

**APPLICATION OF THE BALANCED SCORE CARD AS A  
STRATEGIC MANAGEMENT TOOL AT THE KENYA BUREAU OF  
STANDARDS**

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# DECLARATION

## STUDENT DECLARATION

This research project is my original work and has not been presented for a degree in any university or institution.

Signed .....

Date.....

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## SUPERVISOR'S DECLARATION

This research project has been submitted for examination with my approval as the University of Nairobi supervisor.

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## **DEDICATION**

I dedicate this thesis to my parents Lucas and Ruth for starting me on the path of my academic journey, for their sacrifices, love and prayers. I also dedicate this to my brother and sister for their constant encouragement; to my friends for their faith in me, advice and support.

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## ABBREVIATIONS AND ACRONYMS

<b>BSC:</b>	Balanced Scorecard
<b>IO:</b>	Industrial Organization
<b>ISO:</b>	International organization for standardization
<b>KEBS:</b>	Kenya Bureau of Standards
<b>PC:</b>	Performance contract
<b>SBSC:</b>	Sustainable Balanced Score card
<b>SO:</b>	Strategic objective
<b>SI:</b>	International system of units
<b>SP:</b>	Strategic plan
<b>SME:</b>	Small Medium Enterprises
<b>TBT:</b>	Technical Barriers to Trade
<b>WTO:</b>	World Trade Organization

## **ABSTRACT**

The Balanced score card concept was first introduced by Kaplan and Norton (1992) as a set of measures that give top management a comprehensive view of the business from four perspectives; financial, customer, internal business process, and learning and growth. The balanced scorecard is a strategic management tool used to communicate the vision and strategy of an organization, where strategy is translated into a set of performance measures that are used to monitor and evaluate the strategic direction of the organization. The purpose of this study was to examine the application of the balanced scorecard as a strategic management tool at the Kenya Bureau of Standards and the challenges faced in adopting the tool. This study was conducted through the use of a case study. An interview guide was used to collect primary data from executives charged with developing and cascading of the balanced scorecard. Secondary data was obtained from the Kenya Bureau of Standards corporate score card and the strategic plan. Content analysis was used to analyze the data. The study established that KEBS has adopted the balanced score card as strategic management tool for purposes of communicating, implementing and monitoring and evaluation of strategy. The scorecard has four perspectives as developed by Kaplan and Norton but also incorporates corporate social responsibility and sustainability within the four perspectives. The balanced scorecard also doubles as performance contract between the employees and the organization. Further, the study identified a number of challenges faced in the application of the balanced score card in KEBS. Some include; Resistance among employees, lack of understanding on how the scorecard works and ineffective reward system. This study in light of challenges faced recommends that KEBS embarks on continuous awareness trainings on the balanced scorecard and overall KEBS strategy to enhance understanding, review its reward policy and customize the BSC to suit its needs. Study limitations are also highlighted including contextual and methodological limitations, the study also recommends areas for further studies.

# CHAPTER ONE

## INTRODUCTION

### **1.1 Background of the Study**

In an increasingly competitive and dynamic world managers have to craft strategies that will not only lead to improved financial performance but also sustain competitive advantage. These managers require reliable management practices to make both short and long term strategic decisions. The balanced score card is a performance management tool developed by Kaplan and Norton (1992) that entails aligning the activities of a business unit to the vision and strategy of the organization, so as to continually monitor the performance and strategy achievement of an entire organization against its strategic goals or objectives (Pearce and Robinson, 2011). The best and most reliable indicators of a company's future performance and business prospects are strategic outcomes that indicate whether a company's competitiveness and market position are stronger or weaker. Financial performance measures are lagging indicators that reflect past decisions and organizational activities (Thompson, Strickland and Gamble, 2008).

A balanced score card is used to track both financial objectives and strategic objectives; it encompasses both financial measures and complements these with operational measures on customer satisfaction, internal business processes and innovation and growth as drivers to future performance (Kaplan and Norton, 1992). A balanced scorecard provides

management with the means to identify cause-and effect relationships across key performance indicators and to manage a business more effectively (Afande, 2015).

This study was anchored on two theories; the stakeholder's theory and industrial organization economics theory. The stakeholder theory is an organizational management theory that addresses the morals and ethics required to manage an organization. It emphasizes that the management of an organization needs to identify the various stakeholders of the organization and give due regard to the interests of those groups. Industrial organization economics theory (IO) stresses that the success of a company is dependent on the industry in which it operates; the industry structure determines the behavior and the strategic action of a firm. IO theory as summarized by Porter (1981) argues that a firm's performance is a function of the industry environment in which it competes; structure therefore determines conduct which in turn determines performance.

The Kenya Bureau of Standards (KEBS) is a state owned regulatory agency established in 1974 under the Ministry of industrialization and enterprise development through an act of parliament, the Standards Act Cap 496 Laws of Kenya. Strategic planning at KEBS started with the launch of the first strategic plan 2002-2007. The second strategic plan was 2008- 2012, KEBS has now unveiled the third strategic plan 2013-2017. In order to effectively and efficiently provide quality services and meet the expectations of the stakeholders, KEBS has also signed a performance contract with the Government of Kenya, to undertake its mandate. KEBS has adopted the Balanced score card as a strategic management tool to operationalize its strategic objectives and monitor and evaluate performance (Kenya National Standardization Strategy 2013-2014).

### **1.1.1 Strategic Management**

The field of strategic management is relatively young and was conceptualized from business policy by Schendel and Hatten (1972). It represents a case of an academic field whose consensual meaning might be expected to be fragile, even lacking. There is a strong implicit consensus about the essence of the field, even though there may be ambiguity about its formal definition (Nag, Hambrick and Chen, 2007). Thompson, Strickland and Gamble (2011) define strategic management is a set of decisions and actions that result in formulation and implementation of plans designed to achieve a company's objectives. It entails conducting an analysis of the company's internal and external environment in light of the company's strength and weaknesses and formulating strategies of how and where it should compete.

The strategic management process has three distinct phases, this begins with formulation, where management develops a business mission, identifies an organizations external opportunities and threats, internal strengths and weaknesses, establishing long term objectives and choosing strategies to pursue. The second phase is the implementation where strategies are cascaded down from top management to the line managers in the business units, resources are allocated for execution of selected strategy. The last phase is evaluation of the strategy, where results of formulation and implementation activities including measuring of organizational and individual performance are done, and corrective actions taken (Thomson et. al, 2011; Yabs, 2010).

### **1.1.2 Balanced Score Card**

The Balanced score card (BSC) is a performance measurement tool that was developed by Kaplan and Norton in 1992. It is a strategic management tool that incorporates both financial and non-financial measures that give managers a comprehensive view of the business. It directs a company to link its own strategy with tangible goals and actions, and allows managers to evaluate the company from four perspectives, financial perspective, customers' perspective, internal business process and learning and growth.

The four perspectives of the score card have a cause and effect relationship where an outcome of one perspective influences the outcome of another (Kaplan and Norton, 1992). Employees need to be empowered in terms of skills and motivation in order to improve the way they work(Learning and growth)this creates improved efficiency and innovation from new skills acquired(internal business processes)this in turn will lead to increased customer satisfaction from better service delivery and products in the market(customer perspective) increased customer satisfaction creates more business for the company thus increase in revenue generation that will in turn benefit the company and its shareholders ,that is, the financial perspective (Wauters, 2011).

A successful balanced score card should be derived from a business units unique strategy that will provide a framework that can translate a company's vision and strategy into a set of performance measures. The measures in a balanced score card should be crafted in a manner such that there is unity of purpose to achieve an integrated strategy. The score card should permit a balance between short term and long term objectives and between

desired outcomes and performance drivers. A properly constructed score card should give an overall picture of a units strategy (Kaplan and Norton, 1996b).Recent studies such as that by Figge, Hahn, Schaltegger and Wagner (2002) looked into a more modern BSC referred to as a Sustainability balanced score card, this is a modified version of the BSC that incorporates the three dimensions of sustainability such as Economic, Environmental and Social dimensions, simultaneously.

### **1.1.3 Kenya Bureau of Standards**

The Kenya Bureau of Standards (KEBS) is a state owned agency that was established in 1974 under the Ministry of Industrialization and Enterprise development through an act of parliament, the Standards Act Cap 496, laws of Kenya. KEBS is mandated to promote standardization in commerce and industry, to provide testing and calibration services, to assist in the implementation and practical application of standards and to maintain and disseminate international system of units (SI). KEBS also operates the National Enquiry Point in support of the World Trade Organization (WTO) Agreement on Technical Barriers to Trade (TBT) ([www.kebs.org](http://www.kebs.org)).KEBS has established itself nationwide with seven main geographical regions, namely, Headquarters (Nairobi), Coast region (Mombasa), North Rift region (Eldoret), South Rift region Nakuru), Lake region (Kisumu), North Easter region (Garissa) and Mount Kenya region (Nyeri) ([www.kebs.org](http://www.kebs.org)- 2015).

