the private sector. The amount of credit to the private sector as at January 2001 was about Kshs.290 billion (See table).

Table 1: Banks Credit Portfolio to Private Sector

Sector	Kshs. .	%
1. Manufacturing	61.3bn	21.5
2. Business services	52.8bn	18
3. Private household	42.0bn	15
4. Trade, mining & quarrying	27.2bn	9.5
5. Agriculture	25.0bn	8.5
6. Building & Construction	18.8bn	6.5
7. Transport & Communication	10.6bn	3.5
8. Finance & Insurance	14.8bn	5
9. Real Estate	21.5bn	7.5
10. Others	14.6bn	5
Totals	289.6bn	

(Source: Market Intelligence- April-May 2001)

The efficiency of Banks affects the entire economy, and banking system failure erodes public wealth and confidence in the economy.

**Table 2: COMMERCIAL BANKS, NON BANKING FINANCIAL INSTITUTIONS
AND EXCHANGE BUREAUS**

Type of Institution/Bureau	Dec 2000	Dec 2001
Commercial Banks of which.	48	47
a) Operating	48	46
b) Not operating	-	-
c) Under Central Bank Statutory Management	-	1
Building Societies	4	4
Mortgage Finance Companies	7	2
Non Bank Financial Institutions	7	3
a) Operating	-	3
b) Under Central Bank Statutory Management	-	-
Total	66	59
Exchange Bureaus	47	47

(Source: Central Bank of Kenya Monthly Economic Review January 2002)

One of the principle objectives of banks' performance measurement and monitoring system by the Central Bank is that of fostering the liquidity, solvency and proper functioning of a stable market based financial system (Central Bank of Kenya Act Section 4 (2). The mandate includes the maintenance of soundness and efficiency by minimizing failure through the regulation process. This is done through the annual Banks supervision programme by the CBK.

The supervision's primary role is therefore damage control and the form of the damage control in banking begins with diagnosis, assessments and evaluation of problems on a timely basis (Sheng A 1996). This is aimed at protecting various stakeholders and interested parties.

Shukla and Grewal (2000) identified the following interested parties in the performance of a business.

(1) Shareholders

These are interested in the safety of their capital and interest their funds generate as well as the growth of the business.

(2) Creditors.

Who would want to be sure that the business has the ability to settle their claims?

(3) Employees

Who are interested in the profitability of the business as well as the opportunities for individual learning, growth and development

(4) The Government

Would be interested in generating of revenue in form of taxes. The higher the profits the higher the taxes hence increased revenue for the Government.

(5) Customers.

Customers would also want to be assured that they will continue to get quality products and services from the organization. Stability and growth of good reputation is important to the business.

(6) Management.

The management would like to be identified with success through profitability. Management believes that higher profits attained will earn them recognition and higher rewards by the investors.

Stanbic Bank (K) Ltd

Stanbic Bank (K) Ltd was incorporated in 1896 under the name National Bank of India. It is the oldest bank in Kenya. Over time the Bank changed hands a number of times and in 1992 (under the name Grindlays Bank International), it was bought by Stanbic, South Africa and in 1993 the name was changed to Stanbic (K), a subsidiary of Stanbic Bank, South Africa. It has three branches (2 in Nairobi and 1 in Mombasa) with its Head Office in Nairobi. Currently the bank has 119 staff.

Stanbic Bank (K)'s core activities include commercial, corporate, retail and transactional banking, Treasury operations, custodial operations and all forms of trade financing.

The banking survey 2001 by Marketing Intelligence indicate that Stanbic Bank (K) had a deposit portfolio of Kshs 5.8 billion (ranking 10th). Loans and advances portfolio stood at Kshs.3.4 billions.

Banking is a very sensitive business because it deals with money. The interest of depositors must be protected. Therefore there is a need for a more comprehensive approach to performance measurement. This will enable depositors and other stakeholders to evaluate and understand various dimensions of Bank performance.

Bank supervision should minimize moral hazard behaviour, connected with lending, conflicts of interest, fraud, and mismanagement, through effective regulation backed by a comprehensive performance measurement and a good legal regulation framework. Accordingly, financial sector liberalization is going through a phase of re-regulation with a broader coverage extending not only to the banking sector but also to non-banking financial intermediaries. (Sheng A 1996).

The Banking Act provisions gives powers to the Central Bank of Kenya to monitor the performance and regulate the operations of the Banks. The various provisions of regulation include: -

- The accounts and audit of banking institutions
- Information and reporting requirements
- The inspection and control of institutions carrying out banking business.
- The licensing requirements if one is to enter into the business of banking
- The prohibited business in banking
- Issues relating to the reserves and dividend payments by banking institutions

Stanbic Bank like other banks in the industry has in the past based its performance measures heavily on the quantitative measures, which are now turning out to be inadequate. The high number of Bank failures and collapse in the recent past is partly attributed to inadequacy of performance measures. The predictors of banks performance have been insufficient.

Financial Measures Vs Balanced Scorecard

The traditional financial performance measures for Banks have been.

- Shareholders' funds/Total assets
- Total deposits/Total Assets
- Shareholders' funds/Total Deposits
- Return on Assets
- Return on capital employed
- Cost/Income ratio
- Cost of funds
- Other profitability measures e.g. profit before tax.

However, there is now a general view that these financial measures are no longer adequate because they do not consider the qualitative measures like customer satisfaction and employee motivation. This has lead to the introduction of other performance measures, which measure both the financial and non-financial activities of the business.

One such system is the "Balanced Scorecard". The balanced scorecard allows managers to look at the business from four important perspectives: -

- Customer perspective
- Internal perspective
- Innovation and learning perspective
- Financial perspective

The above financial measures and the Balanced Scorecard are discussed in detail under literature review.

1.1 Statement of the Problem

The traditional performance measures, which have been used in measuring the Bank's performance, can no longer provide adequate barometer for gauging business performances. This is because: -

- (1) The organization now faces a more challenging business environment in which many qualitative factors like employee motivation, customer satisfaction, social responsibility and global competition are now taking center stage. The effect of these factors on business performance must therefore now be recognized.
- (2) The number of parties interested in business performances has not only increased, but also these parties now require more detailed and comprehensive information on the business performance. The various parties have varied information requirements on business performance.

Depositors have been the main losers in case of bank failures. Some of the collapsed Banks had relied heavily on financial measures ignoring the non-financial measures like customer satisfaction. They were not able to precisely predict the future problems and therefore no strategic planning had been taken by these Banks to avert such failures.

Arising from the above it has been appreciated that introduction of multiple performance measures would generate information required by various interested parties. The Balanced Scorecard provides such multiple performance measures. According to Armstrong and Baron (1998) the major clearing Banks in U.K (Barclays, Lloyds, Midland and National Westminster) were the first large organizations to adopt the Balanced Scorecard.

However, in the developing countries including Kenya, not much is known about Balanced Scorecard. Even the few organizations who are aware of it do not know how to implement it. Others are skeptical about it as they fear that the system may fail. They have developed a "wait and see attitude"

Banks in Kenya may be interested in applying the Balance Scorecard. However, due to inadequate information on how it can be implemented and inadequate study in this area, most organizations have found it difficult to implement it.

Therefore there is a gap between its theoretical background and its application and this is the major problem that this study will attempt to address by examining the process through which the technique was implemented at the Stanbic Bank Ltd, Nairobi.

1.2 Objectives of the Study

This study aims at finding out: -

- (1) How the Balanced Scorecard technique was communicated to the employees of Stanbic Bank, before its implementation
- (2) The process (key activities) and strategies used by the Bank to implement the Balanced Scorecard System.
- (3) The experiences and the perception of the employees on the implementation of the Balanced Scorecard system.

1.3 Significance of Study

The findings of this study will assist: -

1. The Bank management and Board of Directors in effective assessment of their Bank's performance by using the quantitative as well as qualitative measures.
2. Updating the existing body of knowledge on performance measurement to the management and employees of the Bank and also to other organizations, which might intend to implement the system.
3. Educating the depositors (Customers) on the Bank's efforts to improve service delivery. They will see how the bank activities are aimed at ensuring better customer service. It will increase customers' confidence in the Banks management and activities.
4. Enlightening the bank's shareholders on how their funds are being put to quality use by the Management.

CHAPTER 2: LITERATURE REVIEW

2.0 Introduction: Performance Management, Measurement and Measures

Performance measurement is a critical component of Performance Management. In fact it is often said, "if you can't measure it, you can't manage it" and "what gets measured gets done".

Therefore, if we cannot measure the performance of a business, we cannot manage it effectively. It is through performance measurement that we can understand the level of current performance in terms of both results and capabilities or incapacities. It is the basis for identifying improvement and the development needs if there is a short fall.

As Armstrong and Baron (1998) point out, measurement is an important concept in performance management. It is the basis for providing and generating feedback. It identifies where things are going well to provide the foundations for building further success, and it indicates where things are not going so well, so that corrective action can be taken. In general, it provides the basis for answering two fundamental questions: 'is what is being done worth doing?' and 'Has it been done well?'

What is Performance Management?

Performance Management can be defined as a strategic and integrated approach to delivering sustained success to organizations by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors (Armstrong and Baron, 1998).

Procurement Executives' Association (PEA) –USA defines Performance management as the use of performance measurement information to effect positive change in an organization's culture, systems and processes, by helping to set agreed-upon performance goals, allocating and prioritizing resources, informing managers to either confirm or change current policy or program directions to meet those goals, and sharing results of performance in pursuing those goals.

Procurement Executives' Association (PEA) also defines the following terms which are considered to be components of performance management:-

- (1) **Performance Objective** This is a critical success factor in achieving the organization's mission, vision, and strategy, which if not achieved would likely result in a significant decrease in customer satisfaction, system performance, employee satisfaction or retention, or effective financial management.
- (2) **Performance goal**: a target level of activity expressed as a tangible measure, against which actual achievement can be compared.
- (3) **Performance measure**: a quantitative or qualitative characterization of performance.
- (4) **Performance measurement**: a process of assessing progress toward achieving predetermined goals, including information on the efficiency with which resources are transformed into goods and services (outputs), the quality of those outputs (how well they are delivered to clients and the extent to which clients are satisfied) and outcomes (the results of a program activity compared to its intended purpose), and the effectiveness of government operations in terms of their specific contributions to program objectives.
- (5) **Output measure**: a calculation or recording of activity or effort that can be expressed in a quantitative or qualitative manner.
- (6) **Outcome measure**: an assessment of the results of a program compared to its intended purpose.

Performance as pointed out by the Bates and Holton (1995) is: "a multidimensional construct, the measurement of which varies depending on a variety of factors."

