EXTENT OF BALANCE SCORECARD IMPLEMENTATION AND ITS EFFECT ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY

KINYUNGU GEOFFERY MULI

A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN FINANCE AND ACCOUNTING; UNIVERSITY OF NAIROBI

2016

DECLARATION

This is my original work and has not been presented for a degree in any other exam in any other university or institute of higher learning

Sign…………………..………………… Date…………………..

Kinyungu Geoffery Muli D63/77785/2015

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

Sign………………………..…….… Date………………..……………

Dr. Winnie Nyamute

DEDICATION

I dedicate this dissertation to my family.

ACKNOWLEDGEMENTS

I wish to express my sincere gratitude to my supervisor, Dr. Nyamute for her objective guidance. I also acknowledge my family members and close friends for their great support throughout my post graduate studies.

TABLE OF CONTENTS

DECLARATION .... **ii**

DEDICATION .... **iii**

ACKNOWLEDGEMENTS .... **iv**

TABLE OF CONTENTS .... **v**

LIST OF TABLES .... **viii**

LIST OF FIGURES .... **ix**

LIST OF ABBREVIATIONS .... **x**

ABSTRACT .... **xi**

CHAPTER ONE: INTRODUCTION **1**

1.1 Background of the Study 1

1.1.1 Balance Scorecard 1

1.1.2 Financial Performance 2

1.1.3 Balance Score Card and Financial Performance 3

1.1.4 Small and Medium Enterprises in Kenya 3

1.2 Research Problem 4

1.3 Research Objective 5

1.4 Value of the Study 5

CHAPTER TWO: LITERATURE REVIEW **7**

2.1 Introduction 7

2.2 Theoretical Review 7

2.2.1 Balance Score Card Theory 7

2.2.2 Open System Theory of Management 8

2.2.3 Contingency theory 8

2.3 Determinants of Financial Performance of SMEs 8

2.3.1 Access to Credit 8

2.3.2 Capital Structure 9

2.3.3 Firm Size 9

2.4 Empirical Review 10

2.4.1 Global Studies 10

2.4.2 Local studies 12

2.5 Summary of Literature Review 13

3.1 Introduction 14

3.2 Research Design 14

3.3 Population 14

3.4 Sample 14

3.5 Data Collection 15

3.6 Data Analysis 15

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION 17

4.1 Introduction 17

4.2 Response rate 17

4.3 General Information 17

4.4 Balance score card and financial performance 19

4.5 Financial performance 25

4.7 Regression analysis 26

4.6 Discussions 28

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS .. 30

5.1 Introduction 30

5.2 Summary of the findings 30

5.3 Conclusion 31

5.4 Recommendations 31

5.5 Limitations of the Study 32

5.6 Further research recommendations 32

REFERENCES 34

APPENDICES 39

Appendix I: Questionnaire 39

LIST OF TABLES

Table 4.1: Whether the firms have implemented the balance score card.......................... 19

Table 4.2: The perspectives of balance score card implemented in the firms 20

Table 4.3: Extent which respondents have implemented the balance scorecard 20

Table 4.4: Extent which respondents use the financial measures 21

Table 4.5: Extent of implementation of customer perspectives of the balance score card 21

Table 4.6: Extent of implementation of internal business process perspectives............... 22

Table 4.7: Extent of implementation of the learning and growth perspective 23

Table 4.8: Agreement on balance score card and financial performance.......................... 24

Table 4.9: Extent to which the factors affect financial performance 25

Table 4.10: Extent of agreement on the statements relating to financial performance..... 26

Table 4.12: Model summary 27

Table 4.13: Analysis of Variance.. 27

Table 4.14: Coefficient Matrix.. 28

LIST OF FIGURES

Figure 4.1: Gender 17
Figure 4.2: Age... 18
Figure 4.3: Education level 18
Figure 4.4: Period of operation 19

LIST OF ABBREVIATIONS

BSC -Balanced Score Card

CAA - Change Active Adaptive

EPS -Earnings Per Share

GDP -Gross domestic product

ICT -Information Communication and Technology

ILO -International Labour Office

ROA -Return On Assets

ROE -Return On Equity

ROIC -Return On Invested Capital

SMEs - Small and Medium Enterprises

SPSS -Statistical Package for Social Sciences

UBA - United Bank for Africa

ABSTRACT

The finding on the relationship between implementation of the balance scorecard and financial performance is ambiguous. The study established balance scorecard implementation and financial performance of SMEs in Nairobi County. The purpose of the study was to establish the extent of balance scorecard implementation and its effect on the financial performance of Small and Medium Enterprises in Nairobi County. A descriptive survey was done with 14,732 SMEs registered in Nairobi County targeted. 67 SMEs in Nairobi County selected through stratified random sampling. 67 owners were selected through purposive sampling. The data was collected through a structured questionnaire. Regression and descriptive analysis was done through SPSS v20. Findings were presented through tables and graphs.

The SMEs were found to have implemented the financial, customer, internal business and innovation and growth perspectives with financial perspective being the most implemented. The implementation of balance score card was found to lead to increased profitability of the firms. Majority indicated that implementation of the balance score card is positively related to financial performance of their firms. Financial performance was indicated as a key challenge in the firms. The study established that revealed that balance score card implementation, capital structure, access to credit and firm sizes affect financial performance of the firms to a great extent.

The study further established that financial performance of their firms is satisfactory and the liquidity of their firms has been rising in the last three years. The study concludes that SMEs in Nairobi County experience financial performance issues. The study further concludes that the SMEs in Nairobi have implemented mainly the financial perspective of the balance score card. The study also concludes that profitability and liquidity of SMEs in Nairobi County has been rising with the financial performance satisfactory. The study recommends review of the four pillars of the balance scorecard to ensure support by firms' employees and management. The deliverables of the four pillars of the balance scorecard should be reviewed often to ensure to that all the firms' employees are comfortable that the tool measures the performance effectively.

The study was limited by lack of will to fill the questionnaires by the respondents, the variables under investigation, delay by respondents, and sensitivity of the data. The research should also be done to involve all employees to establish consistency and complete understanding among the employees and the owners of the companies.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Most organizations have to compete in a complex and turbulent environment in the modern world. This has called for the balance score card (BSC) which enables the firms to navigate the turbulence in order to remain competitive (Kaplan & Norton, 1996). The BSC measures and manages aspects of a firm through the perspectives of financial, customers, internal processes, and learning & growth.

The study was based on the balance score card theory, the contingency theory and the open system theory. The balance score card theory states that the performance of a firm should be measured through financial and non-financial measures. The balance score card theory posits that performance should be viewed in terms of the customer, the internal process, learning and growth and financial aspect. The contingency theory posits that no ideal outline can fit all organizations due to difference in organizational culture and view on risks (Lutans, 2011).

Norreklit (2009) notes that the assumptions made by the BSC are invalid hence giving faulty performance indicators which may lead to faulty and substandard performance. However, the criticism may not always be the case and the implementation of the balanced score card maybe invaluable in the creation of more value and competitive advantage through financial performance.

1.1.1 Balance Scorecard

The first BSC was composed by Norton & Kaplan in the year 1992. It is an execution estimation device that considers budgetary measures and consumer loyalty aspects (Johnson, Scholes & Whittington, 2008). According to Kaplan and Norton (1996), the balance score card enables organizations to check the elusive resources required for future development. These drivers include clients, inner business process and learning and development points of view which are gotten from a reasonable and thorough interpretation of the organization's system into substantial goals and measures.

The BSC is a framework that integrates measures derived from strategy. BSC introduces the drivers of future financial performance while at the same time retaining past performance. This gives a firm the ability in intangible assets monitoring in order to ensure growth in the future.

The BSC adds non-financial perspectives on the financial measures of financial performance (Kaplan & Norton, 1996). The customer aspect identifies and tracks performance related to customers and markets where a firm can compete (Kaplan, 2010). Niven (2008) brings out the need to produce and sell services and products that add value to the customer in order to achieve positive financial results.