KEBS approved a strategic plan (2012-2017) as well as signed a performance contract with the Government of Kenya. This is a strategic move and a clear commitment to take standardization work and conformity assessment activities forward as stipulated in the

standards act. KEBS has adopted the Balanced score card as a strategic management tool to operationalize its strategic objectives and monitor and evaluate performance (Kenya National Standardization Strategy 2013-2014).

## **1.2 Research Problem**

The Balanced Score Card (BSC) is a strategic management tool that emphasizes a linkage between measurement of strategy and cause and effect linkages that describe the hypotheses of the strategy. It reflects the changing nature of technology and competitive advantage. It aims to provide a framework for describing value creating strategies that link tangible and intangible assets (Kaplan and Norton, 2001a).It was developed after weaknesses and vagueness of previous implementation and control approaches were realized after examination of over 60 companies by Kaplan and Norton (1992).Some Studies conducted on the BSC reveal mixed feelings on its application. Schneiderman (1999), Adams, Neely and Kernerly (2001), critique the use BSC as a strategic management tool, while Wauters (2011), Northcott and Taulapapa (2011), highlight a growing popularity in its use a strategic management tool.

The operating environment of KEBS has become challenging with each strategic planning period. These challenges include growing globalization, trade liberalization, expanding role of Small Medium Enterprises (SME) in Kenya and increasing competition from private enterprises in areas of testing and system certification (Onyango, 2012).KEBS being a public sector organization, faces mounting pressure from the government and other stakeholders to demonstrate effective performance management, accountability and transparency in use of public funds and better service delivery in its

standardization activities. In order for KEBS to adjust its strategies to respond effectively to the operating environment and meet the needs of its stakeholders, there is need to monitor, control and evaluate the strategy implementation process. One of the ways this has been done is through the adoption of the balanced scorecard as a strategic management tool.

Studies have been undertaken locally on the application of the Balanced Scorecard. Mohamed (2012) studied Application of the balanced score card in strategy implementation at the Kenya Red Cross and found that the BSC has been successfully implemented. Nyangayo (2014) studied balanced scorecard and performance at Co-operative bank of Kenya, Afande (2015) examined adoption of the balanced score card by state corporations within the Ministry of Information and Communication in Kenya, findings indicated that the BSC has been successfully adopted in the various corporations studied. M'maiti (2014) conducted a cross sectional survey in Kenyan commercial state corporations that use the balanced score card as a strategic management tool, Globally Yu and Crowe (2008) studied effectiveness of the BSC and the impact of strategy and causal links, Ahn (2001) studied the application of the BSC in a German industrial firm, and concluded that the BSC is a beneficial tool when implemented but limitations should also be considered. Studies on strategic management have also been conducted in KEBS. Onyango (2012) studied strategic management practices at the Kenya Bureau of Standards, Nyakoe (2014) studied Strategy evaluation and control practices at Kenya Bureau of Standards.

The findings obtained from the above studies cannot be replicated in KEBS due to contextual differences and the nature of work that KEBS is engaged in, which is conformity assessment. Studies conducted in the public sector were cross sectional surveys and quantitative in nature thus may not give an in depth picture of the application of the scorecard in individual state corporations. Studies on the application of the balanced scorecard at KEBS are yet to be conducted. This study was an attempt to bridge these gaps. How has KEBS applied the Balanced Score card as a strategic management tool?

### **1.3 Research Objectives**

The objectives of this study were to:

- i. Asses the application of the balanced score card as strategic management tool at KEBS.
- ii. Establish the challenges in applying the balanced score card as strategic management tool at KEBS.

### **1.4 Value of study**

The findings of this study will be useful in providing additional knowledge and theory building to scholars, academicians and researchers in examining the application of the BSC as a strategic management tool. The study will provide future researchers with information on the gaps that need to be filled and areas of further research. The study also provides better understanding of the stakeholder and industrial organizations theory and their relation to the BSC.

This study may help policy makers especially within the public sector in identifying crucial factors and challenges identified in application of the balanced score card as a strategic management tool and prompt them to seek ways through proactive policies and procedures, on how to use the balanced scorecard in the industry, so that corporations and societies can benefit from them in the future.

Finally KEBS management will benefit from the study by understanding the linkage between performance measurement and the use of the balanced score card as a strategy implementation tool. Management will be able to identify any challenges that may emanate from this study, and thereby be able to discern good management practices which will enable the organization to successfully use and implement the balanced score card.

## **1.5 Chapter Summary**

This chapter outlined the background of the study in strategic management, the balanced scorecard, and the Kenya Bureau of Standards. The chapter also highlighted the research problem that this study was seeking to address, the objectives of the research which was; to assess the application of the balanced scorecard as a strategic management tool and to establish the challenges in applying the BSC as a strategic management tool. The chapter concludes with the value of the study to the field of strategic management research, policy makers and management of Keya Bureau of Standards.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Literature review chapter summarizes the background and context for the research problem. Works and results from other researchers who have carried out their research in the same field of study is presented here. The specific areas covered in this chapter are; the theoretical framework, strategic management practices, the balanced score card as a strategic management tool, challenges of applying the balanced scorecard as a strategic management tool and a summary of the knowledge gaps from other studies.

#### **2.2 Theoretical Background**

This study was anchored on two theories, the stakeholder theory and the Industrial organizations (IO) economics theory. The stakeholder theory is an organizational management theory that addresses the morals and ethics required to manage and organization. It emphasizes that the management of an organization needs to identify the various stakeholders of the organization and give due regard to the interests of those groups (Freeman et., al 2004).Industrial organization economics theory (IO) stresses that the success of a company is dependent on the industry in which it operates. The industry structure determines the behavior or conduct of a firm which in turn determines its performance (Porter, 1981).

### **2.2.1 The Stakeholder Theory**

The stakeholder theory is an organizational management theory that addresses the morals and ethics required to manage an organization. It emphasizes that the management of an organization needs to identify the various stakeholders of the organization and give due regard to the interests of those groups (Pearce and Robinson, 2011). The stakeholder theory asks what is the purpose of the firm, it encourages managers to share sense of value they create and what brings its stakeholders together, the theory also asks what responsibility management has to its stakeholders, and the relationship they want and need to create to deliver on their purpose (Freeman et al., 2004). Mitchell, Agle and Wood (1997) further point out that the attributes; power, urgency and legitimacy of claims define an organization's stakeholder. Organizations must first identify stakeholder salience, which is the degree to which managers give priority to competing stakeholder claims. The top management team that crafts an organization's strategy needs to attend to the strategic management of stakeholders so as to ensure the robustness of its strategy. By anticipating and managing stakeholder responses, managers can put strategies and actions in place that capitalize on positive responses and reduce negative ones (Ackerman and Eden, 2010).

The Balanced score card through its four perspectives seeks to balance shareholder goals with customer goals and operational performance goals. Through the integration of goals the BSC enables the strategy of the business to be linked with shareholder value creation, while providing several measurable short term outcomes that guide and monitor strategy implementation (Pearce and Robinson, 2011). Kaplan (2010) further point out that the balanced score card incorporates interests of the stakeholder endogenously, within a

coherent strategy and value creation framework, especially when outstanding performance with those stakeholders is critical to success of the strategy, and that it is by nurturing multiple relationships that long term value is created.

### **2.2.2 Industrial Organization Economics Theory**

Industrial organization is concerned with the structure of industries, and the behavior of firms and individuals within this industry. The model was initially developed by Mason in 1939 and further expounded by Bain in 1956 ,where they argued returns of the firms are determined by the structure of the industry which a firm find's itself, this model came to be known as the structure conduct and performance paradigm.(Porter, 1981).The model was initially developed to assist government policy makers in formulating economic policy, with the aim of anticipating where firm's returns will be optimal and sustain competitive advantage (Porter 1981, Barney, 1986).Porter (1981) further argues that industrial organization can offer much to the analysis of strategic choices by firms within industries and further points out that the industry in which a company chooses to compete and how it competes are primary determinants of its long term profitability. It is an industry and environment based theory of strategy that argues profits are delivered by selecting the most attractive industry and then competing better than companies in that industry. Industry structure transformation is of great importance to managers because it allows them to realign the company's skills, resources, and products in line and other elements of strategy with the current industry demands, in such ways that will be advantageous to company (Prahalad and Hamel, 2006).

Key attributes of an industry structure thought to have an impact on performance and attractiveness of an industry include the five forces determined by Porter(2008), the threat of substitute products or services, the threat of established rivals, and the threat of new entrants; the bargaining power of suppliers and the bargaining power of customers. Organizations cannot ignore the industries where they operate or afford to focus exclusively on their resources, missing opportunities to establish a competitive advantage. Competitive advantage is seen as the main source to explain the superior firm's performance. In today's dynamic operating environments organizations require tools such as the Balanced score card to measure and monitor strategy that will allow them to sustain competitive advantage (Gomes and Romão, 2004).