Business Performance can therefore be regarded as behavior- the way in which the organizations, teams and individuals get work done.

Performances could also be defined as outcomes of work because they provide the strongest linkage to the strategic goals of the organization, customer satisfaction, and economic contributions.

Walters (1995), classifies measures (metrics) of performance as follows:-

- **Finance** – income, shareholder value, added value, rates of return, costs.
- **Output** – units produced or processed, throughput, new accounts
- **Impact** – attainment of a standard (quality, level of service, etc.), changes in behaviour (toward both internal and external customers), completion of work project, level of take-up of a service, innovation.
- **Reaction** – judgement by others, colleagues, internal and external customers.
- **Time** – speed of response or turnaround, achievements compared with timetables, amount of backlog, time to market, delivery times.

2.1 Objectives of Performance Measurement

Whether performance measurement is aimed at measuring divisional performance or the organizational performance as a whole, it is agreed that some system of control or performance measurement is necessary. However, it should be noted that divisional performance measurement system is aimed at assisting the management to plan and control activities, and to make decisions, which enable the objectives of the organization as a whole to be met. On the other hand, Organizational performance measurement provides information on the general performance of the organization as a whole and the parties interested in this information include: - Shareholders, Government, Customers, Creditors, Competitors, employees, and the Management.

The divisional performance measurement systems for monitoring divisions with substantial delegated powers (Lucy, 1996), ideally should:

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(a) Promote goal congruence

The performance appraisal system and criteria employed should help local management to direct operations and to make decisions in ways that fulfil overall company objectives. Ideally the goals of local managements should coincide with overall company goals – perfect goal congruence – but of course this is a difficult state to achieve in its entirety.

(b) Provide relevant and regular feedback to central management

Central management need regular feedback of appropriate information in order to judge the capability of local management and also to assess the economic worth of the division as an operating unit. These two aspects may be related but involve distinctively different consideration and information requirements.

(c) Encourage initiative and motivation

The performance appraisal system should not be narrowly conceived or so rigidly applied that it stifles initiative. For example, if local management sees an opportunity, which would increase overall company profits but which would reduce the profits of their own division, then the system should be flexible enough for this to take place without local management feeling that they will be penalized. Local management must be encouraged to feel that, within the prescribed limits, they have genuine autonomy.

(d) Encourage long run views rather than short-term expedient

The long-term success of the organization is the primary objective and the performance appraisal systems and measures should encourage decision-making, which contributes to this objective. An over emphasis on short run considerations may cause adverse long-term effects. Short-term improvements in results are relatively easily made by, for example, foregoing proper maintenance, hiring poorer quality but cheaper staff, reducing product quality and other similar expedients. Maintaining improved results over a period is quite a different matter.

On the other hand, overall organizational performance measurement is a summary of all the divisional performance measurements. The two most important financial statements prepared in this respect are the Profit & Loss Account and Balance Sheet. The measures derived from these statements are consumed by different interested parties.

According to Procurement Executives' Association (1999), Performance Management system aims at: -

- Translating agency vision into clear measurable outcomes that define success, and that are shared throughout the agency and with customers and stakeholders;
- Providing a tool for assessing, managing, and improving the overall health and success of business systems;
- Continuing to shift from prescriptive, audit-and compliance-based oversight to an ongoing, forward-looking strategic partnership involving agency headquarters and field components;
- Including measures of quality, cost, speed, customer service, and employee alignments, motivation, and skills to provide an in-depth, predictive performance management system; and
- Replacing existing assessment models with a consistent approach to performance management.

2.2 Performance Measures – General

As set out by Armstrong and Baron (1998), performance measures should:

- be related to the strategic goals and measures that are organizationally significant and drive business performance;
- be relevant to the objectives and accountabilities of the teams and individuals concerned – they are only effective if they are derived from statements of accountabilities and/or are based on well-researched capabilities frameworks;
- focus on measurable outputs, accomplishments and behaviours that can be clearly defined and for which evidence can be made available;
- indicate the data or evidence that will be available as the basis for measurement;

- be verifiable – provide information that will confirm the extent to which expectations have been met;
- be as precise as possible in accordance with the purpose of the measurement and the availability of data.
- be comprehensive, covering all the key aspects of performance, so that a family of measures is available, bearing in mind, as stated by Walters (1995), that ‘Effective performance is measured not merely by the delivery of results (however outstanding) in one area, but by delivering satisfactory performance across all the measures’.

Traditional business performance measurements are based on financial measures. According to W. M. Harper, there are innumerable measures of business performance ranging from those relating to day-to-day trivia (weekly usage of paper clips) to those relating to the national wealth.

W. M. Harper, (1995) has identified the following performance measures.

1. Profit and investment

If we define what was received as ‘profit’ and what was used as ‘investment’ – and in the commonest analyses it is usually profit and investment, as normally defined, that we are concerned with – then we can say that performance measurement involves finding the ratio of profit to investment.

2. Return on capital

This can be computed using the following formula: -

$$\text{Return on capital} = \frac{\text{profit} \times 100}{\text{Capital employed.}}$$

Despite its apparent simplicity this is the most fundamental, and yet often the most misunderstood, of all performance measures. According to Harper this formula will give a variety of results depending on how the two terms comprising it are defined. He gives an interpretation of the terms as follows: -

(a) Concepts:

- (i) **Profit** – A measure of the efficiency of an enterprise in converting a combination of economic resources (materials, labour, etc.) into utilities. Enterprise costs reflect the value the community places on resources consumed by the enterprise, while enterprise sales reflect the community's valuation of its products. Clearly, the larger the profit the more effective the enterprise has been in converting lower valued resources into more highly valued utilities.
- (ii) **Capital employed.** However, although profit measures the effectiveness of the conversion of resources into utilities, it does not take into account in any way the economic resources tied up in the production of such utilities (e.g. land, buildings, machines, and stocks).
By bringing together profit and capital employed (i.e. all the economic factors involved in economic activity), the rate of return can lay claim to being a fundamental measure of enterprise economic performance.

(b) Interpretation.

Harper stresses that the interpretation of these two terms is often influenced by the status of the person interested in the resulting figure, for example:-

- (i) **Investor** – net profit per share: price paid per share. The investor is normally concerned with what he receives as a dividend, i.e. net profit, relative to the amount he invested (although he will, of course, also be interested in enterprise growth).

- (ii) **Managing director – net profit after tax: Equity.** The managing director will probably feel his performance should be judged on a basis of profit earned after tax (since minimizing tax is part of his job) relative to total equity entrusted to him by the shareholders – to whom he is, of course, primary responsible.
- (iii) **General Manager – Trading profit before tax: Total trading assets employed.** Here we are making a rather theoretical distinction between a managing director and a general manager, but for illustrative purposes it is perhaps in order to view the General Manager as someone being particularly interested in assessing the creation of economic wealth from trading relative to the total assets tied up in the process of creating that wealth, while the managing director looks first to his responsibility of serving the shareholders.

In practice, of course, they are often the same people.

- (iv) **Department manager – Departmental profit (before tax): Departmental assets employed.** The departmental manager will take the same point of view as the General Manager, but restrict all measurements to the specified project.

3. Asset Valuation

When measuring performance, assets can be valued at historical cost, replacement cost or realizable value. In performance analysis: more specifically upon the purpose of the analysis: one wants to know if the enterprise is doing as well as it ought to, or if it is doing so badly that it would pay to liquidate it. The former purpose uses replacement cost and the latter realizable value, the reasons being as follows:-

- (a) **Replacement cost.** An enterprise cannot be judged to be doing as well as it ought to unless all the economic resources consumed and employed are valued in the same 'currency' as sales, i.e. in current costs. In practice this usually means that asset values must be based on replacement cost. If it is found that the enterprise is not doing as well as it should, then further investment in the enterprise in the form of extra capital or retained profits should cease unless particularly warranted by a specific project.

(b) **Net realizable value.** If the situation is so bad that liquidation is being considered, then net realizable values (after deducting costs of realization) must be used. Using these values it is possible to compute how much cash would be released by liquidation, and if the return currently earned by the enterprise on this amount is above that which could be obtained by re-investing the cash then clearly it pays to keep the enterprise in existence. Only if it is below does it pay to put the enterprise into liquidation.

The occasions when valuation at historical cost is the valid choice are so rare that the method does not warrant discussion. **Current performance cannot be assessed on a basis of past and out-of-date values.**

Harper gives the following additional points for consideration while computing return on capital.

- (a) Assets should be taken at their depreciated value. The capital tied up in an asset is its current depreciated value at the time of the analysis, not the original cost nor the full replacement cost of a brand-new asset.
- (b) If profit is compared with total capital employed, then interest must be added back. If the total capital employed is to be used as the denominator of the return-on-capital formula (2), then obviously it must be compared with the total return to all the contributors of capital, i.e. lenders as well as shareholders.
- (c) To find the trading return on capital, non-trading assets should be excluded from the capital employed figures. This also means that non-trading profit (or loss) should similarly be removed from the profit figure. Thus any investments held by the company should be excluded from its capital employed figure and all earnings from such investments should similarly be excluded from the company profit.

4. Residual income

According to Harper, this is an alternative method to return on capital for measuring performance. It is the extent by how much a profit exceeds a required ROC (Return On Capital) benchmark. For example, our investment could be Sh100,000 from which we looked for a ROC of 15 per cent, i.e. Sh15,000. If, in the event, the actual return were Sh19,000 we would have Sh4,000 above and beyond the required return.

This amount is called the **residual income** and can be defined as the excess of actual return over the required return (i.e. it is the residual amount after deducting the required return from the actual profit). Residual income can, of course, be specified either as an amount (as above) or as a percentage (e.g. our Sh19,000 gave a 4 per cent residual return over that required of 15 percent).

The financial measures have provided the basis of measuring the business performance but these measures worked well for the Industrial era. However things have changed and with the increased requirement for continuous improvement and innovation, resulting from a more competitive environment, the financial measures alone are no longer adequate. This is because these measures have now become limited in their use and their application must now be approached differently.

2.2.1 Performance Measures for Banks in Kenya

The Central Bank of Kenya (CBK) has put in place the following statutory measures for measuring the performance of Banks for regulatory purposes. (CBK Prudential Regulations).

1) Balance Sheet Indicators

(a) Shareholders' funds/Total Assets

The ratio of shareholder' funds to total liabilities will normally reveal whether the bank in question has sufficient resources to continue honouring its customers' financial needs. It determines how well capitalized a bank is by measuring its total gearing, i.e., how well the total assets are covered by shareholder's funds or net assets (Capital and reserves). It is an indicator of how much of the bank's total assets actually belong to its shareholders. In a good scenario, shareholders' funds should constitute a good portion of the bank's assets.