Kaplan (2010) notes that the internal process aspect of the BSC measures business procedures that ensure increased customer satisfaction by focusing on aspects of employees like skills and quality based on competencies and technologies for market leadership.

According to Kaplan and Norton (2013), learning and growth is key to survival of a firm. This involves continuous training and innovation while at the same time expanding the market.

The implementation of the balance score card retains the financial perspective and hence the short term and long term performance of an organization (Kaplan & Norton, 1996). According to Niven (2008), the financial measures involve improvement of the shareholder value. This involves profitability, liquidity and revenue.

1.1.2 Financial Performance

There are various ways to evaluate financial performance. They include cash flow, profitability, and sales growth (Kumar, 2010). Financial performance is measured through profitability, liquidity and solvency. Returns on equity, sales, capital employed and assets are the profitability measures used by firms (Rayan, 2008). SMEs should be profitable and should check on the profitability level and the change in the profits made (Hudson, Smart & Bourne, 2011).

Liquidity measures are also used to measure financial performance of a firm (Kumar& Woo, 2010). Organizations should manage their liquidity as the main problem faced by small firms is cash management. This is measured through liquidity ratios and working capital ratios. The current ratios together with the working capital are the main measures of this performance aspect (Mekonnen, 2011). The ratios have a direct relationship with the financial performance of a firm.

Solvency measures consider the gains from capital and resources in a business (Zietlow & Seidner, 2007). It is measured through ratios like the debt-to-equity ratio, debt-to-asset ratio and equity-to-asset ratio. The debt-to-asset ratio expresses total firm liabilities as a proportion of total firm assets (Kochanski, 2010). A firm is exposed to a greater risk if the debt-to-asset ratio is high (Gaist, 2009).

1.1.3 Balance Score Card and Financial Performance

The relationship between the implementation of balance score card and financial performance is reflected in the financial perspective of the balance score card. Howell et al. (2007) stated that during implementation of the BSC firms need to have an aim of ensuring quality; short lead times and customer satisfaction for improved the financial performance.

Kaplan and Norton (1996) indicated that based on the adopted strategy, firms combine both the growth strategy which seeks to increase revenues and the productivity strategy which seeks to cut costs. Kaplan (2010) notes that small businesses have to implement the four perspectives of the balance score card in order to enhance their financial performance. In measuring, organizational performance, the balance scorecard integrates financial measures like return on investment, dividend yield, EPS among other measures.

1.1.4 Small and Medium Enterprises in Kenya

Despite the contribution of SMEs, the focus on their advancement has been low. For example, SME sector in Japan provide more than 80% of the jobs and more than half in Germany. ILO (2008) indicated that the SME sector contributes a large proportion of the economic growth as measure by GDP in the African nations with Nigeria having twenty-four-point five percent, Kenya nineteen-point five percent and Uganda twenty percent.

The SME area has turned out to be progressively imperative in the Kenyan economy as a wellspring of livelihood and salary in Kenya a SME can be a microenterprise, a little undertaking or a medium venture (Waweru, 2007). Stevenson and Onge, (2005) noted that a microenterprise is a business association having a most extreme of 10 workers; a little endeavor has at least 11 representatives and a greatest of 50; while a medium venture has somewhere around 50 and 150 workers.

Amid the most recent decade, the development rate in the area's occupation has stayed over that of the bigger firms, whose business development rate declined, making the part become gradually. The casual area has seen its partake in complete work ascend from 16% in 1980, to 63.6% in 1997 and 70% in 2000. Its partake in GDP has likewise recorded builds, ascending from 13% in 2003 to 18% in 2009 (Republic of Kenya, 2012). Kithae (2012) notes that SMEs in Kenya confront challenges in measuring performance which influence their growth and development.

1.2 Research Problem

With growing interest in improving performance management and improvement of financial performance, implementation of the balanced score card is crucial for improvement and change especially for companies venturing into a very competitive industry (Becker, Huseld & Ulrich, 2011). There is need to implement the BSC effectively in order to ensure superior financial and non-financial performance.

SMEs operate in a fiercely competitive environment and therefore need to ensure that business is practiced more efficiently and effectively. They face challenges in enhancing financial performance (Waweru, 2007). According to Chimwani, Nyamwange & Otuyo (2013), SMEs in Kenya have implemented the financial measures of financial performance which has created major challenges in the SMEs. Based on the assertion of Kagunyi (2014), there has been low implementation of BSC in Kenyan SMEs (Kagunyi, 2014). This may be a major factor that has led to poor financial performance of these firms.

Seth (2014) established a positive relationship as he investigated BSC implementation and financial performance. Tennant and Tanoren (2009), however indicated that the balance score card implementation has no effect on the performance of small firms. Hudson, Smart and Bourne (2011) states that SMEs use balance score card in performance measurement but face challenges in implementation. Small firms that implement the balance score card, assume the non-financial elements of performance measurement. This creates performance issues given the challenges faced by the firms in the harnessing and maintaining the balance score card.

Local studies have been done on the balance score card and financial performance in SMEs. Chimwani et al. (2013) did a study on the application of strategic performance measures in SMEs in Kenya. The non-financial aspects of the BSC were not applied in majority of the SMEs. Nzuve and Nyaega (2013) did a study on the application of BSC in performance measurement at Essar Telecom Kenya limited and indicated that BSC was primarily used in the implementation of strategy and measuring performance. Kagunyi (2014) did a study on the application of BSC in competitive advantage at Kenya Commercial Bank Limited. KCB was found to face challenges in the application of BSC through resistance to change, lack of sufficient knowledge of the staff, and lack of objectivity in appraisal of staff.

The findings on the relationship between implementation of the balance scorecard and financial performance are ambiguous. Some studies find a positive relationship (Seth 2014) while Tennant and Tanoren (2009) find no relationship. The studies despite focusing on the BSC they have failed to show how its implementation influence the financial performance of SMEs. The questions that this study sought to answer is to what extent has the balance score card been implemented in MEs? How is the implementation of the BSC related to financial performance of SMEs in Nairobi County?

1.3 Research Objective

The study sought to establish the extent of balance scorecard implementation and its effect on the financial performance of Small and Medium Enterprises in Nairobi county

1.4 Value of the Study

Findings will give an insight into the balance score card and financial performance of SMEs. This will enable study will enable the management to come up with strategies that will enable the use of balance score card in the improvement of financial performance of their firms.

The policy makers like the government will find this study useful. The study will form a basis for the formulation of policies that would enhance financial performance in SMEs through the implementation of the balance score card. Other businesses may also benefit from this study. This would be through the understanding of the effect of the implementation of the balance score card on financial performance. This would enable them to develop strategies to solve the problems of financial performances through the implementation of the balance score card.

Other researchers will be guided into further study on balance score card and financial performance and thus increase the depth of knowledge in this area. The results of the study will serve as literature to throw more light on the implementation of the balance score card and financial performance. The outcome will further serve as secondary data for future research on the topic.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Related literature on the balance score card and firm performance will be reviewed. These include theoretical review, determinants of SME financial performance, empirical review and summary to the literature review.

2.2 Theoretical Review

Theories discussed in this chapter are balance score card theory developed in 1992 by Robert Kaplan and David Norton and open system theory developed by Ludwig von Bertanlanffy (1956). The discussion and the relationship of the theories to the study are discussed in this section.

2.2.1 Balance Score Card Theory

The balance score card theory was established by Robert S. Kaplan and David P. Norton in 1992.The balance score card theory arose out of a recognized need to measure success on more than just financial statements. Focusing strictly on financial results fails to provide an organization with the information that it needs to prosper in today's environment.

The theory states that the performance of a firm should be measured through financial and non-financial measures. The balance score card theory measures performance in four different perspectives. These include financial, customers, internal processes, and learning & growth perspectives (Kaplan, 2010). This, according to the theory, gives a business a competitive edge in financial performance.