### **2.3 Strategic Management Practices**

Strategic management practices are management practices used in formulating a company's short term and long term plans to achieve stated objectives. It entails the process of formulating, implementing and evaluating strategies, as well as repeated methods used in evaluation of a company's performance (Yabs, 2010).The practice perspective not only focuses on core competencies of the organization but the practical competence of the managers as well (Whittington, 2009).Strategic management practices therefore allows a company to assess its strategies at any one point in time in light of the environmental turbulence, recognize deviations and take the necessary corrective actions so as to sustain competitive advantage.

The strategic management practice involves several steps, Goal setting, Strategic analysis and choice, Strategy implementation and Strategy evaluation and control. The purpose of goal setting is to clarify the vision of the business by defining both short and long term objectives, and the process of achieving them, and finally developing a mission statement. Strategic analysis and choice involves collecting of data from the internal and external environment, understanding the needs of the business as a sustainable entity, and its strategic direction. This screening process results in the selection of options from which a strategic choice is made, where the management sets the overall strategy by setting objectives at three tiers, the corporate, business and functional levels. Information gathered from the analysis phase is used to determine resource allocation.

Strategy implementation involves cascading down strategy from top management to the business units, responsibilities and authorities are made clear, and how employees fit into the overall strategy (Thomson et. al, 2011). Strategy evaluation and control, involves reviewing of the strategy and performance is measured against the goals set and in light of external and internal environment. Various tools and techniques are used for the facilitation of execution and monitoring with the aim of improving an organizations performance, one such tool is the balanced score card (Chartered institute of management accountants, 2007).

#### **2.4. The Balanced Scorecard as a Strategic Management Tool**

The Balanced score card is a strategic management tool that allows a company to align its management processes and focuses the entire organization on implementing long term

strategy. Strategy tools can be described as concepts, analytical frameworks, techniques and methodologies that assist strategic managers in making decisions (Clark, 1997). The BSC allows the strategy itself to evolve in response to changes in the company's competitive environment. A properly constructed score card is one that communicates a strategy through an integrated set of financial and non-financial measures (Kaplan and Norton, 1996; 2007).

Kaplan and Norton (1992) developed the score card after deficiencies were observed in the implementation of companies strategic plans. Many companies were focusing on historical figures such as performance ratios which had little to do with future success and did not focus on future strategy. The balanced scorecard uses strategic and financial measures to assess the outcome of a chosen strategy. It acknowledges the different expectations of the various stakeholders and attempts to use a score card based on four prime areas of business activity to measure the results of the selected strategy (Lynch, 2009). According to Dyson and Meadows (2008), organizations that use of the Balanced score card exhibit significant changes in their strategy than those that do not. The four perspectives of the Balanced score card permit long term and short term objectives and desired outcomes and performance drivers for those outcomes (Kaplan and Norton, 1996a).

The use of the BSC as a strategic management tool involves three key areas. First it involves communicating and educating those that will be involved in strategy execution and implementation; this promotes commitment and accountability to the long term

strategy. The second step involves setting goals where the organizations high level strategic objectives and measures are translated into objectives and measures of operating units and individuals; the final step involves linking rewards to performance measures with the aim of motivating employees to achieve the set targets and improve corporate performance (Kaplan and Norton, 2007).

The balanced score card allows managers to link long term strategic objectives with short term actions. According to Kaplan and Norton (2007), using the score card as strategic management system requires four management processes, these include; translating of the organizations vision. The managers have to build a consensus around the vision and strategy and these must be expressed as an integrated set of objectives and measures. The other management process required is communicating and linking. This involves communicating the strategy down the organization to the departmental levels, and ensuring that the long term strategy of the organization is understood by all, and that departmental objectives and individual objectives are understood by everyone. This is usually done in the cascading of the balanced scorecard.

The third process involves business planning, where companies integrate their business and financial plans. Measures of the balanced score card are used for allocation of resources required to achieve both long term and short term the strategic objectives as well as setting priorities to enable the organization only select initiatives that allow it to achieve its objectives. The final management process is feedback and learning. Kaplan and Norton (1997) further point put that companies need to view the scorecard as a tool

that allows for organization leaning. A company can monitor short term results and evaluate strategy in light of recent strategies, that is, real-time learning. The scorecard allows the organization to test its strategy and determine what works and what does not.

Since the inception of the balanced score card in the 1990's various variations have been developed such as the Sustainability Balanced Scorecard (SBSC). This is a new concept that involves incorporating the environmental and social aspects into the BSC. The card seeks to address corporate contributions to sustainability such as business ethics, labor practices and corporate social responsibility. The scorecard is used to overcome conventional approaches to social and environmental management by integrating the pillars of sustainability that is; Economic, ecological and Social pillars, into a single strategic management tool. (Figge et al., 2002). By integrating sustainability measures into business practices, the scorecard clarifies the relationship between sustainability outcomes and profitability and shareholder interests. This can be done by either adding a fifth perspective to the BSC, integrating the measures throughout the four perspectives, or by developing a separate sustainable balanced scorecard (Butler, Henderson and Raiborn, 2011).

## **2.5 Challenges of Applying the Balanced Scorecard as a Strategic Management Tool**

Existing literature reveals mixed findings on the application of the BSC in translating strategy into action and the challenges faced. The literature reveals the diversity of performance measurement systems labeled as BSCs which often vary from what was initially proposed by its proponents, this was according to a study conducted by Yu et al.,

(2009) on the effectiveness of the balanced score card .Their study also points out that the application and effectiveness of the balanced scorecard as a performance management system is dependent on designing the scorecard with both causal and strategy links. If the scorecard is only designed with only the strategy link in mind, the employees of the organization may better understand the strategic plan and objectives of the organization but limited attention is paid to the causal links, making it difficult for management to identify factors that drive the desired outcomes for strategic plans. Studies conducted in the Application of the scorecard such as Amboga (2009), Nyangayo (2014), Mohammed (2012), Gitachu (2012) M'maiti (2014), Afande (2015) and many others, have drawn conclusions that reveal a number of organizations both in the public and private sector have successfully adopted the BSC but with some challenges. Challenges observed in implementation include; lack of adequate funds for training and implementation of the score card, a lack of understanding of the BSC by both managers and employees, and how it can be cascaded to lower levels, resistance by employees was also a notable factor, due to a lack of clarity in linking performance to rewards or failures.

According to Dyson and Meadows (2008) as much as BSC leads to comprehensive measurements, users do not make more effective use of the information collected in order for it to be fed back to the appropriate level of control or decision making, users also do not take full advantage of the benefits that the implementation of this tool can provide. Results from their study also indicate that organizations with greater levels of complexity, due to organizational size, in their decision making implement the BSC, thus the BSC may not be suitable for every organization. Schneiderman (1999) examined why

balanced score cards fail and attributed this to non-financial factors as primary drivers to stakeholder satisfaction and lack of a deployment system that breaks high level goals down to the sub processes.

Jensen (2001) pointed out that the balanced score card is flawed because it presents managers with a score card that gives no single value measure of how they have performed and therefore managers have no way to make principled or purposeful decisions. A study by Malina and Selto(2001) further reveals that the BSC if not well applied can cause significant conflict between a company and its distributors, this is due to challenges such as inaccurate and subjective measures, communication about the BSC is top down and not participative and use of inappropriate benchmarks for purposes of performance evaluation.

## **2.6 Summary of Knowledge Gaps**

The BSC is an innovative strategic management tool and performance management system that has been implemented by several organizations since its inception .Research of the tool has been ongoing both locally and globally in its use as a tool for strategic management. Literature review on some of the studies conducted show several gaps in knowledge that need to be further researched on in order to make adequate conclusions on the BSC.

Some of the studies conducted such as Nyangayo (2014) suggest that more research needs to be done to determine the cost incurred versus benefits gained from application of

the BSC. Studies by Yu et al(2008) and Mohamed (2012) highlight that there is a need for more research on effectiveness of the balanced score card as a tool for strategy implementation ,the extent of adoption, and what factors influence the effectiveness of the BSC. Malina and Selto (2001) point out that many studies on the BSC do not show a rigorous or statistical test of claim that the BSC is a causal model as claimed by Kaplan and Norton (1992), thus should be a focus for ongoing research. Study by Gitachu (2012) suggests further research on the relationship between the balanced score card and improved performance of the organization, Afande (2015) and M'maiti (2014) suggest a need for comparative research in developing economies to ascertain the validity of the BSC as a strategic management tool.

## **2.7 Chapter Summary**

This chapter has highlighted the theoretical framework that has anchored this study. These include; the stakeholders' theory that emphasizes the need for managers to identify the various stakeholders of the organization and how to meet their needs and the industrial organization economics theory, that stresses the structure conduct performance paradigm of an organization. The chapter also includes an overview of strategic management practices and its steps, the background of the use of the balanced scorecard as a strategic management tool, and literature on other studies highlighting the challenges faced in applying the balanced scorecard. The chapter concludes with a summary of knowledge gaps from studies on the balanced scorecard by other researchers in the field.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the outline of the research methodology that was used in collecting the available data for this study. It includes the research design, data collection, and data analysis methods.