(b) Net Loans Advances/Total Assets (net)

To judge the quality of assets held by a bank, one would have to look at the percentage of total advances, making up total assets.

(c) Total Deposits/Total Assets

The total deposits to total assets ratio measures what level of a bank's total assets cover its customers' deposits. It indicates whether the bank is properly geared to repay its depositors. A small figure is more desirable. If the percentage is large, it will be of importance to further look closely at the composition of these assets to determine how liquid they are. Ideally, a bank with a high percentage should have the rest of its assets in fairly liquid forms like Treasury Bills.

(d) Shareholders' funds/Total Deposits

The more damning reality is that some of Kenya's banks are also seriously undercapitalized. The shareholders' funds to deposits ratio indicates the extent to which deposits are covered by shareholders' funds (share capital plus reserves)

II) Income Statement indicators

The basic objectives of every business is to return a profit. The profitability of a bank is therefore a simple key determinant of the bank's financial soundness.

Like any other business, if a bank is not returning a profit, or if its profit is declining, then something is wrong. The true test to a bank's capital base comes when it begins to make losses.

(a) Return on Assets (ROA)

Return on Assets (ROA) is a measure of the ability of the management to utilize resources available to them efficiently to achieve high profits. It is a ratio, which measures the profit before tax realized from the total assets of the bank.

(b) Return on Capital Employed (ROCE)

Return on Capital Employed (ROCE) is a measure of how well the management have used both creditors' and owners' funds to generate sales. It is a ratio of bank's profits before tax to its shareholder's funds or net assets.

(c) Cost Income Ratio

The most profitable banks in Kenya today are those that have worked hard on controlling their costs. Customers and shareholders therefore need to be keen about how their bank is controlling its costs. A bank with inflated costs is likely to pose a problem. Some of that money if saved, could result in healthy profits.

One of the ways of ascertaining this is through a ratio known as the Cost Income Ratio (CIR). This ratio, which is also known as the Efficiency Ratio, measures how efficiently the bank is using its resources. Essentially, it is a ratio of operating expenses to operating costs.

(d) Cost of Funds

The other way of determining the cost effectiveness of a banking institution is through a measure known as Cost of Funds, which measures the price at which the bank is sourcing its funds.

For a bank, the sources of funds are in form of customers' deposits and borrowed funds. Against these funds, a bank has to pay an interest. The ratio of the interest paid on both the deposits and the borrowed funds, when weighed against the actual funds is what is referred to as the cost of funds.

III) Disclosure Indicators

In Kenya, it is now mandatory that banks publish certain key disclosures alongside their Balance Sheet and Profit and Loss statements. This was necessitated by the fact that at face value, crucial items in the balance sheet, like loans and advances to customers may imply that a bank is aggressively pursuing its business. It will tell you how effectively the bank is managing these assets or who have been the beneficiaries to these loans. The incidence of high insider loans and non-performing loans is rife in Kenya's banking scene.

These disclosures can be used to work out ratios that can also be very telling of a bank's financial soundness.

(a) Non-performing loans (NPL) / Total Advances

It is generally acknowledged that non-performing loans hurt a bank's liquidity when they exceed 20% of the total loan portfolio. With this ratio averaging 38 for the entire banking sector, Kenya is potentially headed for a serious liquidity problem.

(b) Total Provision for Non-performing Loans (NPL) / Total NPL

This refers to the total provisions made by the banks in respect of the non-performing loans. The Central Bank of Kenya requires that Banks must provide fully for non-performing loans in their respective books. This requirement has resulted in many banks showing losses in their annual financial statements.

In a survey conducted by Market Intelligence in 2001, performance of various banks were analyzed and the banks were ranked based on the following performance measures:-

1. Return on Assets

As a measure of the management's ability to utilize the bank's assets efficiently in the interest of the stakeholders

2. Return on Capital Employed

As a measure of the management's ability to utilize both the shareholders funds to generate sales efficiently.

3. Cost of Funds

As a measure of how cheaply or economically the management is able to source funds for generating sales.

4. Efficiency ratio (Cost Income Ratio)

A measure of how well the resources available were utilized.

5. Total Non – Performing Loans to Advances ratio

A measure of how prudent the bank's loaning and management process is, resulting in low default rates.

6. Profit Before Tax

A measure of the basic objectives of every business to return a profit. The higher the profit, the better.

The banks were all ranked from position 1-46 on all these parameters. A tally of their ranking was computed. The lowest score was the best score. Standard Chartered Bank's score was the lowest at 27 points, followed by runner up Barclays Bank of Kenya with 35 points. Citibank was 3rd with 47 points, ABN Amro bank 4th with 60 points while NIC bank was 5th with 62 points.

A complete ranking list is shown on appendix 3. The total score in the appendix is obtained by adding the respective rankings for all the performance indicators upon which the banks were ranked.

The lower the Total Score the better the position hence the first ranked bank has the lowest total scores for each of the given years (1999 & 2000)

2.3 Limitations of the Financial Measures

The Profit and Loss Account and the Balance Sheet, are full of information about the results of operations and the financial position of the Bank concerned. In fact, it would be unthinkable to appraise the performance and standing of a Bank without the aid of these two statements.

A Bank or any other business for that matter, proclaims its efficiency, profitability and standing through them and it is because of this that accounting is said to be the language of business.

However, the message conveyed by the statements is not infallible and often, one should not readily accept the conclusions indicated by the financial statements. This is because, by their very nature the statements suffer from a number of limitations. (Shukla & Agrewal 2000), Spicer & Pegler (1995), Saleemi (1996) outline the following limitations of financial measures.

1. Inevitably, as managers are pressured to deliver consistent and excellent short-term financial performance, trade-offs are made that limit the search for investments in growth opportunities.
Even worse, the pressure for short-term financial performance can cause companies to reduce spending on new product development, process improvements, human resource development, information technology, data bases, and systems as well as customer and market development.
2. In the short run, the financial accounting model reports these spending cutbacks as increased in reported income, even when the reductions have jeopardized a Bank's stock of assets and its capabilities for creating future economic value. Alternatively, a company could maximize short-term financial results by exploiting customers through high prices or lower service.

In the short run, these actions enhance reported profitability, but the lack of customer loyalty and satisfaction will leave the company highly vulnerable to competitive inroads.

3. Historical nature of financial statements

The basic nature of these statements is historical, i.e., relating to the past period. Past can never be a precise and infallible index of the future and can never be hundred percent helpful for the future forecast and planning.

4. No Substitute for judgement

Analysis of financial statements is a tool, which can be used profitably by an expert analyst but may lead to faulty conclusions if used by unskilled analyst. The results of analysis, thus, should not be taken as judgements or conclusions.

5. Reliability of figures

The reliability of analysis depends on reliability of the figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulations in the income statement, window dressing in the balance sheet, questionable procedures adopted by the accountant for the valuation of fixed assets and such other factors.

6. Results may have different interpretation

The results or indications derived from the analysis of these statements may be differently interpreted by different users. For example, a high current ratio may suit the banker, a supplier of goods or the short-term lender but it may be index of inefficiency of the management due to non-utilization of funds.

7. Change in accounting methods

Analysis will be effective if the figures derived from the financial statements are comparable. If due to change in accounting methods (i.e., depreciation methods, or method of valuation of stock), the figures of the current period may have no

comparable base, then the whole exercise of analysis will become futile and will be of little value.

8. Pitfalls in Inter-company comparison

When different companies are adopting different procedures, records, objectives, policies and different items under similar headings, comparison will become more difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of the Organization as compared to industry as a whole.

9. Price level changes reduce the validity of analysis

The continuous and rapid changes in the value of money, in the present day economy, also reduce the validity of the analysis. Acquisition of assets at different levels of prices make comparison useless as no meaningful conclusions can be drawn from a comparative analysis of such items relating to several accounting periods.

10. Shortcoming of the tool of analysis

There are different tools of analysis (already discussed) available to the analyst. Which tool is to be used in a particular situation depends on the skill, training intelligence and expertise of the analyst. If wrong tool is used, it may give misleading results and may lead to wrong conclusions or inferences which may be harmful to the interest of business.

11. Comparability of one firm with another. Sometimes, managements make a change after some years. In that case figures for the year in which the change is made cannot be compared with those of previous years.

12. There are numerous parties which are interested in the financial statements. The proprietors or shareholders, the workers, the investors, the creditors etc. are some of the obvious parties which are interested in the firm and, therefore, in the financial statements concerned. Financial analysts and academicians are also interested.

Unfortunately, the information which concerns these parties differs and it is difficult to draw up one set of financial statements that will be equally useful to all the parties.

13. Last, but not least, financial statements have now begun to suffer from a very serious limitation which arises from the great fall in the value of money, in other words, inflation. Even if a company is five years old, the values of the assets stated in the balance sheet will be completely out of tune with prevailing values. This means that profitability worked out on the basis of the balance sheet figures will be misleading. Further, it is to be recognized that good deal of profit reported in the profit and loss account of a company today is due to inflation and, therefore, illusory.

2.4 Importance of Non-Financial Measures

Many Business Executives have realised that the traditional business financial measures like the return on investment, and earning per share can give misleading signals for continuous improvement and innovation activities in today's competitive environment demands.

The traditional financial performance measures worked well for the industrial era, but they are out of step with skills and competencies companies are trying to master today.

Executives have realised that no single measure can provide a clear performance target and focus attention on the critical areas of the business.

Managers want a balanced presentation of both financial and operational measures. Balanced scorecard provides a strong foundation for the application of both measures.

2.4.1 The Balanced Scorecard

The concept of the balanced scorecard was originally developed by Kaplan and Norton (1992). They take the view that 'what you measure is what you get' and they emphasize that 'no single measure can provide a clear performance target or focus attention on the critical areas of the business. Managers want a balanced presentation of both financial and operational measures'.

Kaplan and Norton therefore devised what they call the 'balanced scorecard' – a set of measures that gives top managers a fast but comprehensive view of their business.

Kaplan and Norton emphasize that the balanced scorecard approach 'puts strategy and vision, not control, at the center'. They suggest that while it defines goals, it assumes that people will adopt whatever behaviours and take whatever actions are required to achieve those goals. They are of the view that:-

“Senior managers may know what the end result should be, but they cannot tell employees exactly how to achieve that result, if only because the conditions in which employees operate are constantly changing”

They claim that this approach to performance management is consistent with new initiatives under way in many companies in such areas as cross-functional integration, continuous improvement, and team (rather than individual) accountability. It reflects a **balance between: -**

- **Short and long-term objectives**
- **Financial and Non-financial measures**
- **Lagging and leading indicators**
- **External and internal performance perspectives.**

Exponents of the balanced scorecard approach set it as a way of implementing strategy, linking strategy to action, and making strategy understandable to those on the front line as well as to senior managers. David Norton believes that while the balanced scorecard is a measuring system, like any such system, it cannot live in isolation. Inevitably it becomes tied into budgets, goal-setting programs, incentives and compensation.