SMEs, given the competitiveness in which they operate, need to implement both financial and non-financial perspectives in order to survive. The implementation of the balance score card would give them superior performance over other firms through increased customer loyalty and profitability. The theory gives insight into ways of improving performance through implementation of the balance score card which constitute financial and non-financial elements that affect performance. This would enable SMEs to survive in the dynamic and competitive environment in which they operate and understand the different aspects of business that need to be checked for improved performance.

2.2.2 Open System Theory of Management

This theory indicates that firms and societies affect and change the environments which in turn affect their business (Chaharbaghi & Lynch, 2009). It indicates that firms and societies are open systems changing and influencing each other over time.

The theory is applicable in that SMEs operate in an environment where it interacts with the society. This calls for implementation of other perspectives in addition to the financial perspective of business in order to survive. This involves consideration of the customers, employees and other community members who provide avenues for learning and development. The theory gives support to the implementation of the balance score card in enhancing financial performance of the SMEs as it gives them chance to interact with the environment which should be considered by the firms for survival.

2.2.3 Contingency theory

The Contingency Theory was developed by Fiedler (1964). It argues that the organizational structure should fit with the available technology and environment in order to be appropriate. No design fits all organizations due to difference in culture and risk perception (Lutans, 2011).

This theory is relevant to the study in that it gives insight into the perspectives that an SME should implement in order to enhance financial performance. If the SMEs have a fixed structure and assumes the environment does not change, there will be issues in performance as environmental factors may be assumed (Perrow, 2010).

2.3 Determinants of Financial Performance of SMEs

2.3.1 Access to Credit

SMEs have been limited from benefiting from credit facilities by lack of access to credit. Burns & Stalker (2011) notes that this problem is mainly created by formal financial institutions through complex procedures, minimum loan and restrictions on credit. High risk perception and cost of capital limits the accessibility of funding by SMEs. When available the financial firms require collateral, which make it hard to access financing (Kamweru, 2011).

Some of the variables that have been investigated in studies concerning SMEs and credit access were production change, change in sales, profits, assets and capital. Banerjee and Duflo (2009) indicated that SMEs start to grow once they access credit.

2.3.2 Capital Structure

Sources of capital could affect profitability and therefore, sustainability of SMEs. According to Woller& Schreiner (2002) the various sources includes loans, savings, grants, family and friends. Kyereboah (2007) found that exceptionally utilized SMEs have higher capacity to manage moral dangers and unfavorable choice than their partners with lower influence proportions.

Ganka (2010) states that albeit how the capital has been organized influence the execution of SMEs, having diverse wellsprings of capital don't enhance budgetary supportability. Capital source influence financial performance of SMEs. Wambugu and Ngugi (2012) found a positive relationship to financial performance.

2.3.3 Firm Size

Chen and Hambrick (2009) give an outline and review of the significance of firm size. Firm size is identified with costs and profitability of the industry (Dean, Brown & Bamford, 2008). More settled SMEs will most likely depict many levels of administration, more prominent divisions, expanded specialization of capacities and limits, more critical centralization and more unmistakable association than humbler associations (Daft, 2007).

Chen and Miller (2012) found an association between firm size and inertia in conducting business. Inertia is accrued to barriers associated with the age and the size of the firm (Hannan & Freeman, 2010; Aldrich & Austen, 2011). Aldrich and Austen (2011) argues that firms find it hard to maintain an atmosphere of continuous change.

2.4 Empirical Review

2.4.1 Global Studies

Wu (2009) measured performance in SMEs in the information & communication technology industry of Australia. Methodological triangulation system was utilized. 66 respondents were involved in the study. He indicated that the balance score card was the best performance measurement framework adopted by the SMEs in Australia. The balance score card covers all the dimensions of performance in ICT SMEs in Australia. This study is related to the current study in that it measures the performance of SMEs using the balance score card. Despite the study establishing that the balance score card is the main performance measurement tool, it fails to relate the balance score card to the financial performance of the SMEs.

Seth (2014) conducted an investigation into BSC implementation on financial performance with reference to Novo Nordisk, Denmark. Data was corrected using structured questionnaires, interviews and literature review. Triangulating of qualitative and quantitative data was done. The study used the return on invested capital (ROIC) as a proxy for financial performance of the company on a trend and comparative analysis of the ROICs of the organization for a thirty-year period from 1983 to 2013. The study found that the balance score card was being used both as a strategic management system and as a performance measurement system at Novo Nordisk.

The implementation of the balance score card positively influenced financial performance at Novo Nordisk. However, there were other factors as well that did influence financial performance in the organization. These other factors included: The split in year 2000 of Novo Nordisk into two separate bona fide companies, the industry within which Novo Nordisk is operating, continuous innovation and improvement in financial management practice.

The results also showed that financial performance was sustainable, however, in concert with the prevalence of these three other subsequent factors within the company: length of product life cycle; persistence of competitive advantage and potential for product renewal. The study is related to the study in that it explains the relationship between balance score card and financial performance. The findings show an influence of balance score card on financial performance. However, ROIC was used as the main measure of financial performance while the current study uses ROA, ROE and ROI.

Yahaya (2009) assessed BSC usage in assessing the performance of Ghanaian banks. Three from 24 banks were sampled. Nine managers and fifteen employees were involved. Qualitative analysis was used in the study. The analyzed banks showed only marginally the impact of non-financial perspectives on financial performance. Analysis also showed that in assessing performance of banks non-financial factors.

The study revealed that BSC provide more information other than financial performance. The study is based on balance score card and performance which is the same for the current study. However, the turnaround processing time of loans may not apply in the current study as we focus on SMEs other than banks. The study also uses the balance score card to measure performance other than establish its effect on financial performance.

Suprapto, Wahab and Wibowo (2009) did an investigation on the implementation of Balance Score Card as the performance measurement system in SMEs. This involved 1000 small clinics in Malaysia from whom only 105 returned and filled the questionnaires. Using varimax framework, the four elements of BSC were found to have been implemented in the SMEs.

Pujas (2010) did a study on the barriers to the successful implementation of the BSC in Plava, Laguna. The data was collected from a literature review where barriers to implementation of the BSC were reviewed. The most critical issue was found in the absence of BSC learning. These included Limited comprehension of the Balanced Scorecard, absence of official sponsorship, absence of adjusted scorecard instruction and preparing, lacking IT bolster, deficient venture group, not including the entire association, insufficient KPIs, unwillingness to change, strategy not formulated in a strategy map, lack of planning and communication. This weakness influenced the vast majority of alternate activities and brought on numerous ensuing issues.

2.4.2 Local studies

Nzuve and Nyaega (2013) applied the balance score card in measuring performance of Essar Kenya. A contextual analysis was directed with information being gathered by utilization of individual interviews with the heads of divisions. The study uncovered that the organization fundamentally utilizes adjusted score card for technique usage and as an execution estimation apparatus. The findings relate to the use of the balance score card in strategy implementation which can have an effect on the performance of a firm. However, the study is carried out in the telecommunication industry which face different challenges in financial performance compared to the SMEs. The study also focused on the implementation of the balance score card with the current study seeking to establish the effect of the balance score card to financial performance.

Chimwani, Nyamwange and Otuyo (2013) applied a survey the BSC in measuring performance of SMES in Kenya. A hundred SMEs were sampled and selected through stratified sampling. Data was collected through a questionnaire and analyzed by use of regression and descriptive. One-way Anova was also done. They established a gap between performance and the BSC perspectives. The study despite focusing on the balance score card in SMEs it investigates its implementation with the current study investigating the effect it has on the financial performance of the SMEs.

Kagunyi (2014) did a study on the BSC and competitive advantage at Kenya Commercial Bank Limited. Qualitative research design was carried out. Findings indicated that BSC is a useful tool in the attainment of the mission of the Bank. The study further found that KCB faced challenges in the implementation of balanced score card through resistance to change, lack of sufficient knowledge of the staff, aspects of operation that are difficult to measure and lack of objectivity in appraisal of staff.