#### **3.2 Research Design**

A case study research design was used in investigating the application of the balanced score card as a strategic management tool at the Kenya bureau of standards. This design was most appropriate for a single unit of study because it offers a detailed in depth analysis and detailed examination of single subject, group or phenomenon. According to Mugenda and Mugenda (1999) a case study allows for the determination of factors and the relationships among these factors that will result in the behavior under study.

Case studies enhance understanding of complex issues, they also offer experience or increase depth to what has been established through previous researches. A case study was appropriate in providing qualitative evidence which will be the interest of this study. Previous studies of a similar nature have successfully used this method. Examples include; Amboga (2009), Mohamed (2012), Gitachu (2012) and Nyangayo (2014) among many others.

### **3.3 Data Collection**

The study used both primary data and secondary data to meet its objectives. Collection of primary data was through the use of an interview guide, administered by way of interviews. An interview guide was chosen where questions focused on how the organization has used the BSC to communicate its strategy within the perspectives of the BSC, how the BSC has been cascaded throughout the organization and the challenges experienced in using the BSC as a strategic management tool. The interview guide consisted of open ended questions designed in a manner to acquire in-depth responses and probe the interviewee further.

Secondary data used was collected from the KEBS corporate scorecard, a sample of individual staff member score cards and the KEBS strategic plan. This data provided information on certain aspects of the balanced score card and KEBS strategy that was not readily available from the respondents, it also allowed a critical examination of the KEBS corporate scorecard and strategy.

The interviewees were executives charged with the responsibility of strategy implementation, development and cascading of the balanced scorecard, which included Head of Human resources, Head of Planning and strategy department, Head of Testing services and Regional manager, Lake Region. The interviewees were selected based on their experience in the organization, their knowledge of strategic management at KEBS and their responsibility of cascading the balanced scorecard in their respective departments and regions.

### **3.4 Data Analysis**

Data analysis was done using content analysis technique. Data obtained from the interview was collated and analyzed in line with addressing the research question and objectives. The raw data was first analyzed to detect errors and any omissions that may have been made. The data was then further analyzed to establish themes patterns and relationships from the words used by the interviewees. This was also helpful in establishing detailed descriptions of objects, items or things that comprised the study objectives. The technique was also used to analyze internal records used as secondary data to enhance understanding and corroborate findings from the interviewees on how the scorecard is applied, and the challenges faced in application of the balanced scorecard at Kenya bureau of standards.

Content analysis is useful in data collection as it is not as tedious as in most other techniques; researchers are also able to economize on time and money and errors that arise are also easy to detect and correct (Mugenda and Mugenda, 1999). This proved useful in conducting this study. Some of the research studies that have successfully employed this technique include Amboga (2009), Mohamed (2012), Gitachu (2012) and Nyangayo (2014).

### **3.5 Chapter Summary**

This chapter highlights the methodology that was used in conducting this research. The research design used was a case study design; data collection was done through the use of primary and secondary data. Primary data was collected through the use of an interview

guide administered by way of interviews. Secondary data was collected from internal records such as the strategic plan and the KEBS balanced scorecard. Data analysis was done using content analysis technique.

## **CHAPTER FOUR**

### **DATA ANALYSIS, FINDINGS AND DISCUSSION**

#### **4.1 Introduction**

The objectives of the study were to assess the application of the balanced scorecard as a strategic management tool and to establish the challenges in applying the balanced scorecard as a strategic management tool at KEBS. To achieve these objectives data was obtained through personal interviews based on the interview guide. The interviewees were executives charged with cascading of the balanced scorecard in the organization. These included; Head of Human resources, Head of department planning and strategy, Head of department testing services and the regional manager, Lake Region. Data from the interviews was captured through note taking. Collection of secondary data was from KEBS Strategic plan and Corporate score card.

Analysis of findings of this study was in line with the objectives of the study. The findings presented include, strategy at KEBS, the balanced score card as a strategic management tool at KEBS and the challenges faced in application of the BSC at KEBS.

#### **4.2 Strategic Management at Kenya Bureau of Standards**

Kenya bureau of standards has in place a strategic plan 2012-2017. The plan outlines the vision, mission and corporate objectives; it also comprises of the KEBS core values. KEBS adopted strategic planning in 2003. The plan engages all divisions in the organization and defines the strategic direction that KEBS will pursue to achieve its objectives in light of the environmental turbulence it faces.

The KEBS strategic plan is comprised of strategic objectives that focus on improving organizations efficiency, where KEBS has invested on various ERP systems to enable ease of doing business, KEBS has also certified its systems to increase output and improve process performance. The organization is also embarking on business process outsourcing and business process reengineering to reduce the sub optimization of internal processes. This strategic objective has been captured in the internal business process in the organizations balanced scorecard. This is also captured in the divisional, functional and individual scorecards.

The strategic plan also requires the organization to increase its customer satisfaction levels. The organization does this by identifying customers' needs and taking actions to meet these requirements, organization is continuously improving customer feedback systems by periodically carrying out customer feedback surveys to gather data on how well the organization is meeting the needs for the customer, the organization also has in place a complaint handling mechanism that allows it to adequately handle customer complaints in a timely manner. The customer perspective in the corporate score card focuses on achieving this strategic objective by having measurable performance drivers that will enable the organization track the realization of this perspective.

The third strategic objective lays out how KEBS intends on increasing access to its services, according to interviewees, the organization is in the process of expanding geographically by upgrading and constructing more laboratories and regional offices countrywide to allow easy access to KEBS services countywide as well as ease of doing

business. The corporate score card includes this objective under its internal business process.

Kenya Bureau of standards operates under the mandate laid out in the Standards Act; one of KEBS strategic objectives involves aligning the act to the constitution and also reviewing of the act to meet international best practices. The final KEBS strategic objective is in line with KEBS mission to be world class leader in providing standardization solutions. This involves aligning of legal frameworks with regional players and active participation both regionally and internationally in setting policies that affects standardization. Both these objectives have been captured in the corporate scorecard.

According to interviewees, monitoring and evaluation of the KEBS strategic plan is done using the balanced scorecard .Interviewees noted that since KEBS begun the process of strategic planning, it has shown increased corporate performance and recognition, at national, regional and international levels, the business community perceive KEBS as a facilitator of business while the general public has shown increased confidence in the work that KEBS does. With the introduction of performance contracting in Kenya and the new constitution dispensation, KEBS operating environment has greatly changed with consumers demanding the rights to goods and service of quality, and the government requiring high levels of accountability from state corporations. This has necessitated KEBS to continuously monitor its strategies hence the institutionalization of the balanced scorecard.

Interviewees stated that the KEBS strategy map has been laid out in 2012-2017 strategic plan (Appendix 4). The map lays out how the organizations strategic objectives have been integrated within the four perspectives of the balanced scorecard. The map also shows the cause and effect relationships between the score card perspectives, and how these relationships lead to achieving the KEBS mission and vision. At the foundation of the map is the learning and growth perspective, the map illustrates how KEBS through human capital, information capital, and organization capital, plan to utilize core competencies for distinctive advantage through knowledge management. This is followed by the internal business perspective that lays out the processes required to achieve the perspective targets such as; operations management process, customer management processes, innovation processes and regulatory and social processes. Customer perspective then follows, where the main aim is customer value proposition, through accessibility, quality, and price and customer stakeholder relationship. The financial perspective is at the apex of the map and illustrates how the organization plans on achieving its financial obligations. The cause and effect arrows are pointed from the lowest perspective to the highest perspective, implying that the employee skills and competencies have an effect on process performance which affects customer satisfaction and this has a direct impact on the revenue generated. It is therefore clear that for the purposes of strategic planning KEBS relies on the financial perspective to determine achieving its targets, then determines the actions that will be taken in the other three perspectives, to help achieve its mandate. KEBS strategy map shows how the intangible assets influence a company's performance, and how these assets offer a distinctive

advantage. The internal business process as a result is more efficient and effective which translates to customer value proposition, and increased revenue.

### **4.3 Application of the Balanced Scorecard as a Strategic Management Tool at KEBS**

The study revealed that KEBS has adopted the BSC as a tool of strategic management since 2009. However, due to several challenges the scorecard was abandoned and reintroduced back into the organization in 2012. Coordination of the BSC was initially carried out by the planning and strategy department but this role has been transferred to human resource department starting the current financial year 2015/2016. Each department of the organization is tasked with preparation of their scorecard and it's cascading to lower levels. KEBS has adopted the four perspectives of the balanced score card (Appendix 2) as developed by Kaplan and Norton. The study also established that the BSC been adopted in strategy implementation and strategy evaluation and control. KEBS has used the score card to outline the business objectives and the drivers of performance for these stated objectives within the four perspectives of the BSC. The BSC is also used to implement strategy by communicating the strategy to employees, this has been done by the development of and inclusion of departmental objectives into the balanced score card and aligning these objectives with the corporate strategy. The study explored the use of the Balanced score card as a strategic management tool.