Kaplan and Norton (1996a) emphasize that building a scorecard enables a company to link its financial budgets with its strategic goals. They emphasize that the balanced scorecard can help to align employees' individual performance with the overall strategy: 'Scorecard users setting goals, and linking rewards to performance measures'.

For example, Shell which has developed a technique to enable and encourage individuals to get goals for themselves that are consistent with the organization's objectives.

These 'personal scorecards' contain three levels of information: (1) corporate objectives, measures and targets (2) business unit targets (translated from corporate targets), and (3) team/individual objectives and initiatives. Teams and individuals are expected to define how their objectives are consistent with business unit and corporate objectives, to indicate what initiatives they propose to take to achieve their objectives, to list up to five performance measures for each objective, and to set targets for each measure.

This personal scorecard is a method of communicating corporate and unit objectives to the people and teams performing the whole. It 'communicates a holistic model that links individual efforts and accomplishments to business unit objectives' (Kaplan and Norton, 1996b). It can therefore be incorporated as a performance management process at individual, team, unit and corporate levels. To summarize, Kaplan and Norton (1996b) comment that:

Many people think of measurement as a tool to control behaviour and to evaluate past performance. The measures on a Balanced Scorecard, however, should be used as the cornerstone of a management system that communicates strategy, aligns individuals and teams to the strategy, establishes long-term strategic target, aligns initiatives, allocates long and short-term resources and, finally, provides feedback and learning about the strategy.

A major clearing bank was one of the first large organizations in the United Kingdom to adopt the balanced scorecard using the four headings of business success, customer service, quality and people, and business efficiency. Wheatley (1996) quotes the head of performance management in the retail banking services arm of the bank as saying: 'It made us ask ourselves: "What are the 12 or 15 things that really drive our business?" The range of 12 to 15 is critical. Not enough measures and you lose perspective; too many measures and you drown in data'.

Kaplan & Norton define balanced scorecard as a set of measures that gives top managers a fast but comprehensive view of the business.

It includes the financial measures that tell the results of actions already taken whilst complementing these financial measures with operational measures on customer satisfaction, internal process and the organization's innovation and improvement activities (operational measures that are the drivers of future financial performance).

The balanced scorecard allows managers to look at the business from four important perspectives viz.

- Customer perspective
- Internal perspective
- Innovation and learning perspective
- Financial perspective

(1) Customer Perspective

How do customers see us?

How do we stand in terms of: -

- Market Share
- Customer retention
- Customer acquisition
- Customer satisfaction
- Customer profitability

(2) Financial Perspective

How do we look to shareholders?

What is the condition of our business in terms of: -

- Survival (Growth)
- Success (Sustainability)
- Prosperity (Harvest)

(3) Internal Perspective

What must we excel at?

What factors affect cycle time, quality, employees skills and productivity?

What are our core competencies?

- Innovation
- Operation
- Post sale Service

(4) Innovation and Learning perspective

Can we continue to improve and create value?

The objectives in the innovation and learning perspective provide the infrastructure to enable ambitious objectives in the other three perspectives to be achieved. The objectives in the innovation and learning perspective are the drivers for achieving excellent outcomes in the first three scorecard perspectives.

The three principal categories in this respect are: -

- (1) Employee capabilities
- (2) Information systems capabilities
- (3) Motivation, empowerment and alignment

The balanced scorecard has not yet been adopted by many organizations in Kenya.

However, a few banks have realized the importance of the balanced scorecard.

While some banks in Kenya like KCB, Standard Chartered and Barclays Bank are looking into ways of implementing it, other Banks like Stanbic have already implemented the system and are beginning to reap the fruits.

Those banks who have understood how balanced scorecard works appreciate the value of the system. Perhaps the biggest challenge to them is how to implement the system successfully.

It is in this respect that I have developed an interest in studying the system in detail using Stanbic Bank (K) Ltd as a case study with a view to finding out: -

- The requirements/steps involved in its implementation.
- The obstacles that the Bank faces in its implementation.
- How the Bank dealt with these obstacles.
- The perception of employees regarding its adoption by the bank.

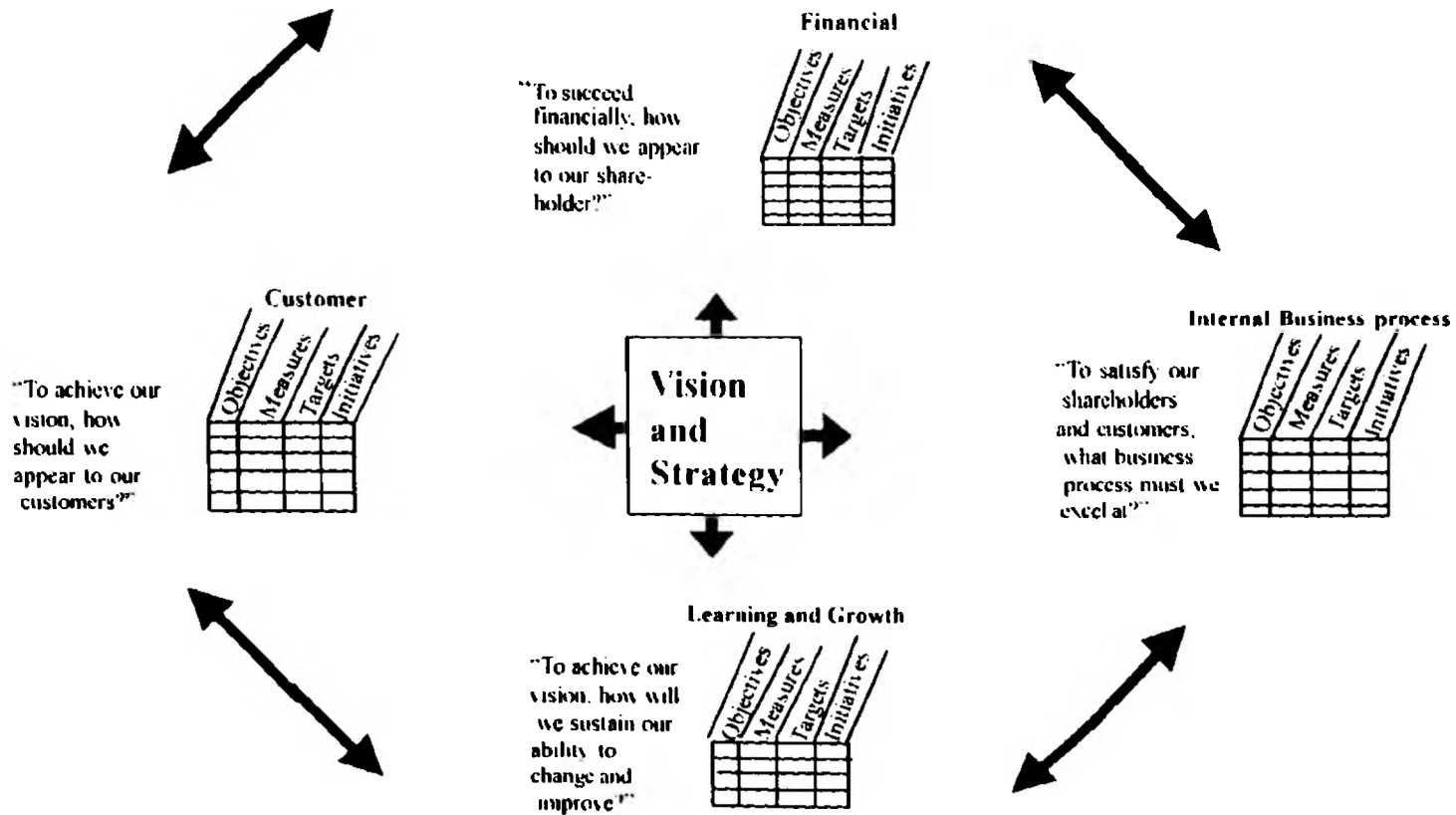
A survey on performance measurement in divisionalized companies in Kenya by Ellinami J. Minja (1995) focused mainly on Financial Performance Measurement.

A summary of his findings is that the performance of various divisions within an organization collectively contribute to the overall performance of the organization and that each division must be evaluated separately.

He mentioned the importance of non-financial measures in his research but failed to explain how these non-financial performance measures can be applied in business system.

My research therefore intends to study the applicability of the non-financial performance measurement by looking at one of the banks in Kenya which have attempted to implement it.

Figure 1: Balanced Scorecard Framework



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

CHAPTER 3: RESEARCH METHOD

3.0 Study Population:

The study population was comprised of

- (1) The members of the task force entrusted with the responsibility of co-ordinating the implementation process of the Balanced Scorecard. These are twelve (12) in number, as outlined below:-

2 Managers

2 Senior Officers

2 Officers

2 Section Heads

3 Clerks

1 Secretary

- (2) The Unionisable Staff Representative. The unionisable Staff members comprise of supervisors, clerks, and subordinate staff. The Representative provided views of unionisable staff regarding the new system.

3.1 Data collection

Primary Data

I handed over one questionnaire (See appendix 1a) to the leader of the task force for completion in consultation with the other members of task force during their regular review meetings. All the members of the task force completed the questionnaire jointly during the meetings.

Another questionnaire (Appendix 1b) was completed by the Unionisable Staff Representative. This was aimed at capturing the views and experiences of the unionisable employees regarding the implementation of the Balanced Scorecard.

In addition to the above, I interviewed the leader of the implementation task force and the Human Resource Manager. This enabled me to obtain information which was not captured by the questionnaires. A structured interview schedule was used. (appendix 2)

Secondary Data

Secondary data was also used and these provided additional useful information. The secondary data was obtained from the following sources:-

- Periodic performance reviews & guidelines
- Bank's policy and procedures manual
- The bank's annual reports
- In house magazines
- In house training materials.

However, it should be noted that the above materials with the exception of bank's annual reports and in-house magazines were provided only for reading within the bank premises due to their confidential nature.

3.2 Data Analysis

The data was analysed by using content analysis and descriptive statistics (averages and percentages).

CHAPTER 4: RESULTS AND DISCUSSIONS

4.0 Introduction

The questionnaires were completed by the following:-

- The leader of the implementation task force
- The Human Resource Manager
- Unionisable Staff Representative

In addition, the researcher for clarifications and any additional information interviewed the Human Resources Manager and the leader of the task force. The researcher also obtained useful data from secondary sources like the procedure manuals. All information needed was obtained except for the cost of implementing the Balanced Scorecard System which was not available in total as the implementation programme is still underway. However, the cost incurred so far in respect of hiring outside consultants to train the employees on the new concept was estimated at Kshs. 1 million.