Were (2015) did a study on strategic application of the BSC at the Kenya Bureau of Standards. An interview was done on 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 analyzed 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.

2.5 Summary of Literature Review

The relevant theories used in the study are the open systems and the balance score card theory. Balance score card improves the communication, align business activities to organization strategy and vision and monitor organizational performance. Access to credit, capital structure and firm size are the determinants that have been considered by the study as affecting the financial performance of SMEs.

The empirical studies show that the balance score card is the most relevant performance measurement tool in organizations (Seth, 2014; Chimwani et al, 2013; Meyer, 2012; Becker et al, 2011; Yahaya, 2009). SMEs however face challenges in the implementation of business score card to measure financial performance as revealed by the studies. The relationship between the balance score card and financial performance in SMEs is inconclusive. Some studies show a positive relationship (Seth, 2014) while others show no relationship between the two (Yahaya, 2009). The local studies on balance score card and performance have focused on different sectors other than SMEs which creates a research gap.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The methods used in the study are given in the chapter. The research design, population, sample, procedures of data collection and data analysis are given.

3.2 Research Design

Descriptive survey was used. The design was preferred due to the fact that it facilitates an investigation into the relationship between variables. A survey was deemed appropriate as it would enable the researcher to compare findings from different categories of study units [SMEs] which would enrich the amount of information for the study. This requires a broad range of data which is only possible through a survey.

3.3 Population

SMEs in Nairobi County were targeted. Nairobi county was chosen since it had the highest number of growth in enterprises (15.9%) as compared with other Counties making the research worth undertaking. According to data obtained from the KNBS (2015) there are approximately 14,732 SMEs registered in Nairobi County.

3.4 Sample

The study was carried out on 67 SMEs in Nairobi County. Fisher, Laing and Stoeckel formula was used since the target population is large. The selection formula was:

$$n = Z^2 p.q \frac{N}{e^2(N-1) + Z^2 p.q}$$

Where n= the required example measure

p = extent of populace with the required attributes of the study.

q = Population without the required qualities of the study (1-P)

N = Total population

e = accuracy level required = 10%

Z = Z value at the level of confidence at 90% = 1.645

$$n = 1.645^2 * 0.5 * 0.5\left(\frac{14732}{(0.1^2 * 14731) + (1.645^2 * 0.5 * 0.5)}\right)$$

$$n = 0.6765\left(\frac{14732}{147.31 + 0.6765}\right)$$

$$= 0.6765 * \frac{14732}{147.9865}$$

$$= 0.6765 * 99.54962108 = 67.34531866$$

$$n = 67$$

All the sampled SMEs were involved. The SMEs were selected through stratified random sampling. The SMEs were stratified into the sectors of economy in which they operate. The random sampling ensures that the SMEs in each sector has an equal chance of being selected.

The owners of each SME sampled were selected through purposive sampling. The owner was selected as he/she was involved in the operations of SMEs and therefore would provide the required information on the implementation of the balance scorecard and financial performance of SMEs. It was preferred as it allows the researcher to get cases with required information with respect to the objectives of his/her study (Kothari, 2006). 67 respondents were involved in the study.

3.5 Data Collection

Data collection was done through structured questionnaires. These were administered to the respondents who provided the information required. The questionnaires had closed-ended and Likert questions based on the objectives of the study. Closed-ended questions help a lot in knowing different characteristics.

3.6 Data Analysis

Data was input after coding into the SPSS. It can handle a large volume of data which simplifies the data analysis procedure. The data was analyzed using descriptive (mean, percentage, standard deviation and frequency) and inferential (regression) analysis.

A regression formula is as shown;

$Y = \beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \acute{\varepsilon}$

Y is the financial performance of SMEs

$X_{1\text{-}4}$ is implementation of perspectives of BSC.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

Presentation and analysis was done in this chapter. The findings were based on the objective of the study. The study targeted SMEs in Nairobi County.

4.2 Response rate

The study examined 67 SME proprietors who were issued with surveys. Out of the 67 tested respondents, 60 respondents filled and gave back the surveys. This made a reaction rate of 89.6% which is sufficient and allows for findings generalization.

4.3 General Information

Distribution based on the gender was done. It was established from figure 4.1 that 63% of the respondents indicated male whereas 37% indicated female.

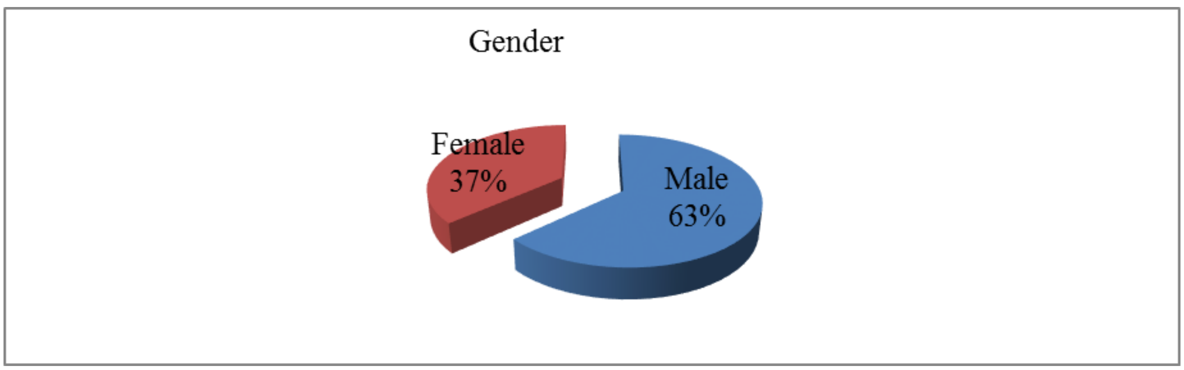
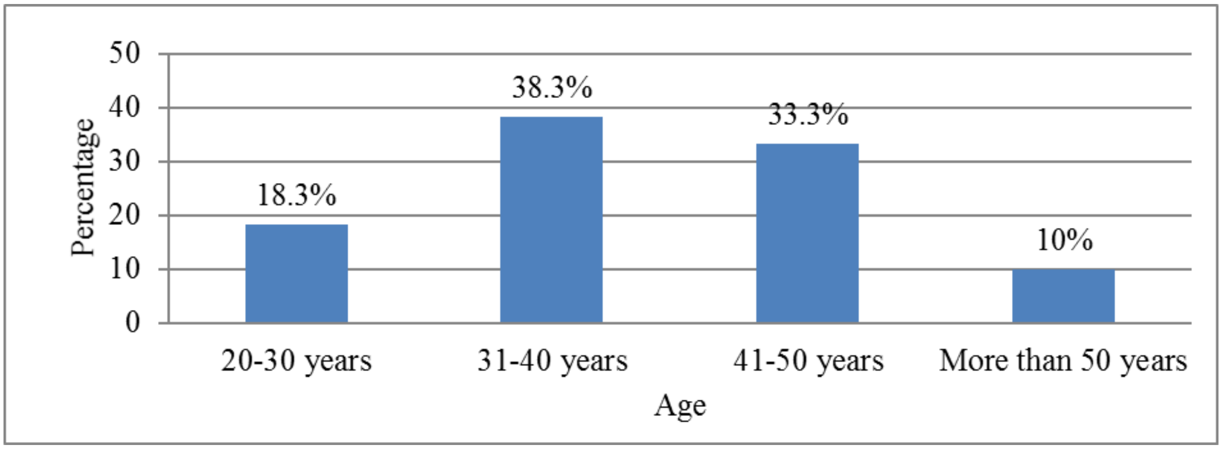


Figure 4.1: Gender

The respondents' age was sought in the study. Findings on figure 4.2 show that 38.3% of the respondents were 31-40 years of age, 33.3% 41-50 years, 18.3% 20¬-30 years with 10% more than 50 years.



The study sought to find out respondents age. From the study findings 38.3% of the respondents were 31-40 years, 33.3% of the respondents were 41-50 years, 18.3% of the respondents were 20- 30 years whereas 10% of the respondents were more than 50 years.