According to the interviewees, the KEBS scorecard is developed in order to view the organization in a holistic way. The informants also believe that there is a causal link between the four score card perspectives. The organization has set aside a large training

budget for enhancing skills and increasing competency of members of staff, the interviewees believe that this enables the employees to perform their work more efficiently and effectively. KEBS has also invested in automation of processes, system certifications and laboratory accreditations in order to increase process efficiency and reduce lead times in operations so as to retain its customers, increase its customer base, reduce wastage, and eventually increase revenue generation.

The study also established that the KEBS score card is comprised of strategic objectives derived from the KEBS strategic plan and the performance contract signed by the KEBS managing director. The score card comprises of activities or performance drivers required to achieve the strategic objectives. Each activity has a performance indicator, an annual target and a weight attached to it, responsibility for each indicator is also indicated in the corporate scorecard. The score card is comprised of four perspectives; financial perspective, customer perspective, internal business process and learning and growth perspective. The score card has total weights allocated to each perspective, so that the total weights add to one hundred percent. The balanced score card in KEBS is developed every financial year that starts in July and ends in June the following year.

The financial perspective of the KEBS corporate scorecard is the first perspective on the scorecard. The perspective comprises of activities to be undertaken to meet the financial obligations of the organization. It comprises of revenue targets, and utilization of allocated funds within the financial year. The activities are allocated a weight which should total to an overall total weight allocated for the perspective. Responsibilities are also allocated. The financial perspective is cascaded down in the organization with each

department having its own financial target; each department is also required to monitor the funds allocated to them. According to interviewees this perspective is only cascaded to the head of departments, regional managers and any members of staff that are directly involved in revenue generation. Scorecard holders are required to spread the allocated weight for this perspective across the different activities listed in their scorecard. The weights are used to compute the overall performance against each performance driver. Realization of meeting the targets in this perspective relies on achievements in the customer perspective, internal business process perspective and learning and growth perspective.

The customer perspective in the KEBS Scorecard is used to monitor customer value proposition, by evaluating satisfaction levels, monitoring number of complaints received and how many are resolved within set timelines, the perspective also places emphasis on how to meet customers' requirements and continually improve service delivery to its customers. Like the financial perspective, the performance drivers are allocated a weight to measure the performance, and responsibilities are also stated. The customer perspective is cascaded down from the corporate score card to the individual staff scorecards. Like the financial perspective, this perspective also has a total weight that has been set at corporate level and cascaded score cards are required to have the allocated total weight, the weights are distributed across the different activities the scorecard holder has under the perspective. Every member of staff has a customer perspective on their score card.

The internal business process perspective is comprised of strategic objectives both in the performance contract and KEBS strategic plan. It comprises of key activities that include reduction of lead times, automation of various processes, acquisition and maintenance of laboratory accreditations and system certification, geographic expansion of KEBS to increase access to its services. This perspective captures the various activities the departments are required to undertake to achieve the overall KEBS vision and mission. The scorecard also has a total weight allocated which is also in the divisional departmental, functional and individual scorecards. Every member of staff has the internal business process perspective. The perspectives captures activities captured in the staffs job description including performance drivers cascaded from the corporate scorecard. According to interviewees the achievement of this perspective is based on the acquisition of required skills and competencies by staff as well as resources required to automate processes.

The learning and growth perspective of the KEBS score card captures various activities targeted at increasing the skills levels and competencies of all staff. Like all the other perspectives, it also comprises of objectives in the performance contract and KEBS strategic plan. The perspective is used to monitor the entrenchment of KEBS core values, the entrenchment of environmental sustainability values, implementation of succession plans, institutionalization of the balanced scorecard, and requirements of the performance contract such as having anti-corruption programs in place and gender mainstreaming. The perspective has a total weight and activities captured under the perspective have to be allocated a weight to allow the computing of the holders' performance against the targets.

This perspective is also cascaded to all staff members in the organization. This perspective is the last perspective in the corporate scorecard.

The study revealed that the BSC doubles as performance contract between members of staff and their supervisors. Every member of staff is required to develop a BSC in line with the departmental objectives and their job descriptions and sign a score card with their supervisor. The score card holder is required to update their score card monthly to allow for monitoring of performance. Deviations from targets are noted and acceptable corrective actions are taken. Periodic performance review is done quarterly in the organization with the final evaluation conducted at the end of the financial year. A moderation committee has been established to ensure fairness in the appraisal process. A reward system is in place for employees that have performed well and met and surpassed their targets. Rewards are calculated as a percentage of the employee's basic salary. Those with poor performance are encouraged to improve and necessary corrective actions are taken upon discussion with the supervisor.

The regional branches score cards are cascaded from the corporate scorecard and the responsibility lies with the regional manager. The scorecards have the same number of perspectives as the corporate score card. The divisional score cards are also cascaded to members of staff at the regions falling under the various departments at the headquarters. Regional managers cascade their score card to heads of departments in the region who in turn cascade to the members of staff within the department. Performance appraisal is also conducted between the supervisor and the scorecard holder a moderation committee has been set up to oversee that there was fairness in the process.

Interviewees noted that despite the challenges faced in the adoption of the BSC several benefits have also been observed. Improved understanding of the KEBS vision and mission by members of staff and how they contribute to the KEBS vision. Interviewees note that this may not be at an optimum level but strides have been made since inception of the scorecard. By developing their score cards staff are aware of the departmental objectives and how these are relate to the overall KEBS strategy. The score card has been used by KEBS management to communicate the overall KEBS strategy. Interviewees also noted that there is a clear focus on what the targets one, one interviewee noted that some members of staff have internalized the score card to an extent that they request for the cascading to be done timely so that they can set their targets quickly and begin working towards achieving them.

Another benefit observed by the interviewees is that the score card has allowed KEBS to benchmark its performance with other public institutions. KEBS is able to monitor its performance against industry standards. There has also been more caution of responsibility among staff, who are now taking their work more seriously as performance is tied to promotions and rewards.

Improved process efficiency has also been noted, with KEBS automating various processes, and business process outsourcing and engineering there has been a reduction in lead times in conducting business. The organization has been able to integrate its systems making operations more efficient. Members of staff appreciate the benefits for having accreditations and system certifications in the organization and this has also

helped the organization document its processes, allowing staff to easily access work procedures.

The customer perspective has allowed KEBS to monitor customer perception of the organization. The organization has implemented a complaint handling system to timely address customer complaints, the organization has also has a customer feedback system, that allows it to collect data from their customers, as well as internal customers. This has led to increase in customer satisfaction levels of the organization. Customers have shown continued confidence in KEBS delivering its mandate on standardization work.

Through the learning and growth perspectives employees are more motivated as they are aware that the organization is willing to invest in them and increase their skills and competencies. The balanced score card initially was received skeptically by the members of staff but with the constant reviews and modifications of the BSC, and the appointment of moderation committees, members' of staff have begun embracing and appreciating the balanced score card in the measurement of their measurement. This perspective has also enabled the organization track the skills levels of staff and prepare training plans with skill gaps in mind. This has led to increase in competencies of staff across the organization, which has translated to increased customer confidence in the competence of KEBS officers, and services.

Revenue generated has also increased as result of increase in customer base and increase in customer satisfaction. This revenue increase has enabled KEBS to achieve some of its strategic objectives such as increase access to KEBS services, by expanding its geographical coverage. KEBS has opened more regional offices, laboratories, and is in

the process of acquiring constructing permanent regional offices and laboratories at Coast and Lake Region.

According to one interviewee the use of the KEBS score card for the purposes of strategy implementation is at one hundred percent implementation. Every member of the organization has a developed a scorecard, which is aligned to the strategic objectives of the organization and those set out in the organizations performance contract. The score card is used to continuously monitor the process of strategy implementation at any one time.

#### **4.4 Challenges faced by Kenya Bureau of Standards in adopting the Balanced Scorecard as a strategic Management Tool**

The second objective of the study was to determine the challenges faced by KEBS in adopting the BSC as a strategic management tool. The study established that KEBS despite having successfully adopted the BSC faces several challenges such as lack of understanding of the BSC as a tool, resistance in the implementation of the BSC, and lack of effective reward system. These challenges were identified during interviews with the respondents. Interviewees also noted that most of the challenges faced were more rampant during the earlier adoption stages of the balanced scorecard.

##### **4.4.1 Lack of Understanding of the BSC**

The BSC is a relatively new concept in the Kenya and especially the public sector. The BSC concept is often viewed as complex and difficult to adopt. According to interviewees managers and staff in the organization have faced challenges in the adoption

process due to this complexity and also lack of adequate communication on how the BSC benefits the staff and the organization. Some employees are still not clear on how their roles contribute to achieving the overall KEBS vision and mission, as well as the organizations strategic plan. The interviewees also stated that the organization had hired several consultants especially during the initial stages of adopting the BSC which led to confusion as each consultant had their own perspective on how the BSC should be adopted in the organization. One interviewee noted that the consultants also did not take time to understand the organizations structure and culture. Also the organization since the inception of the scorecard has had several managing directors and sometimes the transition has not been smooth as every director also had their own understanding of how the balanced score card works.