The respondents were very cooperative and knowledgeable on the Balanced Scorecard Concept and, therefore, were able to provide the information without difficulty.

The idea of implementing the Balanced Scorecard at Stanbic Ltd., Nairobi was initiated by the Headquarters – Stanbic Africa in South Africa.

After successful implementation of the concept by Stanbic South Africa, the Headquarters felt that the concept should be implemented by all its branches in Africa.

Stanbic Kenya's turn came in 1999 when the Kenyan office was given guidelines for implementing the system for its operations in Kenya. After about two and a half (2 ½) years of preparation, the Balanced Scorecard system was finally implemented by the Bank in June 2002.

The following steps were adopted by the management, which led to the implementation of the system.

4.1 Steps adopted by Stanbic Bank in Implementing the Balanced Scorecard

Step 1 - Setting up a Project Team

The Bank's Managing Director put up a Project Team composed of Senior Management of the Bank. The main purpose of setting-up this team was to enable the Senior Management to be briefed on the new management system. The Managing Director and the team discussed and agreed on the country objectives.

A team of experts from South Africa also visited the Bank in 1999 with the purpose of enlightening the team and providing initial training on the Balanced Scorecard.

The main points of discussions by the Project Team were: -

- To highlight the reasons why a new management system was necessary. The main factors which drove the Bank to consider implementing the Balanced Scorecard were:-

- clarify and gain consensus about vision and strategy
- build an effective management team
- communicate the strategy
- link reward to achieving strategic objectives
- set strategic targets
- align resources and strategic initiatives
- sustain investment in intellectual intangible assets, and
- provide a foundation for strategic learning.

- Another important area of deliberations was the clarification of corporate vision. The members of the Project Team worked together for about three (3) months.

The team was briefed on how a Balanced Scorecard can assist in translating the vision into a strategy that is understood and can be easily communicated. With a clear vision, the Bank's Senior Management were able to visualize the direction towards which the Bank was heading. This process helped in building consensus and commitment to the strategy.



Step 2 - Introducing BSC' concept to Lower level Management

After it was felt that the Senior Management had understood the importance of the Balanced Scorecard system and how it could be used to translate the Bank's Vision into strategy and for achieving the Bank's short and long-term objectives, the lower level management (Senior Officers, Officers and Section Heads) were to be brought on board. The Senior Management together with the lower level management were involved in a number of brain storming sessions. This enabled them to learn about and discuss the new system and strategy. The concept was communicated to the participants using video shows and lectures, role-playing, management games and pamphlets. This process enabled the lower and upper management to understand how the new management system would help in achieving the long-term corporate as well as individual objectives.

The Heads of various Business Units were briefed on how to develop their respective Business Unit strategies from the overall corporate strategy. This was aimed at enabling the respective Business Units to develop Balanced Scorecards Systems, which are consistent and coherent.

Each Business Unit therefore was required to translate its strategy into its own scorecard. The Business Units were now called the Strategic Business Units (SBUs)

Step 3 - Appointment of Taskforce Committee

The Managing Director together with the Team then set up a Taskforce committee comprised of the following members: -

- 2 Managers
- 2 Senior Officers
- 2 Officers
- 2 Section Heads
- 3 Clerks
- 1 Secretary

The taskforce committee was established to assist the Project Team by co-ordinating the activities of various Business Units leading to the establishment of their respective balanced scorecard.

Step 4 - Review of the SBU's Balanced Scorecard.

The Managing Director and the Project Team then reviewed the individual Business Units' Scorecards. This exercise was aimed at enabling the Managing Director to participate knowledgeably in shaping business unit strategy. This was to ensure that all strategies developed by individual Business Units were consistent and coherent.

Step 5 - Re-defining the Vision

The next task of the team was to redefine the Bank's vision after receiving the feedback from the various SBUs. By doing this the Team would identify several cross business issues not initially included in the corporate strategy.

As a result the corporate strategy was modified to encompass the views of the strategic Business Units Heads.

Step 6 - Communication of the Balanced Scorecard to the entire Bank employees

After redefining the vision, the Managing Director and the team designed programmes to communicate the concept to all the employees of the Bank. This was done by :-

- (a) Training the key staff in each Business Unit regarding the new system. The training was done through a series of in house training programmes. In addition, some staff were nominated to attend conferences and seminars on implementation of Balanced Scorecard which were held in South Africa. The participants were also drawn from other African countries in which the Balanced Scorecard is being implemented. These countries included Ghana, Nigeria, Cote d'Ivoire, Uganda, Tanzania, Mauritius, Botswana, Mozambique, Zambia and Malawi. These participants were expected in turn (after the seminars) to return to their respective units/ countries and train their staff accordingly.

The Senior Managers were also required to talk to their respective unit members. The members of the taskforce committee visited various strategic Business Units. The Project Team members and the Managing Director also made courtesy calls to various SBUs in order to talk to staff and keep them up-to-date on the recent activities regarding the implementation of the Balanced Scorecard.

The importance of having these multiple voices is that each individual will describe Balanced Scorecard from a different point of view, enriching what is said as well as broadening how it is said.

However, in order to ensure effective communication the Bank recognised the need to:-

- Segment the audience so that each level of staff would be communicated to differently.
- Use of multiple channels. This would ensure the repetitive of the messages in different formats for varied consumption needs
- Use of the multiple voices – where different speakers would use different approaches in communicating the same message.
- Clear communication – the content of the message must be clear, specific and comprehensible. This calls for message to address the 4 ps (purpose, process, progress and problems)
- Honesty and openness- there should be honesty and openness on the part of managers.
- The communication should be two way that is, communicators must also be good listeners. Communication is an ongoing process and this is the lifeblood of the Balanced Scorecard system

Improving Employee Awareness

The Bank has fostered awareness of the concept among staff members through the following:-

- A series of presentations to all staff have been conducted to create awareness and understanding of how Balanced Scorecard affects the implementation of the overall strategy.
- The presentations are made to small groups to ensure interaction and so individuals know where the rest of the team is positioned regarding implementation.
- Feedback and questions are encouraged.
- “Peer influence” approach, has also been used so that the staff can see the process as emanating from their peers.

In order to improve employee awareness Kaplan and Norton recommends the following:-

- Publish scorecard-related games and puzzles in the employee newsletter to engage employees and create excitement about the process.
- Post results vs. objectives scorecards in public areas and via other communications vehicles to graphically compare performance against targets.
- Use standard tools for reward program design to tie actions to business results. In turn, this will help each employee affected by the scorecard understand how his or her behaviors and actions influence business outcomes.
- Translate employee behaviors into business outcomes through HR processes such as competency modeling.

Step 7 - Establishing individual performance objectives and measures

After ensuring that all the strategic Business Units (SBUs) had understood and grasped the concept of the Balanced Scorecard, performance objectives for each individual Business Units were developed.

The taskforce worked closely with each SBU and developed initial performance objectives for the respective units. ▀

These performance objectives were then reviewed and refined by the Project Team to ensure that all the SBUs performance objectives were consistent and coherent with the corporate strategy. Although each strategic business unit developed their own respective objectives, these objectives were aligned to the overall corporate objectives and measures outlined below:-

➤ **Objectives**

Financial Objectives

- Deliver forecast headline earnings to the group
- Improve ROE on an annual basis
- Manage ROA
- Reduce cost-to-income ratio
- Create economic value
- Review income streams
- Diversify earnings in portfolio

Customer/Stakeholder Objectives

- Have an appropriate range of products and services at the right price
- Implement industry benchmark programmes of customer profiling
- Provide a superior banking service
- Have satisfied customers
- Invest in social responsibility
- Become significant stakeholders in each country
- Maximize our share of customer wallet
- Increase market share in our chosen markets

Learning and Growth Objectives

- Create a common culture in Stanbic Africa
- Improve employee satisfaction and motivation
- Train and develop staff
- Optimize human capital

- Develop an incentive bonus system linked to Balanced Scorecard
- Entrench a performance-based culture
- Implement an effective communication strategy
- Effectively manage different brands
- Understand our business and create a sales culture

Internal Business Process Objectives

- Leverage technology
- Reduce process inefficiencies
- Reduce the cost of products and services
- Focus on risk management
- Align business and support to group strategies
- Implement a concise and accurate management information system

➤ Measures

Core Financial Measures

- Return-on-investment Economic value-added
- Profitability
- Revenue growth/mix
- Cost reduction productivity

Core Customer Measures

- Market share
- Customer acquisition
- Customer retention
- Customer profitability
- Customer satisfaction

Core Learning and Growth Measures

- Employee satisfaction

- Employee retention
- Employee productivity

Operational Perspective Measures

- Streamlined procedures/Processes
- Minimum turnaround time in service delivery
- Adherence to statutory/regulatory measures

The determination of the above objectives and measures were to a great extent influenced by the senior management. The lower cadre employees had very little input in their determination.

Kaplan and Norton have outlined the following guidelines for Implementing Balanced Scorecard

1. Clarify the Vision
2. Communicate to Middle Managers
3. Develop Business Unit Scorecards
4. Eliminate Non-strategic Investments
5. Launch Corporate Change Programs
6. Review Business Unit Scorecards
7. Refine the Vision
8. Communicate the Balanced Scorecard to the Entire Company
9. Establish Individual Performance objectives
10. Update long-range Plan and Budget
11. Conduct Monthly and Quarterly Reviews
12. Conduct Annual Strategy Reviews
13. Link Everyone's Performance to the Balanced Scorecard.

Although the implementation steps at Stanbic Bank explained earlier incorporates some of the steps above, we note that there is some modification in the Stanbic approach. This could be due to unique and special environmental factors under which the bank is operating.

4.2 Strategies adopted by the Bank to Maintain the Balanced Scorecard System

4.2.1 Commitment at all levels – especially at the top level.

The bank recognizes the fact that strong leadership is paramount in creating a positive organizational climate for nurturing performance improvements.

The Senior Management of the Bank conduct frequent formal and informal meetings with employees and managers to show support for improvement efforts and implementation initiatives. They also have frequent review process and the results of improvement efforts.

4.2.2 Development of Organizational Goals.

The management also recognises the fact that Vision Statements and Strategic/Tactical Plans (including systematic ways to evaluate performance) are important for methodically planning acquisition performance improvements. To be meaningful, they include measurable objectives along with realistic timetables for their achievement.