Figure 4.2: Age

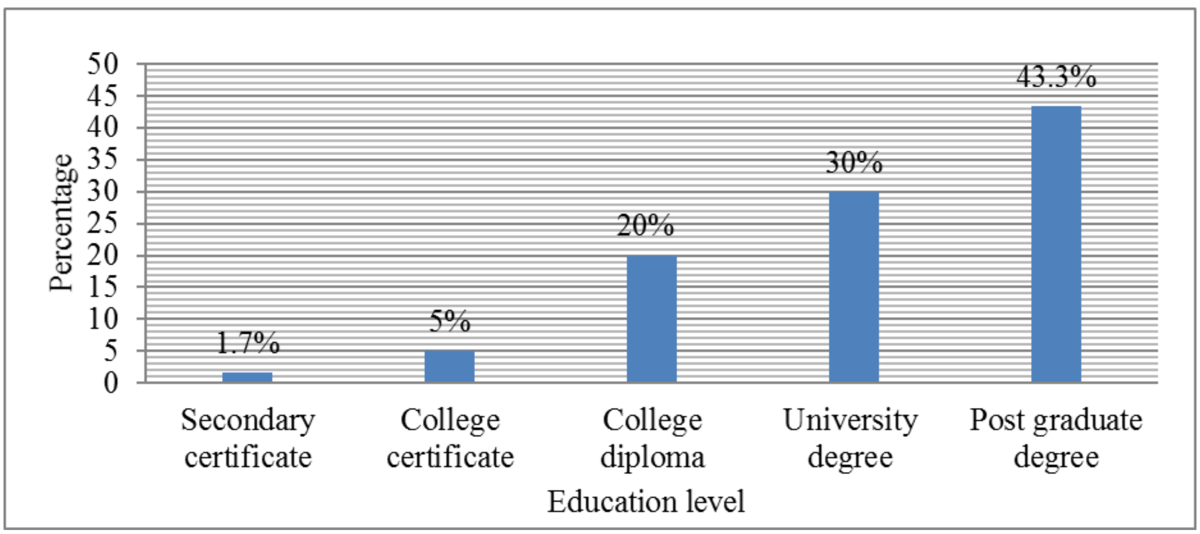


Figure 4.3: Education level

Figure 4.3 on the respondent's highest education level, 43.3% of the respondents had post graduate degree, 30% had university degree, 20% had college diploma, 5% had college certificate and 1.7% had secondary certificate.

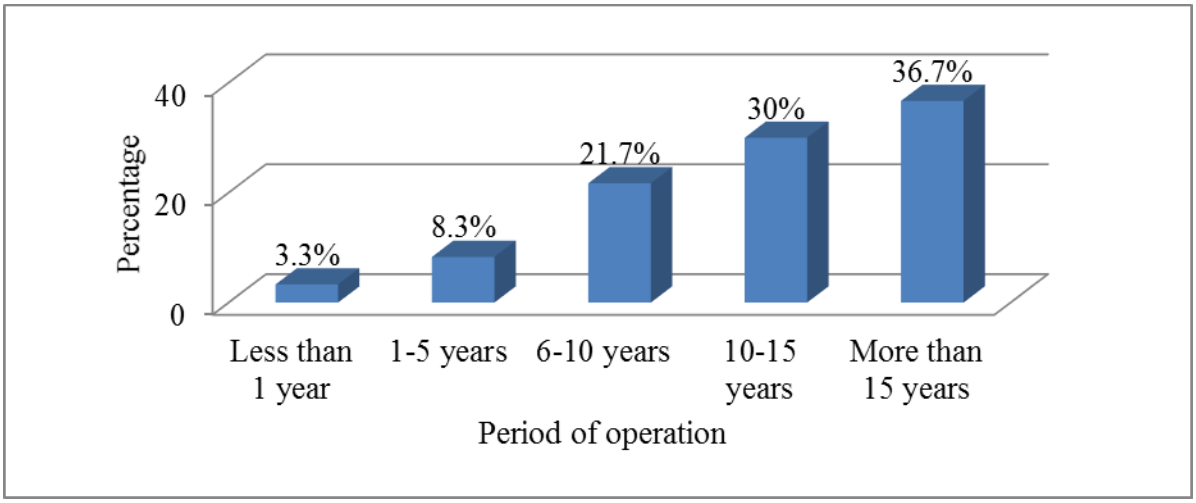


Figure 4.4: Period of operation

From figure 4.4 showing the period SMEs had been in operation, 36.7% indicated more than 15 years of operation, 30.0% 10-15 years, 21.7% 6-10 years, 8.3% 1-7 years and 3.3% less than one year.

4.4 Balance score card and financial performance

Table 4.1: Whether the firms have implemented the balance score card

Opinion	Frequency	Percentage
Yes	58	96.7
No	2	3.3
Total	**60**	**100**

It was sought whether the firms had implemented the balance score card. From table 4.1, 96.7 percent of the respondents indicated that their firms had implemented the balance score card while 3.3% had not.

Table 4.2: The perspectives of balance score card implemented in the firms

Perspective	Frequency	Percentage
Financial	56	93.3
Customer	53	88.3
Internal business	51	85.0
Innovation and growth	54	90.0

The study sought to find out which of the perspectives of BSC had been implemented. Table 4.2 shows that 93.3% indicated they had implemented financial, 90% indicated innovation and growth, 88.3% customer, and 85% indicated internal business.

Table 4.3: Extent which respondents have implemented the balance scorecard

Extent	Frequency	Percentage
Little extent	2	3.3
Moderate extent	5	8.3
Great extent	36	60.0
Very great extent	17	28.4
Total	**60**	**100.0**

Table 4.3 on the extent which the balance scorecard had been implemented shows that 60% indicated implementation of the balance scorecard to a great extent, 28.4% to a very great extent, 8.3% to a moderate extent and 3.3% to a little extent.

Table 4.4: Extent which respondents use the financial measures

Extent / Measure	No	Little	Moderate	Great	Very great	Mean	Standard deviation
Cash flow	0	1	7	34	18	4.15	0.237
Costs	1	2	10	30	17	4.00	0.200
Revenue growth	0	1	3	40	16	4.18	0.282
Net operating income	0	0	2	31	27	4.42	0.260

Table 4.4 on the extent to which respondents used financial measures of performance indicates that respondents used net operating income as shown by a mean of 4.42, Revenue growth of mean of 4.18, and cash flow of mean 4.15 and cost of mean 4.00 to a great extent.

Table 4.5: Extent of implementation of customer perspectives of the balance score card

Extent / Perspectives	No	Little	Moderate	Great	Very great	Mean	Standard deviation
Goods returned by customers	1	2	8	31	18	4.05	0.210
Number of new customers	2	2	9	26	21	4.03	0.184
Customer retention/Repeat sales	0	1	2	36	21	4.28	0.266
customer requirement in Product design	0	1	12	29	18	4.07	0.202
Response to customers	1	1	2	35	21	4.23	0.257

From table 4.5 the customer perspectives implemented to a great extent included customer retention/repeat sales of mean 4.28, response to customers as shown of mean

4.23, customer requirement in Product design as shown of mean 4.07, goods returned by customers of mean 4.05. The firms also implemented number of new customer's perspective to a great extent of mean 4.03.

Table 4.6: Extent of implementation of internal business process perspectives

Extent / **perspectives**	**No**	**Little**	**Moderate**	**Great**	**Very great**	**Mean**	Standard deviation
Number of errors	1	2	11	25	21	4.05	0.181
Number of injuries/accidents	1	3	13	26	17	3.92	0.172
Idle time	1	3	7	31	18	4.03	0.208
Rework	0	2	9	25	24	4.18	0.198

The study tried to decide the degree to which the organizations have executed the accompanying inward business handle viewpoints of the adjust score card in the estimation of monetary execution. From the discoveries as classified in the table 4.6 over the organizations have actualized the accompanying inner business handle points of view of the adjust score card in the estimation of budgetary execution, as it were, Rework of mean 4.18, number of mistakes as appeared by a mean of 4.05 and sit out of gear time of mean 4.03. The organizations have likewise executed number of wounds/mishaps point of view, all things considered of mean 3.92.