Another challenge noted was in understanding of the Cascading process. This has proved difficult in KEBS especially in deciding which perspectives require to be cascaded, and which ones should be left at the corporate and divisional score cards. There is a general lack of understanding as to what perspectives from the corporate score card fit into the divisional and departmental score cards, and how the individual and departmental goals align to the corporate scorecard. Interviewees also noted that the weighting process is not understood by many of the employees. There is no clear direction of how to place weights within the different performance drivers in the BSC, which has a direct impact on the overall performance of the scorecard holder. Interviewees noted that some staff were placing highest weights on activities they could easily achieve and lower weights on those that proved to be difficult to achieve.

#### **4.4.2 Inclusion of Subjective Measures**

According to interviewees the some measures in the score card have also been seen to be subjective in nature thus difficult to measure and cascade. These measures are not quantitative but qualitative in nature. This has been quite a challenge as some measures are tied to the performance contract signed by the organization and must be reflected in the score card, the challenge however has been in operationalizing these objectives into drivers that can be measured.

The inclusion of subjective measures was highlighted by interviewees in the learning and growth perspective of the score card cascaded from the corporate score card to the individual score cards. Some of the activities stated include; measuring of achievement of the KEBS core values in the score card such as entrenchment of excellence, integrity and environmental sustainability.

#### **4.4.3 Lack of Effective Evaluation and Reward System**

The balanced score card in KEBS has been adopted as a performance measurement tool. Every member of staff is required to develop a score card and sign with their supervisor as a performance contract. Appraisal and rewards will then be based on the overall performance of the staff at the financial year. According to interviewees the reward system has been very ineffective and has not motivated staff to achieve and exceed targets set. The interviewee believes that this is as a result of not marrying the rewards as a result of performance contract and the rewards from achieving targets set on the balanced score card. The relationship between the two systems has not been effectively streamlined in the organization. The reward system has faced a lot of mistrust among

employees many claiming that it needs to be more transparent. The reward policy has not been clearly communicated to staff. The scorecard holders are not aware of how they will be rewarded once they achieve their targets. This has caused a lack of confidence in the process.

According to some interviewees the reward system in place is not adequate enough to motivate staff to continually improve and supersede their targets. There is also a delay in the appraisal process as employees lack the motivation to develop their score cards in time and forward to their supervisor for the appraisal to be done on time and subsequent rewarding. Despite annual appraisals between the supervisors and the employees the reward system by staff has not been as effective as expected.

Interviewees also stated that the rewarding process has a lot of rater bias. The supervisors were subjective in how they conducted the appraisal process and in some cases self-evaluation was observed. The evidence presented by score card holders for the purpose of appraisal in meeting their targets was also not adequate to the targets being measured. A lot of inaccurate reporting has been observed in the process, with some employees reporting marks higher than what was actually achieved.

It was also noted that the moderation committee that has been set up do not have clear guidelines on how to carry out the process. Their role is not clearly understood by members of staff, with others skeptical over their oversight role. According to some interviewees moderation committees place a lot of emphasis on reducing the marks from the score cards, rather than also adding marks where targets have been surpassed.

#### **4.4.4 Resistance to Adoption of BSC by Staff**

According to the interviewees, during the introduction of the BSC there was a lot of resistance due to lack of understanding of how the BSC works, also according to the respondents, some employees did not want their performance monitored and evaluated, for fear of victimization and job security. Many of the employees that had worked in the organization for several years were very resistant to change and did not appreciate introduction of the BSC and wanted it to fail. There was an organization culture that was not used to performance based management causing the scorecard to be received with a lot of skepticism.

There was also mistrust as to how the evaluation and rewarding was done, with some employees sighting favoritism during the appraisal system, causing a lot of employees to not fully embrace the adoption of the score card and evaluators not wanting to carry out the appraisal exercise. There was also a lack of confidence with the consultant initially hired to spearhead the process, this was attributed to the fact that employees had felt disgruntled over a previous job evaluation exercise the consultant had conducted and therefore employees resisted any suggestions and recommendations made by the consultant, as they did not have faith in him.

Interviewees further stated that employees felt that they had not been fully involved in the process of developing the scorecards especially in the initial stages of adoption. In many departments it had been observed that employees were not developing their own scorecards but were merely copying each other's scorecards and only changing the name of the scorecard holder this led to employees having the same scorecards that were not

really true reflections of their own activities. The interviewees stated that the communication of corporate, divisional and departmental strategies to employees is not adequate and needs to be improved to enable members of staff to appreciate the advantage accrued from adoption of the balanced score card as a strategic management tool.

#### **4.5 Discussion of Findings**

Findings of this study indicate that KEBS has successfully adopted the balanced score card in its strategic management practices despite the various challenges faced. The score card has been adopted in strategic management practices in the organization. The scorecard has been adopted in strategy communication, strategy implementation and strategy monitoring and evaluation .The score card has also doubled as a performance measurement tool. The use of the BSC as a strategy communicating tool has enabled the organization to articulate its vision and mission to all members off staff and the strategic direction the organization is taking, through cascading of the balanced scorecard to all levels in the organization. This is in line with Kaplan and Norton (1997) arguments that the scorecard gives managers a way of ensuring that all levels of the organization understand the long term strategy and that both departmental and individual goals are linked to it. According to Malina and Selto (2001), the balanced scorecard is an innovative strategy communication and management control tool. An effective communication system supports an organization's strategy by nurturing both objective and tacit knowledge. They further point out that, the balanced scorecard may be used as

source of competitive advantage if the scorecard is used to clearly articulate the organizational knowledge and strategy in a superior manner.

The study revealed that the KEBS scorecard follows the Kaplan and Norton (1992) format. It is however important to note that a social and environmental aspects has been incorporated into the KEBS score card in light of the organizations corporate social responsibility and core values, as has been highlighted in studies of the sustainability balanced score card. Figge et., al (2002) argue that incorporating environmental and social aspects into the balanced scorecard helps to overcome the shortcomings of conventional approaches to environmental and social management systems, while at the same time ensuing that address the problem of corporate contributions to sustainability in an integrative way.

The four perspectives of the KEBS scorecard are in agreement with Kaplan and Norton (1996) argument that the financial perspective aims to link business strategy with shareholder value creation while at the same time provide measurable outcomes that monitor and evaluate strategy. There are three financial themes that drive financial strategy; these are cost reduction, revenue growth an asset utilization, all of which feature in the KEBS corporate scorecard. The financial perspective should be directly linked to the financial strategy for each business unit that contributes to the overall financial strategy of the organization.

In terms of the customer perspective of the BSC the study found that the organization has utilized this perspective for customer value proposition that represent the drivers the lead indicators and the outcome measures. These findings are in also in agreement with

Kaplan and Norton (1996) that in the formulation of the customer perspective managers should have a clear idea of targeted customers, business segments, customer retention, acquisition and satisfaction..

The study further found that internal business process perspective concurs with Kaplan and Norton (1992) that the internal measures should stem from processes that have the greatest impact on customer satisfaction. The scorecard plays a crucial role in enhancing the organizations operations management processes, customer processes, innovation processes and regulatory and social processes.

The study found that the learning and growth perspective goal is for the utilization of core competencies through knowledge management for the purposes of acquiring distinctive advantage. According to Gomes and Romão (2004) the BSC concept is based on the assumption that competitive advantage is derived from intangible assets like intellectual property, employee skills, knowledge and abilities that are becoming increasingly important for long term success of an organization.

In this study, KEBS perceived the scorecard as having a cause and effect relationship between the financial and non-financial variables of the BSC, as captured in the organizations strategic map(Appendix3).Kaplan and Norton(1996) point out that the cause and effect relationship of the BSC is a central feature which makes it an effective performance measurement system.Yu and Crowe(2008) articulate that causal links within the BSC makes a significant contribution that lead to effective measurement and management of key success factors throughout the organization. These links also provide valuable assistance to managers during business planning and decision making, as

managers have to consider activities in other parts of the organization. Malina et., al (2001) however argue that, there has been no rigorous statistical test of the claim that the BSC is, in fact, a causal model.

The findings of this study concur with the stakeholder theory postulates. KEBS has identified its key stakeholders as laid out in the organizations strategic plan. The KEBS balanced scorecard through its perspectives aims to link business strategy with shareholder value creation while at the same time provide measurable outcomes that monitor and evaluate strategy. According to Freeman et., al (2004) managers of a firm have a responsibility towards their stakeholders and need to identify their stakeholders needs in order to deliver on tier purpose. Mitchel et., al(1997) further argue that managers must practice stakeholders salience; which is the degree to which managers give priority to competing stakeholder claims. This allows managers to know the entities in their environment that hold power and are in a position to impose their will on the firm.