4.2.3 Offering training in improvement techniques.

The bank's management stresses the importance of providing Training to appropriate personnel to help them properly make process improvements. The scope of training include the operation of integrated project improvement teams, the role employees play in exercising sound business judgement, and the specific techniques for making process improvements (e.g., flowcharts, benchmarking, cause and-effect diagrams, etc.). Comprehensive training is needed to expand employees' technical capabilities and to achieve "buy-in" for undertaking making meaningful improvement efforts.

Though costly , the use of facilitators can provide “just-in-time” training to members of process action teams. The bank spent about Ksh. 1 million on hiring outside consultants to come and train the employees on the balanced scorecard implementation process.

4.2.4 Establishing a reward and recognition system to foster performance improvements.

The management ties the reward and recognition system to performance improvement as measured by the acquisition Balanced Scorecard. They believe that employee incentives will tend to reinforce the organizational objectives being measured by the acquisition Balanced Scorecard. While rewarding individual employees has its place, group reward and recognition systems are also needed to encourage integrated, cross-functional teams of employees, customers and managers to undertake acquisition performance improvement.

4.2.5 Breaking down organizational barriers.

The management has adopted an open door policy in order to remove the unnecessary barriers within the bank. This will overcome unfounded fears about the perceived adverse effects of performance measurement and improvement. All stakeholders are shown that a co-operative effort toward performance improvement is the most appropriate course of action – that supporting the Balanced Scorecard is in their best interest.

4.2.6 Conducting Regular Reviews

The Bank’s Balanced Scorecard taskforce is required to submit monthly and quarterly reports on the progress of the new system. This is done through monthly reviews supplemented by quarterly reviews that focus more heavily on strategic issues. The Managing Director also intends to conduct an Annual Strategic Review after every 2-3 years with the aim of updating SBUs strategies as well as the corporate strategies.

4.2.7 Coordinating Headquarters and Kenyan Office Responsibilities

The Banks Headquarters in South Africa monitors closely the implementation process of Balanced Scorecard System in Stanbic Kenya.

This is aimed at ensuring that as far as possible, the results of the implementation is consistent and coherent with the group's overall objectives.

Kaplan and Norton have given the following guidelines for maintaining the Balanced Scorecard System.

- Identify the actions/behaviors that employees could affect
- Assess the impact of those actions and behaviors on the business
- Establish objectives according to desired impacts from desired actions/behaviors.
- When establishing objectives for the customer perspective, make sure customers are involved by:
 - Using task forces to understand requirements
 - Using standardized tools to test customer satisfaction and identify gaps between capabilities and needs/wants
 - Surveying and interviewing customers.

They also recommend the following guidelines for effective implementation of the Balanced Scorecard System

- Design customized perspectives, and the underlying metrics, focused on desired business outcomes.
- Develop reward tools in support of each perspective, considering affected populations and culture.
- Regulate implementation speed to fit the environment and the requirements for change.
- Create a team of subject-matter experts (SMEs) to develop the framework. These teams should include representation from finance, HR and senior line management, and solicited input from all other available sources including employees, customers and other SMEs; establish communications strategy, typically communicating

broadly and often; and determining how to use compensation to support scorecard effectiveness.

- ✓ Establish a set of design guidelines to determine the context within each variation of a balanced scorecard – be it at the corporate level for a business unit, for a specific function, or for a work team. These guidelines provide both the specific tools to be developed and the rules for each tool's usage. They include:
 - **Eligibility.** Identify the employees who will affect scorecard outcomes. Include only the employees who have significant impact on each measurement. Cascading eligibility through the organization allows for a controlled approach to design, implementation and communication.
 - **Participation.** Determine the target opportunity for eligible employees at various levels.
 - **Measurement Level.** Look across the organization to develop appropriate measurements at the corporate, business unit and functional levels. Link key employee groups (e.g., executives and functional professionals) to common objectives using subordinate measures.
 - **Metrics.** Use and customize all four perspectives on the scorecard. Establish desired outcomes at the highest level for each business unit, function and/or team, and then allow each of these groups to establish their own metrics along each perspective to deliver those outcomes.
 - **Funding.** Divert existing variable pay budgets to the portion of the total compensation opportunity that will usually respond to such calls by expressing appreciation for their interest in the Balanced Scorecard, but suggesting that the proposed meeting is unlikely to be successful for either party. The scorecard development process should not be delegated to a middle-management task force. be linked to balanced scorecard results, or use the objectives established for the financial or operational perspectives to create self-funding mechanisms.
 - **Line-of-Sight.** Clearly establish and communicate the individual behaviors that will drive the outcomes and results of the metrics which have been established.

Use standardized tools and techniques of variable pay design to establish and reinforce this line-of-sight.

- **Performance Measurement.** Develop standardized approaches for assessing performance on each objective at each performance level.

4.3 Experiences and Perception of Employees on the Implementation of the Balanced Scorecard

Not all the experiences have been successful at Stanbic bank. There are experiences which reveal several ways in which scorecard projects can indeed fail. According to the implementation taskforce, these factors include defects in the structure and choices of measures for the scorecard and organizational defects in the process of developing the scorecard and in how it is used. The taskforce have experienced the following:-

4.3.1 Structural Defects

The non-financial measures exhibit many of the defects of traditional financial measures they are meant to complement. The members of the taskforce argue that these measures are lagging measures, reporting how well an organization's strategy worked in the past period. Also, they are generic, in that all companies are trying to improve along these dimensions. The measures are good for keeping score, but not good for communicating to employees what they must excel at to win future competitive games. They do not provide specific enough guidance for the future, nor are they a sound basis for resource allocation, strategic initiatives, and linkage to annual budgets and discretionary spending. Fortunately, these structural defects are relatively easy to remedy. The scorecard derived from specific strategies will have a balanced set of measures, both outcomes and performance drivers, lagging and leading indicators, and with all the measures eventually linked to achieving excellent long-run financial performance.

4.3.2 Organizational Defects

According to the views of the members of the taskforce, other problems arise not from defects within the scorecard itself, but from process used to implement the concept.

Kaplan and Norton feel that, for the Balanced Scorecard to be effective, it must reflect the strategic vision of the senior executive group.

Merely slapping performance measures on existing processes may drive local improvement but is unlikely to lead to breakthrough performance for the entire organization. In addition, if senior executives are not leading the process, they will be unlikely to use the scorecard in the important management processes. The senior executives will continue to conduct operational reviews that emphasize meeting short-term financial targets, thereby passing and undermining the fundamental rationale for developing a scorecard in the first place.

Most important, a Balanced Scorecard should not be created by emulating the best measures used by the best companies. If, as we have argued, the best scorecards are derived from strategies designed for breakthrough performance, measures chosen by even excellent companies for their own strategies are unlikely to be appropriate for other organizations that face different competitive environments, with different customers and market segments, and in which different technologies and capabilities may be decisive.

While a good number of Stanbic Kenya employees developed a positive attitude, some employees of the Bank have generally been resistant to change due to the perceived uncertainty of the new system. Their fears have been pegged on the following factors:-

➤ **Economic factors**

The employees feared that the new system would bring about:-

- Technological unemployment
- Reduced work hours and consequently less pay
- Demotion and reduced wages
- Increased speed in operations and reduced incentive wages.

Arising from the above the employees felt that there would be:-

- Obsolescence of Skills

That the skills they have acquired over the years and their old ways of doing things will go down the drain and that they will be required to learn new techniques, which they perceive, may not favour them.

- **Fear of Economic Loss**

The employees perceived psychological degradation of the jobs they were performing. They thought that this would possibly lower their income directly or indirectly.

- **Personal factors**

The employees were uncomfortable with the new management system due to the following reasons:-

- **Ego defensiveness**

Some employees thought that the new system may deflate their ego.

- **Status Quo**

Some employees, especially the managers, perceived that the new system will cause disturbance to their existing comforts of status quo

- **Fear of unknown**

Some employees felt that the uncertainties brought about by the new system may not favour them

- **Social factors**

- **Social displacement**

Some employees were skeptical about the new system because they thought that this would breakup their social circles and work groups. That these informal social relationships would be affected and that they would lose their positions in the society.

- **Peer Pressure**

The different peer groups that exist in the Bank reacted differently to the introduction of the new system. Where some members of the peer group

developed negative attitude towards the new system, these staff members influenced the other staff members within the peer group.

However, the perception of employees has been changing positively with time. They are now beginning to understand the reasons for introducing the Balanced Scorecard concept. The management has embarked on vigorous Training, coaching and improved remuneration package with the aim of changing the employees attitude. Majority of employees are now co-operative and are willing to participate in the programme effectively.

4.4 What the Bank is doing to Change the Perception of the Employees

In order to positively change the perception of the employees, the Bank has adopted the following programs:-

- Training/Education and effective communication
- Participation and involvement through motivation, empowerment and alignment
- Facilitation and support from the Senior Management
- Competitive incentive programs i.e. performance based pay system
- Through co-optation – that is giving individuals a desirable role in design or implementation of the Balanced Scorecard System.

CHAPTER 5: SUMMARY AND CONCLUSIONS

5.0 Introduction

This study focussed on the implementation process of Balanced Scorecard. This chapter will contain a summary of the research findings, conclusion, recommendations, limitations of study and suggestions for further study.

5.1 Summary of results and discussions

The rapid changes in the business environment controlled by increased competition, increased customer awareness and demands, improved technology and the need for strategic planning has called for a business management and performance measurement system that encompasses a number of factors i.e. both financial and non-financial rather than from a narrow perspective as in the case of the traditional financial measurement approach. The Balanced Scorecard concept is a valuable attempt to provide such comprehensive business management system in these current volatile times.

However, because the Balanced Scorecard system is a new concept especially in Kenya and because there is still little knowledge about it available, this study attempts to fill what is perceived to be a gap in knowledge which has in a way limited its adoption by many organizations in Kenya.

The study had three objectives viz:-

To find out:

- (1) How the Balanced Scorecard technique was communicated to the employees of Stanbic Bank.
- (2) The process (key activities) and strategies used by the Bank to implement the Balanced Scorecard System.
- (3) The experiences and the perception of the employees on the implementation of the Balanced Scorecard system.

The main research findings can be summarized as follows:-

5.1.1 Steps for implementation

The key steps used by the Bank in implementing the system were:-

- 1 Setting up a Project Team
- 2 Introducing BSC concept to lower level management
- 3 Appointment of Task force Committee
- 4 Review of the SBUs Balanced Scorecard
- 5 Re-defining the Vision
- 6 Communication of the Balanced Scorecard to the entire Bank Employees
- 7 Establishing individual performance objectives and measures

However, it must be noted that these steps cannot be universally applied. For example it may not be possible to apply successfully the same approach in another organization.

The contribution of Kaplan and Norton is very important in providing general guidelines for implementing the system but each organization must modify its own approach as appropriate.