Table 4.7: Extent of implementation of the learning and growth perspective

Extent / Perspective	**No**	**Little**	**Moderate**	**Great**	**Very great**	**Mean**	Standard deviation
Regular training to employees	1	1	11	21	26	4.17	0.190
Level of skills	0	2	10	28	20	4.10	0.199
Employees satisfaction and attitudes	1	1	5	31	22	4.20	0.229
Employee performance	1	2	5	29	23	4.18	0.217
Technological employment	0	1	9	26	24	4.22	0.206

From table 4.7, the firms had implemented the following learning and growth perspectives to a great extent; technology of mean 4.22, employees' satisfaction and attitudes of mean of 4.20, employee performance as shown of mean 4.18, regular training to employees of mean 4.17 and level of skills of mean 4.10.

Table 4.8: Agreement on balance score card and financial performance

Extent / In the last three years	No	Little	Moderate	Great	Very great	Mean	Standard deviation
Focus on customers has improved the financial performance of my firm	0	1	6	32	21	4.22	0.233
Innovation in my firm has led to improved financial performance	0	1	10	25	24	4.20	0.201
The focus on the financial elements of my firm has improved the performance of my firm	1	1	7	31	20	4.13	0.219
Adoption of cost management strategies has improved the performance of my firm	1	2	6	33	18	4.08	0.226
The implementation of balance score card leads to increased profitability of a firm	0	0	8	26	26	4.30	0.220

The implementation of balance score card leads to increased liquidity of a firm	0	0	5	34	21	4.27	0.250

From table 4.8, respondents agreed to a great extent that the implementation of BSC lead to increased profitability of a firm of mean 4.30, the implementation of balance score card leads to increased liquidity of a firm of mean of 4.27, focus on customers has improved the financial performance of their firms of mean of 4.22, innovation in their firms have led to improved financial performance of mean of 4.20, the focus on the financial elements of their firms has improved the performance of their firms of mean 4.13. Respondents agreed to a great extent that adoption of cost management strategies have improved the performance of their firm of mean 4.08.

4.5 Financial performance

Table 4.9: Extent to which the factors affect financial performance

Extent / Factor	No	Little	Moderate	Great	Very great	Mean	Standard deviation
Access to credit	0	1	9	27	23	4.20	0.207
Capital structure	0	1	8	28	23	4.22	0.214
Firm size	1	2	11	24	22	4.07	0.180
BSC implementation	0	1	3	29	27	4.37	0.244

Results on table 4.9 show that respondents indicated an effect on financial performance to a great extent on BSC implementation of mean 4.37, capital structure of mean 4.22 and access to credit as of mean 4.20 and firm size of mean 4.07.

Table 4.10: Extent of agreement on the statements relating to financial performance

Extent / Statement	No	Little	Moderate	Great	Very great	Mean	Standard deviation
The liquidity of my firm has been rising in the last three years	1	1	12	25	21	4.07	0.185
The profitability of my firm has been rising in the last three years	0	1	8	28	23	4.22	0.214
Financial performance of my firm is satisfactory	1	2	5	29	23	4.18	0.217
Financial performance is a key challenge in my firm	14	24	16	4	2	2.27	0.151

Results in table 4.10 show that respondents agreed to a great extent that the profitability of their firms had been rising in the last three years of mean 4.22, financial performance of their firms is satisfactory of mean 4.18, the liquidity of their firms has been rising in the last three years of mean of 4.07. However, respondents indicated to a little on financial performance as a challenge of mean 2.27.

4.7 Regression analysis

Adjusted R^2 was 0.624 showing a variation of 62.4 percent on financial performance due to change in implementation of BSC perspectives at 95 percent confidence level.

Table 4.11: Model summary

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate
1	$.831^a$	.691	.624	.44807

ANOVA statistics show that the model had a significance level of 0.01. The F-calculated was larger than the critical value (4.279>2.53).

Table 4.12: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	11.177	4	2.794	4.279	.010b
1	Residual	35.915	55	0.653		
	Total	**47.092**	**59**			

From the findings of the study the established regression equation was;

Y = -1.662 + 0.768X1 + 0.264X2 - 0.206X3+ 0.172X4

Regression equation shows that it was revealed that holding financial, customer, internal business and innovation and growth constant, the financial performance of the SMEs in Nairobi County would be at -1.662. 1% increase in implementation of financial perspective would increase financial performance of the SMEs in Nairobi County by 76.8%, 1% increase in implementation of customer perspective would increase the financial performance of the SMEs by 26.4%, 1% increase in equity would decrease the financial performance of the SMEs by 20.6% and 1% increase in retained earnings would increase financial performance of the SMEs by 17.2%. All the variables were significant as p<0.05.

Table 4.13: Coefficient Matrix

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-1.662	.722		-2.301	.024
	Financial	.768	.088	.708	8.735	.000
	Customer	.264	.060	.296	4.436	.000
	internal business	.206	.097	.163	2.111	.037
	innovation and growth	.172	.083	.139	2.078	.040

a. Dependent Variable: Financial performance

4.6 Discussions

SMEs in Nairobi have implemented the balance score card with the financial perspective being the most implemented. The SMEs have implemented the financial, customer, internal business and innovation and growth perspectives with financial perspective being the most implemented. Respondents used financial measures like net operating income, revenue growth, cash flow and costs to a great extent. They concur with Seth (2014) who stated that BSC is used by firms in strategic and performance measurement.

Firms have implemented customer perspectives of the balance score card in the measurement of financial performance to a great extent. These included customer retention/repeat sales, response to customers, and customer requirement in product design. Similarly, Supraptoet al. (2009) found that SMEs in Malaysian Health Care Services had implemented the customer balance scorecard perspective among others.

Firms have implemented the internal business process through rework, number of errors, idle time and number of injuries/accidents perspective. The findings concur with Were (2015) who found that other organizations have adopted the balanced score card as strategic management tool for purposes of communicating, implementing and monitoring and evaluation of strategy.

The implementation of balance score card leads to increased profitability of a firm, the implementation of balance score card leads to increased liquidity of a firm, focus on customers have improved the financial performance of their firms. Similarly, Yahaya (2009) found that customer satisfaction; efficient internal processes play a crucial role in organizations performance.

The study established that revealed that balance score card implementation, capital structure, access to credit and firm sizes affect financial performance of the firms to a great extent. The study further established that financial performance of their firms is satisfactory and the liquidity of their firms has been rising in the last three years. The findings concur with those of Kagunyi (2014) who noted that the balanced scorecard brings the attainment of organizations' mission.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter the findings are summarized, conclusions and recommendations made based on the findings.

5.2 Summary of the findings

Firms have implemented the balance score card to a great extent. Financial perspective is the most implemented. The study revealed that respondents use the following financial measures of financial performance to a great extent; net operating income, revenue growth, cash flow and costs. Firms implemented the customer perspectives to a great extent. They include repeat sales, response to customers, product design, returns by customers and new customers.

Rework, errors, idle time and number of injuries/accidents were implemented. The firms implemented learning and growth elements of technological employment, employee's satisfaction and attitudes, employee performance, regular training to employees and skills.

Implementation of balance score card leads to increased profitability of a firm, the implementation of balance score card leads to increased liquidity of a firm, focus on customers have improved the financial performance of their firms, innovation in their firms have led to improved financial performance, the focus on the financial elements of their firms have improved the performance of their firms. From the study, the adoption of cost management strategies has improved the performance of the firms.

Respondents indicated that BSC implementation, capital structure, access to credit and firm sizes affected financial performance to a great extent. Financial performance was satisfactory, profitability was rising in the last three years, and liquidity of their firms had been rising in the last three years. Financial performance was a key challenge.