Findings of this study also concur with the industrial organization economics theory. As advanced in the IO economics theory, KEBS has analyzed the structure of its industry, and formulated strategies that have enabled the organization to attain competitive advantage and improved its performance in the conformity assessment industry. The study reveals that through strategic planning, KEBS has developed strategic objectives to outwit its competitors. The structure conduct performance paradigm introduced by Mason in 1939 and Bain in 1957 and later advanced by Porter (1981) claims that the forces within the industry determine the conduct or strategy of firms which in turn

determines the firm's performance Porter (1981) argues that the strategic choice of a firm determines its long term profitability in the industry in which it operates.

The study also found that KEBS has faced various challenges in the adoption of the BSC, such as a lack of understanding of the BSC, lack of understanding of the BSc, cascading process and what measures fit into the scorecard, lack of effective reward system among many others highlighted. These challenges seem to be universal in nature and have been mirrored in other studies on the balanced scorecard. According to Malina and Selto(2001), negative perceptions and conflict due to the BSC was as a result of inclusion of inaccurate and subjective measures, use of inappropriate benchmarks for evaluation and one way communication about the BSC that was top-down and not participative. Gitachu (2012) study on the balanced scorecard, also highlights similar challenges to those faced by KEBS. These include; a lack of understanding about the BSC and its application, and what measures fit into what perspective. The study also identified a lack of effective reward policy framework in the organization that caused low motivation among employees due to lack of rewards and recognition. Additionally, according to Northcott and Taulapapa (2012), managers in public sector organizations in particular, cited problems with deciding on the appropriate dimensions to include in the BSC, defining the customer, and identifying a manageable number of appropriate key performance indicators, due to complexity of organizational activities. Findings from the study also similar to those by Ahn(2001) that highlighted challenges faced during the development stages such as the task of defining measures for the goals in the financial perspective that would be of the most significance, The lack of predictability regarding

lifecycle development also made it difficult to derive future oriented statements. The whole process of elaborating the balanced scorecard elements was also time consuming, recording and monitoring measures also proved to be a problem.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter summarizes the findings from this study that were based on the objectives of the study which were to examine the application of the Balanced score card at KEBS as a strategic management tool and to determine the challenges faced in the application of the BSC. It presents the summary, conclusions and recommendations found to be fundamental in the application of the balanced score card as a strategic management tool at KEBS.

#### **5.2 Summary of Findings**

This study sought to establish how Kenya bureau of standards has adopted the balanced scorecard as a strategic management tool and the challenges faced in the adoption of the BSC. The study was a case study that used an interview guide to gather data from executives in the organization tasked with developing and cascading the balanced scorecard. Based on the analysis of data and discussion, findings are summarized along the objectives of the study.

##### **5.2.1 Application of the Balanced scorecard as a Strategic Management tool at Kenya Bureau of Standards**

In regard to application of the BSC as a strategic management tool at KEBS, The findings of the study established that KEBS has adopted the balanced scorecard as a strategic management tool, used for purposes of communicating the organizations vision and

strategy throughout the organization; it is also used for strategy implementation and strategy monitoring and evaluation. The scorecard is also a performance contract signed between the employees of the organization to monitor individual performance.

The corporate scorecard is comprised of strategic objectives obtained from the KEBS strategic plan as well as the performance contract with the Ministry of industrialization and enterprise development. Performance drivers are then identified for each strategic objective and a target is set. The KEBS scorecard has four perspectives as per the Kaplan and Norton (1992) scorecard. The internal business process, customer and learning and growth perspectives are cascaded to all levels of the organization from the corporate scorecard; the financial perspective is cascaded to heads of departments, regional managers, head of sections and any member of staff that has a direct influence on revenue generated. Scorecard appraisals are done on a quarterly basis between the scorecard holder and the supervisor, a final appraisal is done at the end of the financial year. The process is overseen by a moderation committee appointed to ensure fairness in the process.

### **5.2.2 Challenges of Applying the Balanced Scorecard at Kenya Bureau of Standards**

The study also sought to establish the challenges faced by KEBS in adopting the BSC. The study revealed that KEBS has faced several challenges in the adoption process, especially during the early stages. These include; a lack of understanding of how to use the balanced score card as a strategic management tool and the cascading process, inclusion of subjective measures into the BSC which has created a challenge in placing

targets and measuring them. Lack of effective evaluation and reward system that has failed to motivate employees to perform to expected standards ,this has also attracted a lot of mistrust in the process, and resistance to adoption of the scorecard by staff members due an organization culture that was not used to a performance based management system, and resistance to change.

Despite the challenges highlighted the organization has put in place mitigation measures to address these challenges such as appointment of BSC champions to assist members of staff in understanding how the scorecard works and how to cascade the scorecard from their supervisors, and developing of appraisal tools that will allow the measurement of targets that are perceived to be subjective.

### **5.3 Conclusion**

Findings of this study indicate that KEBS has applied the balanced score card as a strategic management tool to communicate its strategy throughout the organization as well as monitor and evaluate its strategy periodically. The BSC not only clarifies the vision and strategy of the organization but it also serves as a strategic management system. The scorecard has been used to align departmental and personal goals to the corporate strategy, it has also been used to perform periodic strategy reviews so as to obtain feedback on strategy in order to improve and modify it to fit the organizations current operating environment.

Findings of the study are in line with Kaplan and Norton(1992) who argue that, preoccupation with financial measures alone are detrimental to a firms success as these are lagging indicators. Managers need to view an organization from a comprehensive

view, within four perspectives, for overall success of the firm. Findings of the study also concur with Malina et., al(2001)who point out that the BSC does present significant opportunities to develop, communicate, and implement strategy.

According to this study several challenges are faced in application of the balanced scorecard; findings are similar to those identified by researchers in other studies such as Gitachu (2012), Northcott et., al (2012) and Malina et.,al(2001) among others. Challenges identified were inclusion of subjective measures, resistance by staff to adopt the BSC, ineffective reward policies among others. This shows that challenges faced in adoption of the BSC may be applicable to different organizations with different operating environment. Mitigation measures should therefore be placed to address them in order for organizations to successfully adopt the BSC as a strategic management tool.

#### **5.4 Recommendations for Policy and Practice**

According to Schneiderman (1999), many balanced scorecards fail after a few years of application due to incorrect identification of non-financial variables, poorly defined metrics, and lack of a deployment system that breaks down high level goals to the sub processes where improvement activities reside, among others. This study recommends that in order to mitigate the challenges faced in applying the BSC as a strategic management tool, organizations need to improve on communication of strategy to employees at various levels of the organization, so that they are constantly aware of the strategic direction the organization is taking, and the BSC's performance management

potential, so as to reduce resistance to the tool, enhance understanding and allow employees to have ownership for their contribution to the process.

The study also recommends that organizations adopting the BSC should identifying and developing measures that are simple to understand, well documented , unambiguous, and allow continuous review and modifications when necessary. The organizations need to ensure that the data on the score card measures are valid and reliable, to ease the strategy review and performance appraisal process.

This study also recommends that a clearly defined and documented reward framework should be developed by organizations adopting the BSC as a performance measurement tool. The moderation formula and policy needs to be communicated to staff to enhance understanding of the moderation process and avoid mistrust of the process.

This study also recommends that organizations adopting the BSC should consider customizing the BSC to suit its own unique operations. The Kaplan and Norton scorecard was merely a template and should not constrain the organization on developing its own model. Organizations such as those in the public sector can seek to learn and benchmark against other public sector organizations either regionally or internationally, that have developed effective BSC frameworks.

## **5.5 Implications on Theory**

The study of how Kenya Bureau of Standards has applied the balanced score card advances the theoretical framework that has anchored this study. The stakeholder theory argues that the management of an organization needs to identify its various stakeholders

and give due regards to the interests of those groups, by examining the KEBS corporate scorecard it is evident that KEBS has integrated various goals of the BSC to link the strategy of the business with shareholder value creation. The financial perspective of the scorecard has placed focus on revenue generation which caters to the interest of shareholder which is the government, the customer perspective and internal business growth have been designed to improve process efficiency and increase customer value proposition, learning and growth perspective emphasizes on knowledge management. It aims on increasing skills and competencies of staff who are also the organizations stakeholders.

This study also advances the industrial organization economics theory. KEBS operates in a turbulent environment that has necessitated the organization to develop strategies to sustain competitive advantage. KEBS had developed a strategic plan with strategic objectives formulated as a result of analyzing its business environment, and reaffirming its vision, mission and ability to achieve its mandate. This is in agreement with Porter (1981) five competitive forces that shape strategy and Porter (1981) structure conduct performance paradigm.

It is a conclusion of the study that the balanced scorecard plays a critical role in describing, communicating and implementing strategy. The study gave more insight into the power and potential of the balanced score card concept, as developed by Kaplan and Norton (1992).

## **5.6 Limitations of the Study**

This study was on the application of the balanced scorecard at Kenya Bureau of Standards. The focus of the study was on application of the scorecard and its challenges, and did not focus on the effectiveness of the score card as a strategic management tool or its effect on performance, which would further validate the use of the BSC as a strategic management tool.