5.1.2 Communicating the concept to the employees and improving awareness

This is perhaps the most important key activity of the implementation process. Without an effective communication machinery, even a well designed Balanced Scorecard System may not work. The Bank has put in place various communication channels to ensure that every employee of the Bank understands what the Bank is trying to do. The main channels of communication used by the Bank are:-

- Training (Seminars & conferences)
- Presentations
- Coaching and Counseling
- Peer influence approach
- In-house magazines

It is also established that the use of multiple communication channels should be encouraged. In this way, the important aspects of the new system can be communicated to employees in different ways hence enhancing better understanding. Improving employee awareness must be a continuous effort.

5.1.3 Performance Objectives and Measures

If the performance objectives and measures are wrong, then the results will also be wrong. The intended results will not be achieved.

Stanbic Bank Kenya has identified specific financial, customer, learning growth and internal processes objectives which every Strategic Business Unit is required to achieve. Equally important is the performance measures. As it is often said "if you can't measure it, you can't manage it". It is through measures that the organization can assess its performance effectively.

In this respect, Stanbic Bank has identified various core financial, customer, learning growth and internal process measures

5.1.4 Strategies for maintaining the Balanced Scorecard System

The Balanced Scorecard requires continuous participation, acquisition of knowledge, modification of strategies, reviews and motivation of employees. In order to achieve these effectively the Bank has put in place the following strategies:-

- Commitment at all levels – especially at the top level
- Development of organizational goals
- Continuous training
- Development of appropriate compensation package
- Breaking down organization barriers

5.1.5 Experiences and perception of employees

Like in any other change programmes, the introduction of Balanced Scorecard System at Stanbic Bank, Kenya has revealed experiences and employee perceptions that are worth highlighting. Since the introduction of the system, the Bank has experienced some structural as well as organizational defects which are usually rectified through the regular reviews by the executive team and the task force.

The employees of the Bank were initially skeptical about the system. They had perceived fears that the new system would jeopardize their.

- Economic status and as a result they would suffer economic loss as well as obsolescence of skills.
- Social status through social displacement and peer pressure.

However, the Bank has realized the importance of developing positive employee perception. The perception of the employees has therefore been positively changing with time. This has been achieved through vigorous training coaching, improved remuneration package, participation and involvement, empowerment and maximum senior management support.

In conclusion, we can say that the experiences of implementing the Balanced Scorecard at Stanbic Kenya provided a base for setting up a strategy for managing the system. It is apparent that, introducing a new management system centered on the Balanced Scorecard must overcome the organizational inertia that tends to envelop and absorb virtually any change program.

Two types of change agents are required for effective implementation of the new system. First, an organization needs transitional leaders, the managers who facilitate the building of the scorecard and who help embed it as a new management system. Second, the organization needs to designate a manager to operate the strategic management system on an ongoing recurring basis. An additional difficulty of embedding the Balanced Scorecard as a strategic management system is that the responsibilities of both the transitional leaders and the manager of the ongoing system do not fall within traditional organizational boxes.

It is therefore observed that in order to effectively implement the Balanced Scorecard System, an organization must recognize three key transitional roles in the process.

The three critical roles that must be played in building and embedding the Balanced Scorecard as a strategic management system are:-

1. Architect

The architect is responsible for the process that builds the initial Balanced Scorecard, and that introduces the scorecard into the management system.

2. Change agent

The change agent should have a direct reporting relationship to the CEO since he or she serves as the chief of staff to guide the development of the new management system over the two-to three-year period during which the new management processes triggered by the Balanced Scorecard unfold. The change agent's role is critical since he or she serves as the surrogate for the CEO, shaping the day-to-day use of the new management system. The change agent helps managers redefine their roles, as required by the new system.

3. Communicator

The communicator is responsible for gaining the understanding, buy-in, and support of all organizational members, from the most senior levels down to teams and employees on the front lines and in the back offices.

The new strategies articulated on the Balanced Scorecard generally require new values and ways of doing work that are built around customer focus and satisfaction, quality and responsiveness, innovation and service, and enhanced roles for employees and systems. The manager of the scorecard communication process should perform this task as an internal marketing campaign. The communication program should also motivate employees and teams to provide feedback about whether the proposed strategy is feasible and desirable.

While the communication department traditionally would be responsible for such an educational program, the scorecard communication function is so important for effective implementation of the concept, we urge that a specific individual, perhaps actively supported by the communication department, be designated to manage the strategic communication campaign until the awareness and motivation objectives have been achieved.

It is also observed that in the implementation of the Balanced Scorecard System, the Chief Executive Officer of the business unit is the ultimate “process owner.” As the system that specifies the goals and objectives of the entire unit, sets performance targets and allocates resources and initiatives of the entire unit, sets performance targets and allocates resources and initiatives to achieve these targets, monitors results, and rewards or punishes for unrealized performance, the strategic management system must be the personal responsibility of the CEO and the senior executive team. But the ongoing operation of the system must be assigned to a particular person; otherwise, gaps will develop in measurement, reporting and monitoring.

5.1.6 Recommendations

As clearly evidenced in the text above, the introduction of the Balanced Scorecard is not a simple task as it may sound. Before embarking on the implementation programme of the Balanced Scorecard, an organization needs to carry out an evaluation of its

- Leadership readiness
- Organization readiness

➤ The right Leadership.

This would be attained in the following circumstances:

- The leader of Balanced Scorecard must be a senior executive who is strongly committed to Balanced Scorecard and who possesses the title authority necessary to institute fundamental change.

- He must understand the nature of Balance Scorecard and the magnitude of the change organizational change in particular that it entails
- The Balanced Scorecard leader must have a vision of the kind of organization he or she wishes to create and is able to express that vision clearly and simply in operational terms.
- The Balanced Scorecard leader must be ready and able to exercise leadership – through communications, personal behavior, and systems of measurement and reward in order to make Balanced Scorecard succeed.
- He must be prepared to commit both the organizational resources and personal attention that Balanced Scorecard requires.
- The entire senior management team must share the leader's enthusiasm for Balanced Scorecard.

➤ **Organizational Readiness**

- The organization as a whole must recognize the need for Balanced Scorecard and fundamental change.
- The organization must understand the nature of Balanced Scorecard, including the fact that it results in multidimensional change that impacts processes, jobs, organizational structure, management responsibilities, e.t.c
- The employees must believe that the Balanced Scorecard leader and the senior management team are truly committed to Balanced Scorecard and that his commitment will be long lasting.
- The organization must not have the complacency and arrogance that often follow a sustained period of success.
- The organization must be free of the skepticism, mistrust, and ambivalence that often follow a program of downsizing or restructuring.
- The organization must have the financial and human resources needed to implement Balanced Scorecard

- Key staff organizations – human resources, finance, and information system must be positive about the prospect of Balanced Scorecard and capable of innovation response to its demands.
- The organization's experience with total quality management (TQM) must create an environment that is receptive to Balanced Scorecard.
- The organization must have a high value on serving customers and has a solid understanding of customer needs.

In addition to the above:

- (1) The organization must be comfortable with the way in which Balanced Scorecard proceeds, through risk taking, learning, and ambiguity.
- (2) The members of Balanced Scorecard teams must feel empowered to "break the rules" and to challenge long-standing assumptions.
- (3) The Balanced Scorecard effort should be directed at key business processes and motivated to assure that the processes are successfully implemented.

5.1.7 Limitations of the Study

- This study is a Case Study on only one organization and therefore it may not be used in generalization purposes. The corporate culture and values at Stanbic may not be the same with other organizations in Kenya or elsewhere for that matter.
- The study may also carry some of the weaknesses inherent in using questionnaires and interviews techniques for data collection purpose. A part from the possibility of misinterpretation of items and definitions by respondents, answers to the questions may reflect an ideal situation rather than what is on the ground.
- As with any other research, this study was undertaken within a fixed duration and the researcher did not have adequate time to seek the views of each and every employee in the Bank. The information was obtained only from representative groups.

- This case study focused on the stages of implementation of the Balanced Scorecard system. As mentioned earlier, the concept of the Balanced Scorecard is new in Kenya and those organizations which have implemented it are perhaps yet to assess its impact. Stanbic Bank Kenya, used in this study implemented the system only in June 2002 after a number of years preparations.
- The study has also relied heavily on qualitative data which is subjective. Similarly data analysis has been done mainly using the qualitative methods e.g. content analysis and descriptive statistics -averages

5.1.8 Suggestions for Further Study

This study may be viewed as a useful reference material for future researches on the impact of Balanced Scorecard in Kenyan organizations.

Perhaps in future there will be need to conduct a complete study on the implementation process of Balance Scorecard system and its impact on these organizations over a longer period of time.

A study can also be conducted in establishing the environmental business challenges affecting the implementation of the Balanced Scorecard in the Banking Industry or any other given industry

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Appendix 1 (a): LETTER OF INTRODUCTION

DATE: -----

The Respondent
Stanbic Bank Ltd
P.O. Box 30550
Nairobi.

Dear Sir/Madam,

RE: REQUEST FOR YOUR PARTICIPATION IN MY RESEARCH WORK

I am a Postgraduate student in the Faculty of Commerce, University of Nairobi pursuing a Master of Business Administration (MBA) Degree Program. In order to fulfil the degree requirements, I am currently undertaking a Management Research Project on **"THE PROCESS OF IMPLEMENTING THE BALANCED SCORECARD TECHNIQUE : A CASE STUDY OF STANBIC BANK LTD , NAIROBI."** The study focuses on the use of non-financial (qualitative) performance measures.

Balance Scorecard is a new concept in Kenya and only a few organizations are believed to have adopted it.

Your organization, I believe, is one of the front-runners in the implementation of the balanced scorecard in Kenya. I, therefore, highly appreciate if you would spare some time to kindly complete the attached questionnaire for me.

Please be assured that the information you will provide is strictly for academic purposes and I shall avail a copy of the results to you once the study is complete.

Yours faithfully,

Wilson O. Odadi

- (1) For how long have you been working for Stanbic Bank? (Yrs).....
- (2) What is your current position in the Bank?.....
- (3) Indicate the Department Section of the Bank you are currently working in.
- (4) When and how was the concept of Balanced Scorecard conceived in your Bank?
.....
.....
.....
- (5) What were the business reasons that drove the Balanced Scorecard implementation in your Bank? (Tick if appropriate)
- | | |
|--|--------------------------|
| (a) Increased Competition | ☐ |
| (b) High shareholder expectations | ☐ |
| (c) Increased customer demand for high quality | ☐ |
| (d) Effective strategic planning | ☐ |
| (e) Any other (please specify) | |
| | |
| | |
| | |
- (6) What preparations did you make prior to its implementation? (The preparation interms of policies & procedures, communication to employees etc.)
.....
.....
.....
.....
- (7) How did you communicate the balanced scorecard objectives to the staff?
(tick as appropriate)
- | | |
|---|--------------------------|
| Through Training | ☐ |
| Through Discussions with each employee | ☐ |
| Through Written guidelines and procedures | ☐ |
| Any other (Please specify)..... | |
| | |

- (8) What specific actions did you take to empower employees to participate effectively in implementation of Balanced Scorecard ?