5.3 Conclusion

It was concluded that:

SMEs in Nairobi County have implemented the balance score card. The most implemented is the financial perspective. The firms use net operating income, revenue growth, cash flow and costs financial measures.

The customer perspectives have been implemented by SMEs in Kenya. The internal processes of the business perspectives of the score card balancing in the measurement of financial performance include; rework, number of errors, idle time and number of injuries/accidents perspective while the learning and growth perspectives of the score card balancing include technological employment, employees' satisfaction and attitudes, employee performance, regular training to employees and level of skills.

The balance score card leads to increased profitability of a firm and increased liquidity of a firm. The focus on customers has improved the financial performance of the firms, while innovation in the firms has led to improved financial performance.

The focus on the financial elements of the firm has improved the performance of the firms. The balance score card implementation, capital structure, accessibility to loans and firm sizes affect budgetary performance of the firms. Profitability and liquidity of SMEs in Nairobi has been rising with the financial performance satisfactory.

5.4 Recommendations

The owners and management of the SMEs should continue to embrace the implementation of the four pillars of the balanced scorecard, as their implementation positively influences the performance of their firms.

The deliverables of the four pillars of the balance scorecard should be reviewed often to ensure to that all the firms' employees are comfortable that the tool measures the performance effectively. The firms' financial measures should as well be reviewed often to ensure that the most appropriate measures are used to measure the financial performance of the firms.

Other organizations should adopt balanced scorecard approach in measuring performance. This owes to the fact that balance score card leads to improved financial performance of the firms through increased profitability of a firm and increased liquidity of a firm.

5.5 Limitations of the Study

The study targeted the SMEs in Nairobi County which may limit the generalizability of the study. However, the researcher used a large sample which makes the findings generalizable to SMEs in a similar geographical location.

Some respondents were not willing to fill the questionnaires. This made the researcher and the research assistants to spend more time on the research. This was overcome by having a conversation with the respondents first and assuring him/her that this research is purely academic.

Some respondents took long time to complete the questionnaire however the researcher emphasized the importance of completing the questioner as scheduled. To ensure timely collection of the data, the researcher took the respondent through the questioner for more clarity.

It may have been difficult to find certain type of data considered sensitive. However, the research gave firm assurance to the participants on confidentiality and non-disclosure of information provided. The assurance was that the information provided would only be used for academic purposes.

The financial limitation was experienced in the study due to the large geographical coverage. The SMEs were distributed in a large area which created financial challenges as the researcher had to hire research assistants to assist in data collection. To overcome this researcher sampled focused on specific areas in the county where SMEs are closely distributed.

5.6 Further research recommendations

This study focused on BSC implementation and its effect on the financial performance of SMEs. It is therefore recommended that similar research should be replicated in other companies like manufacturing firms whether they have implemented the balanced scorecard and how it affects their company's performance. The research should also be done to involve all employees to establish consistency and complete understanding among the employees and the owners of the companies.

REFERENCES

Aldrich, H. E., & Austen, W. G. (2011). Entrepreneurship, Theory and Practice. *Applied Financial Economics*, 8(2), 34-45.

Becker, B., Huseld, M., & Ulrich, D., (2011). *The HR Scorecard: Linking people, strategy and performance*. Harvard Business School Press.

Bertanlanffy, L.V. (1956). *General System Theory*. London, Chapman & Hall.

Burns, T. & Stalker, G.M. (2011). *What is Contingency theory.* Oxford, University press.

Chaharbaghi, A. & Lynch, C. (2009). Sustainable competitive advantage: towards a dynamic resource-based strategy. Manage. *Decis*., 37(1), 45-50.

Chan, L. (2008). Performance measurement and adoption of the balanced score card: A survey of the Municipal governments in the USA and Canada. *The International Journal of Public Sector Management*, 17(2), 21-47.

Chen, M. & Miller D. (2012). Competitive Dynamics: Themes, Trends, and a Prospective Research Platform. *Academy of management annals*, 6, 1-89.

Chen, M.J. & Hambrick, D. C. (2009). Speed, stealth, and selective attack: How small firms differ from large firms in competitive behaviour. *Academy of management Journal*, 38(2), 453-483.

Chimwani, P. M., Nyamwange, O., &Otuyo, R. (2013). Application of Strategic Performance Measures in Small and Medium-Sized Manufacturing Enterprises in Kenya: The Use of the Balance score card Perspectives. *International Journal of Management Sciences and Business Research*, 2(6), 124-137.

Crane, (2010). Small firm bankruptcy. *Journal of Small Business Management*, (44) 4, 493– 512.

Daft, R.F. (2007). *Understanding the theory and design of organizations*. Mason, Thomson South-Western.

Dean, T.J, Brown, R.L. & Bamford, C.E., (2008). Differences in Large and Small Firm Responses to Environmental Context: Strategic Implications from a Comparative Analysis of Business Formations. *Strategic Management Journal*, 19, 709-728.

Duflo, E. (2009). Access to credit and financial performance of small businesses. *Journal of Banking & Finance*, 22(6-8), 925-954.

Fiedler, F. E. (1964). A theory of leadership effectiveness. In L. Berkowitz (Ed.), *Advances in experimental social psychology*. New York, Academic Press.

Fisher, A., Laing, J., &Stoeckel, J. (1983). *A handbook for family planning operations research design.* New York: The population Council.

Gaist, P. A. (2009). *Igniting the Power of Community: The Role of CBOs and NGOs in Global Public Health*. Springer.

Ganka, D. (2010). *Financial sustainability of rural Small and Medium Enterprises in Tanzania* (Thesis). University of Greenwich, Australia.

Hannan, M. T. & Freeman, J. (2010). Structural Inertia and Organizational Change. *American Sociological Review*, 49(2), 149-164.

Howell, R., Brown, J., Soucy,S. & Seed, A. (2007). *Management Accounting in the New Manufacturing Environment*. National Assn. of Accountants: Montvale, N.J.

Hudson, M., Smart, A., & Bourne, M. (2011). Practice in SME performance measurement systems. *International Journal of Operations & Production Management*, 21 (8), 1096- 115.

International Labour Office (2008). *Small and medium-sized enterprises and decent and productive employment creation*. ILO Publications, International Labour Office, CH-1211 Geneva.

Jamil C. M. &Rapiah M. (2011). *Performance Measurement System (PMS) In Small Medium Enterprises (SMES): A Practical Modified Framework.*

Johnson, G., Scholes, K., &Whittington, R. (2008). *Exploring Corporate Strategy Text and Cases (8thed)*. Prentice Hall.

Kagunyi, S. W. (2014). *Application of Balanced Score Card in Creating Competitive Advantage at Kenya Commercial Bank Limited* (MBA thesis). University of Nairobi, Kenya.

Kamweru, M.R. (2011). Challenges faced by Small and Medium Enterprises in Accessing Finance. *Journal of Financial Economics,*96(1),18-32.

Kaplan, R.S & Norton, D.P. (1992). *Translating Strategy into Action: The balance score card.* Boston MA, Harvard Business Press.

Kaplan, R.S & Norton, D.P. (1996). *Translating Strategy into Action: The balance score card.* Boston MA, Harvard Business Press.

Kaplan, R.S. &Norton, D.P (2013). *Translating Strategy into Action: The balance score card.* Boston MA: Harvard Business Press.

Kaplan, R.S., & Norton, D.P. (2008). *The Execution Premium: Linking Strategy to Operations for Competitive Advantage*. Harvard Business School Press.

Kithae P. P., Gakure, R. W., &Munyao, L. M. (2012). The Place of Micro and Small Enterprises in Kenya in Achievement of Kenya's Vision 2030. *Journal of US-China Public Administration*, 9(12), 1432-1440.

Klir, G. (1988). Correspondence Systems Profile. *Systems Research*, 5,145–156.

Kochanski, M. (2010). Solvency capital requirement for German products. *German Risk and Insurance Review*, 6, 33–70.