Another limitation to the study is in the methodology used. The data collection was done by interview method, which often can create generalizations and interviewer and interviewee bias. By also restricting the interviewees to the executives charged with cascading of the BSC, the study may not give the whole picture without the input of members of staff evaluated using the balanced score card. There was also a limitation to the number of informants due to their involvement in other engagements, and the timeline needed to submit the project. Some targeted informants were not available during the period in which the case study was conducted. Nonetheless the informant rate was high enough that it was insignificant to the overall findings of the study.

This study involves one organization and the findings of this study cannot be generalized to all other organizations, every organization is unique in its operations and operating environment. The context of study is different therefore findings from other studies may be different.

## **5.7 Suggestions for Further Research**

More research needs to be done in determining the effectiveness of the balanced score card as a strategic management tool and the effect on organizational performance. Empirical research can also be conducted on the causal relationship between the different balanced scorecard perspectives and how this contributes to performance. Replicative research can also be done in similar organizations to validate the use of the BSC as a strategic management tool. This study used qualitative methods to gather data in determining how the balanced score card is adopted as a strategic management tool. Future researchers should consider using quantitative techniques to conduct the research.

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## APPENDICES

### Appendix I: Introduction letter



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**KISUMU CAMPUS**

Telegrams: "Varsity" Nairobi  
Fax: 4181650  
Kisumu, Kenya  
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Mobile: 0720348080  
Email: [ajaleha@uonbi.ac.ke](mailto:ajaleha@uonbi.ac.ke)

P.O Box 19134-40123  
Kisumu, Kenya

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Date: 21<sup>st</sup> September, 2015.

**TO WHOM IT MAY CONCERN**

The bearer of this letter Katherine Were

REGISTRATION NO: D61/61424/2013

The above named student is in the Master of Business Administration degree program. As part of requirements for the course, she is expected to carry out a study on **"Application of the balanced scorecard as a strategic management tool at the Kenya Bureau of Standards."**

She has identified your organization for that purpose. This is to kindly request your assistance to enable her complete the study.

The exercise is strictly for academic purposes and a copy of the final paper will be availed to your organization on request.

Your assistance will be greatly appreciated.

Thanking you in advance.

Sincerely,

**MR. CHARLES DEYA**  
**ADMINISTRATOR, SOB, KISUMU CAMPUS**

21 SEP 2015

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## **Appendix II: Interview Guide**

### **SECTION A: Strategy at KEBS**

1. What is the overall KEBS Business Strategy?
2. How are strategic objectives communicated in KEBS?

### **SECTION B: Application of the balanced scorecard at KEBS**

1. How has the balanced scorecard been adopted in:-
  - a) Strategy formulation
  - b) Implementation of strategy
  - c) Strategy evaluation and control
2. What balanced scorecard perspectives are implemented at the divisional score card?
3. How is the balanced scorecard cascaded downwards in your division?
4. a) How are the results of the performance indicators of the divisional scorecard reviewed?
  - b) How is this communicated to the employees in your division?
5. a) How often is the divisional scorecard reviewed?
  - b) Are all employees in the division informed and involved?
7. What are the benefits of applying the balanced scorecard at KEBS?

## **SECTION C: Challenges of application of the balanced scorecard**

1. What are the challenges faced in the application of the balanced scorecard in your division, in
  - a) Strategy formulation
  - b) Strategy implementation
  - c) Strategy evaluation and control
  
2. What recommendations would you give for improvement of the balanced scorecard at KEBS?

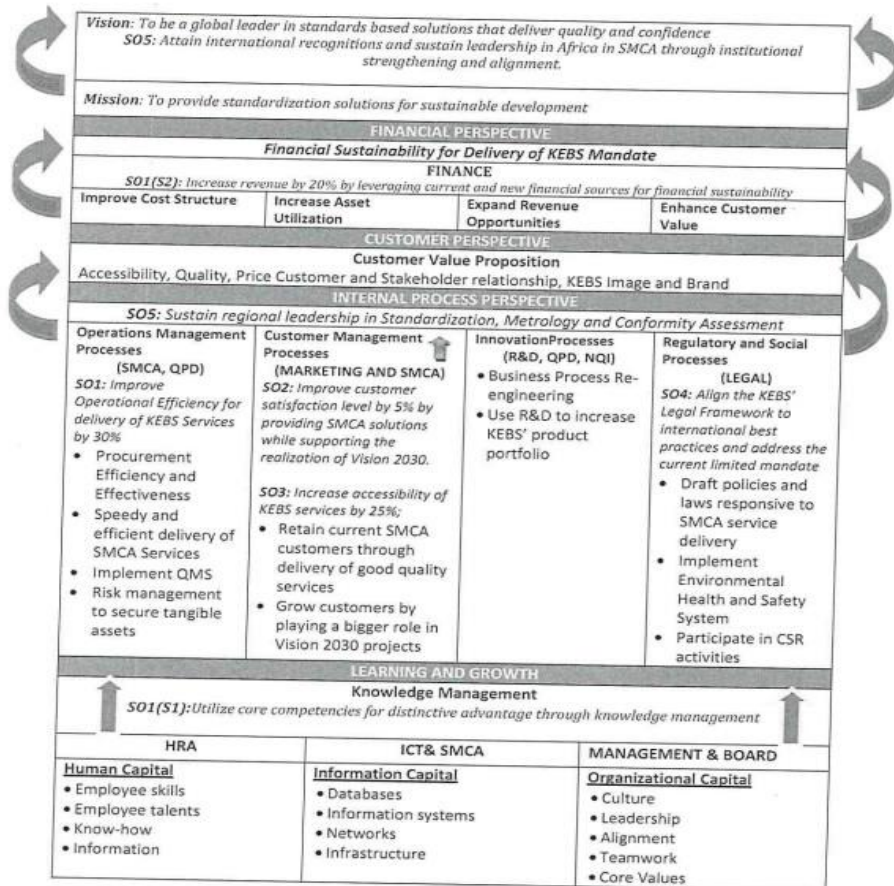
### Appendix III : Specimen KEBS Balanced scorecard

PERSPECTIVE	STRATEGIC OBJECTIVE	Activities	INDICATOR	WEIGHT	ANNUAL TARGET	Responsibility
FINANCIAL	SO1.1	Level of utilization of allocated funds	Level of utilization of allocated funds			HOD/RMS
		Amount of revenue generated in KES Billion	Amount of revenue generated in KES Billion			HOD/RMS
				15		
CUSTOMER	SO2/PC	Increase in Customer satisfaction index	Increase in Customer satisfaction index			DIR HRCC
	SO2/PC	Resolve complaints	% Resolution of complaints			DIR HRCC/ALL HODS
	SO1/PC	Automation	Automation			DIR FIN/STRAT/CM-ICT/HODs
				15		
PROCESS	SO2	No. of Laboratory upgrading projects	% achievement of the Laboratory projects Plan			MD
	SO2	No. of New Standards Developed	No. of New Standards Developed			DIR SDT
	SO5/PC	Maintain ISO 9001 Certification	Maintain ISO 9001 Certification			DIR FAS/CM-PSD
	SO3	Increase accessibility of KEBS services	Open new offices			DIR/QAI
				50		
LEARNING	SO1/PC	Improve KEBS Skills and competencies	% Level of competency development			DIR HRC
	SO1/PC	Institutionalize performance management based on BSC	% Level of Institutionalization of performance management based on BSC			DIR HRC/DIR FAS/ALL
	PC	Implement Anti-corruption programs	% Level of implementation of Anti-corruption programs			DIR HRC/HODs/ALL
	SP	Entrenchment of integrity values	% level of entrenchment of integrity values			DIR HRC/ ALL HODs
	SP	Entrenchment of Environmental sustainability values	% level of entrenchment of Environmental sustainability values			DIR HRC/ ALL HODs
				20		
			<b>Total weight</b>	<b>100</b>		

# Appendix IV: KEBS Strategy Map



## 4.7 Corporate Strategy Map



## AppendixV: Letter of Introduction for Data Collection

Katherine K. Were  
P.O Box 2949-40100  
Kisumu, Kenya

25<sup>th</sup> September 2015

The Director Human Resources  
Kenya Bureau of Standards  
P.O Box 54974-00200  
Nairobi, Kenya.

Dear Sir,

### **REQUEST FOR USE OF KEBS INFORMATION**

I wish to undertake a study on Application of the balanced scorecard as a tool of strategic management at KEBS. This is in partial fulfilment of the requirements of the degree of Masters of Business Administration, School of Business at the University of Nairobi. Attached is an introduction letter from the University of Nairobi.

This letter is to request for permission to obtain and use information from KEBS through interviews with key staff involved in the development and implementation of the Balanced scorecard in planning, strategy implementation and performance management. Your responses are important as they will enable me conclude my study appropriately and come up with positive recommendations, highlight areas of improvement, and also create a basis for further research.

Kindly note that the information obtained will be handled confidentially, and will only be used for academic purposes. A copy of the final research report will be availed to you on request. Your cooperation will be highly appreciated

Yours Faithfully,



**Katherine Were.**