- (9) When did your bank implement the Balanced Scorecard?.....
- (10) What are the stages through which the Balanced Scorecard was implemented by the bank ?

- (11) Are the various business units required to determine these measures separately or are measures centrally determined? (Please tick as appropriate below)
- Separately determined ☐
- Centrally determined ☐
- (12) To what extent do you think the Balanced Scorecard system has improved the efficiency of the bank's operations ?
 (Please tick one)
- To a great extent ☐
- To a moderate extent ☐
- To a less extent ☐
- To a much less extent ☐
- (13) Do you think that the introduction of the Balanced Scorecard has benefited the Bank?.....
- Explain.....

(14) What are the obstacles that you have experienced during the implementation process?

(15) What are the metrics (measures) for each type of Balanced Scorecard perspectives (financial, customer, operational and internal learning and growth?)

(Please list)

Financial perspective measures:

Customer perspective Measures:

Operational perspective measures:

Internal learning and growth perspective measures:

(16) Are there any measures/strategies which have been put in place to?

(a) provide feed back on the working of the system

(Please tick appropriate answer below)

Yes ☐ No ☐

Please explain your answer to (a) above.....
.....
.....
.....
.....

(b) Determine corrective measures to be taken incase of deviation
(Please tick appropriate answer below)

Yes No ☐

Please explain your answer to (b) above

.....
.....
.....
.....

17. Do you think the perception of the following stake holders about the performance of the Bank changed since the introduction of the balanced scorecard ?
(Please tick appropriate answer below)

- | | | | | |
|----------------------|-----|--------------------------|----|--------------------------|
| (a) Shareholders | Yes | ☐ | No | ☐ |
| (b) Customers | Yes | ☐ | No | ☐ |
| (c) Internal process | Yes | ☐ | No | ☐ |
| (d) Employees | Yes | ☐ | No | ☐ |

If yes, has the change been positive or negative ?.....

(To be completed by Representative of Unionisable Employees)

- (1) For how long have you been working for Stanbic Bank? (Yrs).....
- (2) What is your current position in the Bank?
- (3) Indicate the Department Section of the Bank you are currently working in.
.....
- (4) When did your bank implement the Balanced Scorecard?.....
- (5) How were the objectives of balanced scorecard communicated to the employees?
(Please tick as appropriate)
- Through Training ☐
- Through Discussions with the supervisor ☐
- Through Written guidelines and procedures ☐
- Any other (Please specify).....
.....
- (6) What specific actions did the senior management take to empower employees to participate effectively in implementation of Balanced Scorecard ?
.....
.....
.....
.....
- (7) How would you describe the attitude and the perception of the employees regarding the introduction of the Balanced Scorecard?. (Please tick one)
- (a) Negative
- (b) Positive
- (c) Indifferent
- (d) Any other (Please Specify)
-
.....
.....
.....

- (8) To what extent did the Senior Management influence the determination of measures to be used in the Balanced Scorecard implementation process?
(Please tick appropriate answer below)
- To a great extent ☐
- To a moderate extent ☐
- To a little extent ☐
- Not at all ☐
- (9) To what extent do employees think the Balanced Scorecard system has improved the efficiency of the bank's operations?
(please tick one)
- To a great extent ☐
- To a moderate extent ☐
- To a less extent ☐
- To a much less extent ☐
- (10) Do employees think that the introduction of the Balanced Scorecard has benefited the Bank?
(Please tick appropriate answer below)
- Yes ☐ No ☐
- Please explain your answer to the above
-
-
-
-
- (11) What are the obstacles that employees have experienced during the implementation process?
-
-
-
-
- (12) Are there any measures/strategies which have been put in place to?
- (a) provide feed back on the working of the system
(Please tick appropriate answer below)
- Yes ☐ No ☐

Please explain your answer to (a) above

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- (b) Determine corrective measures to be taken incase of deviation(s)**
(Please tick appropriate answer below)
Yes ☒ No ☐

Please explain your answer to (b) above

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Appendix 2 STRUCTURED INTERVIEW SCHEDULE

- (1) What preparations did the bank make in respect of specialized training/education prior to the implementation of balanced scorecard to ensure that the employee understood and accepted the concept?

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- (2) Is the system now fully accepted by the stakeholders (shareholders, management, employees, customers)? (Please tick appropriate answer) Yes ☐ No ☐

If your answer to above is no, please give reasons

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- (3) How would you evaluate the usefulness of Balanced Scorecard on the Banks operations?
(Please Tick one)

Very useful ☐

Fairly useful ☐

Not useful ☐

- (4) (a) Are there any problems the Bank has experienced in a bid to implement the Balanced Scorecard system? (Please tick appropriate answer below)
Yes ☐ No ☐

(b) If your answer to item 4 (a) above is yes, please explain.....

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- (5) What changes or adjustments have been made in the system since its introduction?

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(6) Outline the measures used to determine success in each of the following Balanced Scorecard perspectives

▪ Financial Perspective Measures

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▪ Operational Perspective Measures

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▪ Customer Perspective Measures

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■ **Learning/Growth Perspective Measures**

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(7) What was the cost of introducing and implementing the Balanced Scorecard Technique

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Can you justify the expenditure mentioned above?

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BANKING SURVEY 2001 – RANKING SCORE CARD

(Source – Marketing Intelligence Banking Survey 2001)

Ranking		Bank	Return on Assets		Return on capital Employed		Cost of Funds		Efficiency Ratio (Cost Income Ratio)		Total NPL/ Total Advances		Profit Before Tax		TOTAL SCORE	
2000	1999		2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
1	1	Standard Chartered Bank	1	3	2	1	4	2	5	10	14	13	1	2	27	31
2	2	Barclays Bank of Kenya	4	4	4	2	3	1	16	25	6	8	2	1	35	41
3	4	Citibank	15	15	8	9	5	3	12	18	4	2	3	4	47	51
4	5	ABN Amro Bank	11	6	11	8	7	7	18	15	9	14	4	3	60	53
5	6	NIC Bank	2	2	12	11	20	18	2	1	21	20	5	5	62	57
6	3	Commercial Bank of Africa	12	8	10	5	8	4	20	14	15	9	6	6	71	46
7	10	Habib A. G. Zurich	9	18	3	4	16	8	23	13	12	12	13	19	76	74
8	9	Charterhouse Bank	3	10	7	13	38	14	1	7	11	3	18	24	78	71
9	7	Bank of India	7	5	6	6	14	12	28	17	10	15	14	12	79	67
10	13	Imperial Bank	6	9	9	7	43	41	3	2	13	10	11	17	85	86
11	16	CFC Bank	8	7	13	17	19	21	40	44	5	7	7	7	92	103
12	15	Biashara Bank	14	16	15	15	13	15	25	27	7	4	20	20	94	97
13	14	Middle East Bank	16	20	14	14	12	5	14	11	27	22	12	15	95	87
14	17	I&M Bank	20	24	19	23	28	27	4	3	17	19	9	14	97	110
15	11	Habib Bank	13	13	5	3	21	10	32	21	18	18	17	16	106	81
16	12	First American	19	11	20	12	27	17	7	5	32	31	10	8	115	84
17	8	Credit Agricole Indostuez	29	14	24	10	17	6	21	23	8	5	19	9	118	67
18	27	Chase Bank	10	28	26	35	35	13	19	35	2	6	28	40	120	157
19	18	Diamond Trust	5	19	16	18	31	24	27	30	34	24	8	10	121	125
20	22	ABC Bank	31	29	23	24	22	23	17	22	19	16	25	29	137	143
21	29	Devina Finance	17	26	37	38	34	31	13	37	1	1	37	42	139	175
22	20	Prime Bank	21	21	21	20	30	37	29	28	16	11	23	22	140	139
23	25	Bank of Baroda	24	25	18	19	11	9	38	41	28	35	24	23	143	152
24	24	Fina Bank	32	27	22	21	45	43	8	8	24	29	22	21	153	149
25	26	Equatorial Commercial Bank	26	30	29	29	33	30	10	6	31	27	26	33	155	155
26	21	Prime Capital & Credit	27	22	28	22	47	34	11	9	22	26	27	26	162	139
27	19	Paramount Universal Bank	30	17	30	16	15	33	24	20	30	17	34	31	163	134
28	34	Credit Bank	23	31	27	30	32	28	33	40	25	21	30	36	170	186
29	23	Development Bank of Kenya	18	12	36	32	50	47	15	4	39	37	15	11	173	143
30	31	Victoria Commercial Bank	35	38	34	33	41	32	9	12	26	30	32	32	177	177
31	43	Euro-Bank	33	43	17	44	48	45	6	36	41	34	35	44	180	246
32	35	Guardian Bank	28	32	25	27	36	26	30	39	42	39	21	25	182	188
33	30	Akiba Bank	34	34	35	34	26	25	36	29	29	25	29	30	189	177
34	33	Giro Commercial Bank	37	41	32	31	39	35	31	19	20	23	33	35	192	184
35	28	IFPCK	36	33	31	26	42	29	35	16	40	41	16	13	200	158
36	46	Trans-National Bank	22	46	33	43	29	39	48	47	44	45	31	47	207	267
37	32	Fidelity Commercial Bank	39	23	39	25	40	42	22	31	33	28	38	34	211	183
38	38	Kenya commercial Bank	41	44	44	42	24	20	34	32	36	32	47	49	226	219
39	41	Consolidated Bank	43	37	42	39	9	22	47	46	48	46	42	37	231	227
40	36	Stanbic Bank	45	40	46	36	23	11	46	43	35	36	46	28	241	194
41	40	Southern Credit Bank	40	39	43	37	46	44	42	24	38	38	40	41	249	223
42	44	National Bank of Kenya	46	48	48	48	18	16	45	48	45	43	50	50	252	253
43	39	Co-operative Bank of Kenya	47	42	50	41	25	19	43	42	37	33	51	46	253	223
44	42	Industrial Development Bank	42	36	41	40	49	46	37	34	43	42	41	38	253	236
45	45	Daima bank	44	47	47	46	37	40	49	45	46	44	43	45	266	267
46	37	Deptha Bank	49	35	51	28	44	38	50	33	49	40	48	27	291	201