Kothari, C. (2006). *Research Methodology: methods & techniques (2nd Ed)*. New Delhi, India, New Age International (P) Limited.

Kumar, M. S. & Woo, J. (2010). *Public Debt and Growth*.Sage publications.

Kyereboah, A. (2007). The impact of capital structure on the performance of *Small and Medium Enterprises*. *Journal of Risk Finance*, 8, 56-71.

Lutans, F., (2011). *Organisational Behavior*. Tata McGraw Hill

Mekonnen, M. (2011). *The Impact of Working Capital Management On Firms' Profitability* (Unpublished Thesis). Addis Ababa University, Ethiopia.

Meyer, M. (2012). *Rethinking performance measurement: beyond the balanced score card*. Cambridge, Cambridge University Press.

Mwiriki, B. N. (2015). *Strategic change management practices in supermarkets within Nairobi, Kenya* (MBA thesis). University of Nairobi, Kenya.

Mugenda, O., &Mugenda, A. (2003). *Research Methods: Quantitative and Qualitative Approaches.* Acts Press. Nairobi, Kenya.

Mwangi C. M. (2013). *An investigation into factors that determine financial performance of insurance companies in Kenya* (Unpublished Thesis). University of Nairobi, Kenya.

Mwaniki, M. K. (2012). *Factors affecting performance of small and medium enterprises in Kenya: A case study of SMEs in Thika municipality* (MBA, Thesis). Kenyatta University, Kenya.

Ngechu, M. (2004). *Understanding the research process and methods: An introduction.* Starbright Services. Nairobi, Kenya.

Niven, P. R. (2008). *Balance score card Step-By-Step for Government and Nonprofit Agencies* (2nd Ed). John Wiley & Sons, Inc.

Njoroge, L. (2008). *Determinants of financial performance in savings and credit cooperative societies in Nairobi* (Unpublished Thesis). University of Nairobi, Kenya.

Nørreklit, H. (2009). The balance on the balance score card — a critical analysis of some of its assumptions. *Management Accounting Research*, 11, 65-88.

Nzuve, S. N. &Nyaega, G. (2013). *Application of balance score card in performance measurement at Essar Telecom Kenya limited* (Unpublished Thesis). University of Nairobi, Kenya.

Perrow, C., (2010). A Framework for the Comparative Analysis of Organizations. *American Sociological Review*, 32(2), 194–208.

Rayan K, (2008). *Financial leverage and firm value*. Gordon Institute of Business Science, University of Protoria.

Republic of Kenya, (2012). *Economic outlook 2012*.

Seth, P. B. (2014). *An Investigation into BSC Implementation on Financial Performance: A case study of Novo Nordisk* (Unpublished Thesis). Aarhus University, .

Singh J. P., &Pandey S., 2008. Impact of working Capital Management in the Profitability of Hindalco Industries Limited. *ICFAI University Journal of Financial Economics*, 6(4), 62-69.

Stevenson, l., & Onge, A. (2005). *Support for growth –Oriented Women Entrepreneurs in Kenya*. International Labour Organization, Geneva.

Tennant, C., &Tanoren, M. (2009). Performance management in SMEs: Abalance score card perspective. *International Journal of Business Performance Management*, 7(2), 154-171.

Wambugu, F, & Ngugi, J. (2012). Factors Influencing Sustainability of Microfinance Institutions in Kenya: A Case of Kenya Women Finance Trust. *International Journal of Innovative Research & Development*, 1(11), 519-537

Waweru, M. G. (2007). Addressing the different tax policy and tax administrative challenges of micro, small and medium businesses. *A presentation at the International Tax Dialogue Global Conference from 17 th – 19th October 2007*. Buenos Aires, Argentina.

Were, K.K. (2015). *Application of the balanced score card as a strategic management tool at the Kenya Bureau of Standards* (MBA project). University of Nairobi, Kenya.

Woller, G. and Schreiner, M. (2002). *Poverty lending, financial self-sufficiency, and the six aspects of outreach*. Working paper, Washington, DC, USA.

Wu, D. (2009). *Measuring Performance in Small and Medium Enterprises in the Information & Communication Technology Industries* (Unpublished Thesis). RMIT University, Australia.

Yahaya, A. (2009). *Using Balance score card to assess performance of banks in Ghana* (MBA Thesis). Blekinge Institute of Technology, Ghana.

Zietlow, J. T. & Seidner, A. G., (2007). *Cash & investment management for nonprofit organizations*. John Wiley & Sons.

APPENDICES

Appendix I: Questionnaire

Section I: General Information

1. Gender

   Male [ ] Female [ ]

2. Age

   Below 20 years [ ] 20-30 years [ ] 31-40 years [ ] 41-50 years [ ]

   More than 50 years [ ]

3. Education

   Primary certificate [ ] Secondary certificate [ ] College certificate [ ]

   College diploma [ ] University degree [ ] Post graduate degree [ ]

4. Period of operation

   Less than 1 year [ ] 1-5 years [ ] 6-10 years [ ] 10-15 years [ ]

   More than 15 years [ ]

Section II: Balance score card and financial performance

5. Has your firm implemented the balance score card?

   Yes [ ] No [ ]

6. Which of the following perspectives of balance score card have been implemented in your firm?

   Financial [ ]

   Customer [ ]

   Internal business [ ]

   Innovation and growth [ ]

7. To what extent have you implemented the balance scorecard?

   Very little extent [ ]

   Little extent [ ]

   Moderate extent [ ]

Great extent [ ]

Very great extent [ ]

8. To what extent do you use the following financial measures of financial performance? Where 1 is no extent, 2 is little extent, 3 is moderate extent, 4 is great extent and 5 is very great extent

	1	2	3	4	5
Cash flow					
Costs					
Revenue growth					
Net operating income					

9. To what extent has your firm implemented the following customer perspectives of the balance score card in the measurement of financial performance? Where 1 is no extent, 2 is little extent, 3 is moderate extent, 4 is great extent and 5 is very great extent

	1	2	3	4	5
Goods returned by customers					
Number of new customers					
Customer retention/Repeat sales					
customer requirement in Product design					
Response to customers					

10. To what extent has your firm implemented the following internal business process perspective of the balance score card in the measurement of financial performance? Where 1 is no extent, 2 is little extent, 3 is moderate extent, 4 is great extent and 5 is very great extent

	1	2	3	4	5
Number of errors					
Number of injuries/accidents					
Idle time					
Rework					

11. To what extent has your firm implemented the following learning and growth perspective of the balance score card in the measurement of financial performance? Where 1 is no extent, 2 is little extent, 3 is moderate extent, 4 is great extent and 5 is very great extent

	1	2	3	4	5
Regular training to employees					
Level of skills					
Employees satisfaction and attitudes					
Employee performance					
Technological employment					

12. To what extent do you agree on the following statements relating to balance score card and financial performance? (1 is no extent, 2 is little extent, 3 is moderate extent, 4 is great extent and 5 is very great extent)

In the last three years	1	2	3	4	5
Focus on customers has improved the financial performance of my firm					
Innovation in my firm has led to improved financial performance					
The focus on the financial elements of my firm has improved the performance of my firm					
Adoption of cost management strategies has improved the performance of my firm					
The implementation of balance score card leads to increased profitability of a firm					
The implementation of balance score card leads to increased liquidity of a firm					

Section III: Financial performance

13. To what extent do the following factors affect financial performance of your firm?

Statement	**1**	**2**	**3**	**4**	**5**

Access to credit					
Capital structure					
Firm size					
Balance score card implementation					

14. To what extent do you agree on the following statements relating to financial performance? (1 is no extent, 2 is little extent, 3 is moderate extent, 4 is great extent and 5 is very great extent)

Statement	**1**	**2**	**3**	**4**	**5**
The liquidity of my firm has been rising in the last three years					
The profitability of my firm has been rising in the last three years					
Financial performance of my firm is satisfactory					
Financial performance is a key challenge in my firm					

Thank you for your time